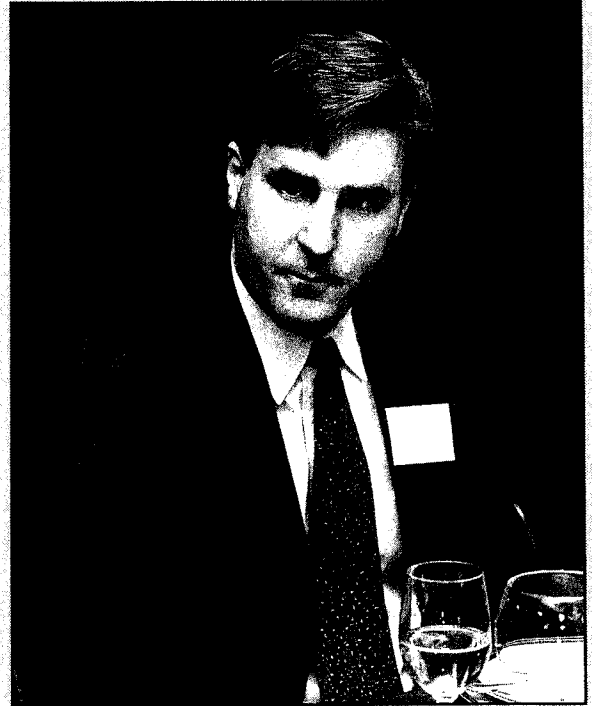


# Carnegie Council Privatization Project

**Improving  
Municipal  
Services  
Through  
Empowerment**



The Honorable  
Bret Schundler  
Mayor  
Jersey City, New Jersey



No. 26

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# Improving Municipal Services Through Empowerment

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The Honorable Bret Schundler

I didn't come to view privatization from an economics perspective, I came to it more from a political philosophy, although later on, working on Wall Street gave me a great appreciation for markets and economics and the understanding that you might be able to provide services more efficiently by privatizing them. My first introduction to why it makes sense to vest more authority in the hands of people came when I was working on Gary Hart's campaign for president back in 1983. One of the things that they were pushing through Congress in 1982 was something called Domestic Content Legislation, which would have effectively prohibited importing cars into America, and I thought that was terrible legislation. When I was in college

I was part of an organization called Bread for the World, which tried to raise money to feed the hungry and also tried to have an impact on

America's tariff policy. For example, the United States would go to the Dominican Republic and give them credits to buy shoemaking machinery but, after they used the credit and borrowed a lot of money and built a shoemaking capacity, we would not allow them to export shoes to the United States. So we would ring up their debt and then saddle them with it. It would be great for our capital equipment manufacturers but would not help the Dominicans at all, and I felt that we should try to help the hungry people in the world feed themselves.

Domestic Content Legislation actually passed the House of Representatives. They scheduled the vote on the last day of the legislative session, so of course it never had a chance to get to the Senate on time, but it was appalling that what was obviously bad policy would get voted for because of political pressure. If we start banning imported cars then the next thing you would have is a more powerful GM and you'd want to ban Ford and Chrysler. You would effectively be saying, "We don't care if we produce cars that are good products, we don't care what we charge, we don't care if they're safe, and we don't care if they're polluting. You have to buy our cars."

One of my mother's uncles worked for a car distributorship in West Germany, and my father's cousin worked at a car manufacturer in East Germany before the Wall came down. He had a Trabant, which I had the pleasure of driving. There is no more clear experience of what happens when you allow government to establish a monopoly than that of driving a Trabant versus driving a Mercedes-Benz or a BMW. The Trabant is dangerous for drivers, it is an awful, polluting vehicle, but you'd still have to work for years to be able even to afford one if you could wait long enough to ultimately get one. But that is what government monopolies provide. I am convinced that if you have a government which tries to make sure that people do not

have power, if you use governmental power to give a single franchise to one group, what results is not just bad economics, it is injustice. We have a

**"There is no more clear experience of what happens when you allow government to establish a monopoly than that of driving a Trabant versus driving a Mercedes-Benz or a BMW."**

world where people starve because they are not allowed to produce. That keeps us all poor and that keeps those who are not as politically powerful oppressed.

So I came to a view that people should have power; they shouldn't have to beg for the basic essentials of life. I can only say that since being mayor of Jersey City I've become even more convinced of how important this is.

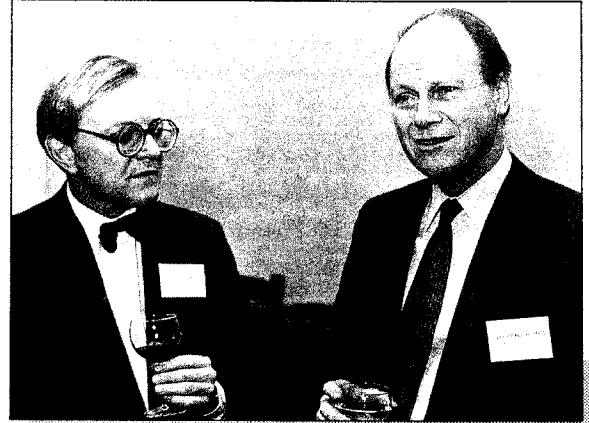
Let me give you an example. If you live in the wealthier suburbs, typically speaking you can be afraid of robbery and you can be afraid of getting mugged, but it's not as prevalent a danger as it is in our most economically distressed inner cities. I think it is a crime that in some of my housing projects when the children go outside in the hallway, the light bulbs are broken, there's graffiti on the walls, and when they go downstairs the first thing they see is a drug dealer. They have to be worried about violence, and where the playground should offer a place to play, instead there is glass glittering. To me that's a crime. No child should be brought up with that experience of life. And yet, that is the normal experience for many of our children in our most distressed inner cities. So I decided maybe we should try to have safe and clean streets in Jersey City, just as they do in other

parts of America. We talked about what would solve that problem, and we looked at the situation in Jersey City: only 30 percent of the police force was actually outside doing street patrol. Sixty-two percent was inside doing special assignments like filing. We actually had two policemen who were delivering mail between station houses, and when I moved to put those police back on street patrol, they sued me for unfair labor practice because they said there is a clause in the contract that says you cannot diminish police work except through negotiation. And I said, "What makes filing or delivering mail police work?" They said, "If a policeman is doing it, it's part of the sum total of what policemen are doing, and if a policeman is no longer allowed to do it, you have diminished the sum total of what policemen do. And therefore it's an unfair labor practice for you to ask the police to be outside patrolling the streets." This is crazy, but we had to go to a governmental arbitration unit, and now the police are appealing this in the courts. I cannot conceive that we could lose this.

Obviously the thing you want to do is to take out of your contract the language that says you cannot diminish police work, if that's the way it's going to be interpreted. We would normally go into contract negotiations and say this is something we have to get rid of, it just makes no sense whatsoever, and the union would say, "No. We will not let you take that out of the contract." In New Jersey we are required by law to go to arbitration; we can't even take a strike if we want to, at the local level. So we go to arbitration and the arbitrator has to be accepted by the police union. There is only one law firm in New Jersey which represents all 560 municipal police units, so if the arbitrator arbitrates against one police unit, they blacklist him and he'll never work again. The arbitrator is not paid by the state, he's paid on a per diem basis when he's working, so clearly the way the system works is that that arbitrator is going to be loathe to ever judge against that union because otherwise

**"Legislators don't get called when someone gets mugged; mayors do. But legislators are the ones who write the rules that we mayors have to operate under and they're afraid of organized special interest groups."**

that law firm will never let him work again. This is clearly an unjust system, which results in a lot of our people being in danger because our police aren't outside protecting them as they should be. Politicians tell us all the time that they want to make our streets safe because they care for us, but the fact is, while this has been the top priority of the New Jersey League of Municipalities for five years, it's not even come out of committee, because the union is that powerful. Legislators don't get called when someone gets mugged; mayors do. But legislators are the ones who write the rules that



*Bob Huber (left), chief speechwriter for Mayor Giuliani of New York, speaks with Don Kummerfeld, president, Magazine Publishers of America.*

we mayors have to operate under and they're afraid of organized special interest groups.

What you find is that politicians, for all they tell us about being concerned about our needs, are principally concerned about reelection (which shouldn't be surprising) and if they are concerned about reelection, they respond to the organized interest block, not to the general interest, despite what they tell us every election day. This is a direct experience of mine. I see it makes sense to put more police on the street, and I also see how hard it is to do it. The government, which says that it's here to make our lives better, is in fact making it almost impossible for me to make my citizens safe. That's the way government works.

So it becomes clear to me that we have to change the way government works. We don't just have to change what we do, we have to change the system itself. If we leave power in the hands of politicians, they have a self-interest in reelection and they will respond to organized interest groups and we will see that injustice is the result. My sense is that we have to take the power away from the politicians so that they don't have the ability to hurt us. Everything that we're doing in Jersey City has been promoted by my sense of the reality of politics. It's a combination of political theory and first-hand experience, and the

economics just happen to support it all. Putting all our police out in the street is not a privatization issue per se, it's just good public policy. Crime is already down 18 percent and we're just at the beginning of reassigning our police from internal, inside-the-station-house, jobs to street patrol.

You have a great model right here in New York City—the business improvement district that you have at Grand Central Station—The Grand Central Partnership. For all the taxes that the property owners paid in that business dis-

trict, they could not get safe and clean streets. So they'd go to the City and say, "Please, for all the frilly things you're doing, can't you at least do the very basic things that a city government should be able to provide to its citizens? Can't you give us safe and clean streets?" And the politicians said,

**"In one of the public high schools in Jersey City, only 28 percent of the children are reading at a level sufficient to pass their high school proficiency test. If you talk to [their] parents, vouchers are an open and shut issue. They say, 'You mean you want to give my child the opportunity to go to a school that might work better for him and you're going to pay the bill?... Thank God.'"**

"Well, if you want that, you'll have to pay more." The business owners would pay more and more taxes, yet they still had dangerous and dirty streets. So finally the property owners there said, "Listen, why don't you give us all a special 2 percent incremental assessment, which we won't give to you, but we'll hold onto ourselves, and we'll hire a private manager who is directly accountable to us. If he doesn't perform, we can fire him, because he doesn't have a monopoly on being able to provide the service alone. And that private manager will be able to hire employees who, if they don't perform, can also be fired." The result is that for an extra 2 percent tax increase, you now have, in the Grand Central Partnership area, safe and clean streets. Bryant Park, I would argue, is the nicest park in New York City. If you look at the amount of litter in that very heavily trafficked area, there is very little, because all day long the partnership has people providing supplementary cleanup services. They still have a call on the city's police force and on the city's sanitation services, so these are all supplementary, but for that little bit of extra money they've been able to make safe and clean streets a reality.

I'm left thinking why should this just be in the nicest business districts; why can't we have that in every neighborhood, so that in the poorest parts of my city when children go outside, they could be confronted with safe and clean streets? In addition to reassigning our police to street patrol, we're dividing the city up into many small neighborhoods and will have an officer walk that neighborhood. We're going to allow a neighborhood improvement district to exist wherein an elected board would be able to make one decision a year and that would be on which private manager will get a contract with them to provide supplementary security and cleanup services. Perhaps we could have two or three uniformed security personnel who don't carry guns but just carry walkie-talkies to the walking police officer in that neighborhood. If you have a five- or six-block area and you have one officer, he can't be on every corner but he certainly could get to every corner quickly. And if I have three other security people out there, if some-

one is thinking about robbing a car or mugging someone or dealing drugs on the street corner, they'll think about doing it elsewhere. That intensive presence will deter crime. It will be impossible to think that you can set up shop and deal drugs when you know the security guy's standing right there with a walkie-talkie connected to a cop who's only a few blocks away.

Jersey City has the honor of having been the first city in America where the local school board was absolutely abolished and the state took over the direct administration of our local public schools because of a history of endemic corruption and incompetence. This happened before I was elected mayor. If you add up all the dollars that were stolen in outright corrupt dealings, it's really very little, I don't even think it amounted to half a million dollars. But for the sake of argument, let's say you had one or two million dollars stolen. The old education budget was \$170 million, and we only had 40 percent of our kids graduating from public high school. We've increased spending by \$100 million since the state took over the school system five years ago; we've gotten rid of those urban, incompetent, corrupt administrators and we brought in good suburban administrators; and yet, our graduation rates have barely budged, and our high school proficiency test scores have barely budged. I would argue, therefore, that that's clear evidence that it was *not* an incompetent and corrupt administration that resulted in the bulk of our problems, nor was it a lack of money. Rather, the problem is that we have a governmental monopoly which by definition is invariably a politically controlled system. Additionally, it's bureaucratically rigid, because that is the way governments are, as opposed to markets. Markets respond not on the basis of planning but on the basis of demand. Bureaucracies respond on the basis of planning. A politician comes in because of a political interest pressuring him and says it *must*



*Marty Pranga, vice president, Amoco International, with Inmaculada de Hapsburgo, director, The Spanish Institute, at a private dinner for Mayor Schundler.*



*Istvan Kaszner (left), of the Vargas Foundation in Brazil, and John Fund, editor, The Wall Street Journal, at a private cocktail reception for Mayor Schundler.*

be done this way. The focus we've had in our government schools is to create the *one* best system. For all the political problems that are clear, there have also been sincere efforts to work around those political pressures and try to create the *one* best system. So why, given all that money and all that sincere effort (granted, mixed with some raw politics) is it producing such failure? I would argue it's because we have a very heterogeneous population and many children who are extremely disadvantaged. Forty-one percent of my population in Jersey City is on welfare or Social Security, and 41 percent also does not speak English at home. You've got a lot of children who have many disadvantages and the system doesn't respond to their disadvantages. We say, "We have this one great system, and if it doesn't work for you, that's your problem." That's the approach of planning. But the approach of responding to demand focuses on the need of individual children and says if this child has a problem of some specific sort, we have to respond to that. We looked at the example of East Harlem, where the schools allowed teachers to create many different kinds of programs and allowed parents to look at the program most tailor-made for their child's need, and what resulted in East Harlem's public schools is that they went from being the worst school district in New York to becoming the fifteenth best. They also have a low income population where many children don't speak English at home, but now they're doing better than many middle-class neighborhoods where English is the predominant language in the neighborhood.

In Jersey City we have the Kenmare School, which is a secular, not-for-profit corporation originally founded by the Sisters of Saint Joseph of Peace. The Sisters didn't say they just wanted to work with easy kids; they felt a mission to work with some of our young people who had no opportunities. In particular, they focused on women who had had a child while they were in school, and with that child they couldn't finish high school, and with that child and with-

out a diploma they couldn't get a job, so they ended up on welfare: young welfare mothers. Our public school system does not adapt well to the needs of the particular compounded challenges that these women face, and so these women remain on welfare forever. But the Sisters said, "Why don't we create a school just crafted to their particular needs? It won't be for everyone. But we'll say for these women we'll try to provide what they need to be successful." So they built a school that has day care, job training, and job placement right on site. As they worked with the women over time, they realized that some of these women were even homeless, and not having a place to live is a very great detriment to learning, so they put a residential facility on site and 80 percent of the women are now graduating. They don't all start and go right on through and graduate. Sometimes a problem comes up, so they have to remove themselves, but then they come back and ultimately 80 percent of the school's original registrants are graduating. That is a tremendous success story. It is working because the school focuses on the needs of the women as opposed to trying to create one system that supposedly should work for everyone.

I want to give every teacher in Jersey City the authority to create a program that they know meets children's needs. If they can attract students and if they can help students to learn in a clear, demonstrable way, then I want to give them the liberty to continue to operate with a minimum of bureaucratic interference. The only way to make that a reality is to clearly say, "We're going to let you go to the school that does the best job, public or private." So we have a voucher element to my legislation, and we also have an ele-

**"We're going to allow a neighborhood improvement district to exist wherein an elected board would be able to make one decision a year, and that would be which private manager will get a contract with them to provide supplementary security and cleanup services."**

ment that deregulates our public schools and allows them to establish their own admission standards. We'll allow teachers to create alternative programs that say, "We're not for everybody, we're only for unwed welfare mothers." We'll allow them to say, "We're not for everybody, we're only for accelerated students." We'll allow them to say, "We're only for students who are not at that math level," or "We're only for students who aren't reading well yet." And we won't focus on tracking that says that if you can't do this today, you're going forever to be on this track. We'll focus instead on today's need and if that deficiency is met, let them move to another school that doesn't have that same focus and get on with their life.

We'll have alternative schools in the public schools

where teachers are allowed maximum authority, we'll have charter schools and we'll have vouchers for nongovernmental schools. Parents will be able to choose that program which works, and teachers will be allowed to run the program with a minimum of interference. All schools will be required to administer an examination, testing basic goals, because what we're paying for here is education, so we'll ask the commissioner to establish standard levels that every child should be able to read at, and math skills. Then, as long as the school can show that whatever skills the children came in with—let's say they were in fourth grade but they came in with first grade reading skills—if they can show demonstrable progress, that school will continue to be supported.

I think the principles we're trying to establish here are clear. In each instance we're trying to say we're going to

give the authority to the person we say we're trying to help. If we say we're trying to help every child be safe from crime, then we want the local community, the people who actually have to live with the services, to have the control of who is going to get the contract. We want there to be competition, so no one monopoly will provide poor goods for high prices. If we're talking about an individual service or guarantee of opportunity such as education, we'll allow the individual family to make that decision. We want to keep the people we say we want to help in control and allow there to be competition. On that basis, I truly think we can change America and make it so that in the inner city, my kids, despite the disadvantages of their circumstances of birth, can live in a place that is safe and clean, get good schools, have good recreational opportunities, and expect to be able to find a job and do well in life. I want Jersey City to be a model of the place where all that becomes reality.

## Questions and Answers

**Q** I am concerned about the voucher concept. Will this approach benefit all children, or only the brightest and most motivated students? Are you also just providing a subsidy to parents who are already planning on sending their kids to a private school? And won't greater demand increase the price of the service?

**A** Let's look at the two issues you raised. First, you asked if only motivated families would benefit from a market-oriented voucher system. And second, you asked whether this system would inflate the price of quality.

To address your first concern, let's look at the experience of the Milwaukee voucher plan. In Milwaukee, families with children who are *not* doing well in public schools are more likely to take advantage of the voucher system. Parents who have children that are doing well in public school don't want to move them to another school; they're basically satisfied. That's why, under our voucher plan, public schools won't become a ghetto for children with less ability and motivation. In fact, public school test scores are likely to improve because these schools are likely to keep the students that succeed in the learning environment they offer, while students who don't do well will seek out a program that addresses their specific needs.

Let me give you an example. Today a public school district will frequently send a deaf child to a private school that specializes in teaching deaf children. That child's education is paid with public dollars. So we already are using vouchers, but in this

case, the school board controls where and when those vouchers are used. In contrast, if poor parents aren't satisfied with the quality of education their child receives in a public school, they have virtually no recourse. Without a viable alternative, how will we ever be able to hold public schools accountable for the quality or cost of the services they provide? In one of the public high schools in Jersey City, only 28 percent of the children are reading at a level sufficient to pass their high school proficiency test. If you talk to parents that have to send their children to a school with these kinds of performance numbers, vouchers are an open and shut issue. They say, "You mean you want to give my child the opportunity to go to a school that might work better for him, and you're going to pay the bill?" I say, "Yes, that's what I'm going to do." They say, "Thank God." It's that simple. They don't see vouchers as a theoretical issue. It's a very real thing that means they will be able to make sure their children can get a great education.

The second part of your question concerned the issue of cost inflation. Jersey City can't afford to spend any more money on education. Our property owners are already over-burdened, and the state is in no position to give us more money. So my legislation limits the voucher to that amount which can be accommodated without increasing state or local spending and without decreasing per-pupil spending in the public schools.

Here's how it works: We currently receive \$6,000 per child from the State Department of Education, and local property taxpayers contribute

about \$3,000 per child. My plan asks the state to give Jersey City the same amount of money we receive today even if some students transfer from a public to a private school. Then, if 5,000 students transfer out of public school, and we continue to receive \$6,000 in state funding for these children, we would take this \$30 million and put it into a grant pool. This pool will be divided up evenly among all the children enrolled in private schools—the 10,000 children already in private schools plus the 5,000 additional transfers. That would give every child in private school a grant worth about \$2,000. Right now a \$2,000 grant is large enough to pay for 100 percent of a private grammar school's tuition and about \$500 for after-school tutoring. Since our program allows parents to pay for qualified after-school tutoring programs if any money is left over, private schools will have an incentive to either keep their costs down or offer after-school programs for their students.

A question you did not ask, but which warrants comment upon is, "How does this program affect our public schools?" First, it decreases the overcrowding problem. Right now, some of our public schools have as many as 38 children per class while many of our private schools have a fair amount of excess capacity. Second, since we keep all local property tax revenues in the public school system, regardless of how many students transfer to private schools, the per-pupil expenditure in the public school system actually increases. We would still get the same \$6,000 per child from the state, but our total contribution of \$78 million in local tax dollars would all remain in the public school system and be divided by fewer students. That would give us more money to spend per child. For example, if 5,000 students transferred from public to private schools, spending would increase from \$9,000 per child to over \$10,000 per child—all without increasing state or local taxes by one penny.

Everyone would benefit under my proposal. Granted, you might say there is an inflationary impetus because *per-pupil* spending will increase in each system, but we won't have to increase our actual total spending by one penny to accommodate this.

**Q** What changes have you made or proposed in the area of economic development?

**A** Economic planning, by definition, is a difficult thing to do. For example, if you read the Department of Housing and Urban Development's booklet

on the HOME loan program (a federally subsidized affordable housing program), you will see that Jersey City is featured as a successful model for other cities to follow. But for all the effort that's spent on the HOME program, very little housing actually gets built. Out of the 40,000 properties in the city, this program has helped us build maybe a few hundred new housing units.

But now let's suppose I get the streets of Jersey City safe and clean, and assure every parent that their child will go to a good school, and reduce the taxes that every homeowner has to pay. What will happen? Business will grow and expand in Jersey City, jobs will be created, and the value of our real estate will increase. The market will respond to these positive trends and build 2,000 new housing units, not because government arranges special financing but because our government is creating an environment where people want to live and do business. That's what I would consider a successful economic development strategy.

**Q** I'm a volunteer working in a tutoring program in the South Bronx and I want to ask a question about illegitimacy. Many analysts say that illegitimacy is driving most of our social problems in our inner cities, and I read recently that if trends continue, projections show that the minority illegitimacy rate will be 80 percent by the year 2000. Do you see illegitimacy as one of the main driving forces of urban problems, and if so, what can be done about it?

**A** I believe the rise in illegitimacy is a by-product of bad government. It's time that we realized that social health, as well as personal fulfillment, arises not only from the elimination of material deprivation, but also from the formation of a social ethic that affirms life in spite of circumstances and encourages people to help their neighbors. Unfortunately, many government policies work against the teaching of this wisdom. Our health, education, and welfare policies have ripped the life out of the social institutions—family, community, and church—which historically taught our children these values and reinforced our spirituality.

I think we could help prevent social problems—like illegitimacy—if we empower these local organizations to help our young people, rather than depend on help from Washington. Welfare reform, health-care choice, and school choice are at the cutting-edge of this effort. By empowering families

with the financial opportunity to seek services from their family, church, or local community organizations, we will breathe new life into these institutions, which have always sought to minister to the material and spiritual needs of its members. This approach is consistent with our pluralistic traditions and our increasing social heterogeneity. It will support us as we teach our children our own faith and values, instead of, as is the case today, taxing us to support government programs which only propagate one particular ideology.

**Q** Would you say that, on balance, the competition between New York City and New Jersey for office space tenants has been a benefit to the region?

**A** When people think about the recent competition between New York and New Jersey they assume that New Jersey is giving a lot of special tax breaks to lure businesses across the Hudson. That is an erroneous assumption. But if you were the Mayor of New York City and you had to explain why jobs were leaving,

you wouldn't say, "I'm driving them away with high taxes, crumbling infrastructure, and poor services." Instead, you're more likely to say, "They're unfairly luring our companies away." I don't want to give special breaks to anybody, I want to make life better in Jersey City for everybody.

What is New York going to do in response to our actions? I think they're going to try to increase the quality of life in New York City, and that alone will benefit the entire region. Mayor Giuliani has taken some positive steps in that direction already, but he doesn't have a governor, legislature, and city council that are fully behind him. Fortunately, I do. That's why I can move more aggressively on certain reforms. Furthermore, I honestly believe that it is the mission of places like Jersey City to make it easier for places like New York City to marshal the political will necessary to implement aggressive change. I believe that once the people see a working model they'll expect better results from government, and their rising expectations will be the catalyst for positive change.

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