

GOVERNMENT CONTRACTING: LOWER WAGES, BUT HIGHER COST

POGO has a must-read report showing what actually happens when the Federal government outsources jobs: while the actual workers doing the jobs may make less than government (unionized) workers, the work costs more overall.

POGO's study analyzed the total compensation paid to federal and private sector employees, and annual billing rates for contractor employees across 35 occupational classifications covering over 550 service activities. Our findings were shocking—POGO estimates the government pays billions more annually in taxpayer dollars to hire contractors than it would to hire federal employees to perform comparable services. Specifically, POGO's study shows that the federal government approves service contract billing rates—deemed fair and reasonable—that pay contractors **1.83 times more** than the government pays federal employees in total compensation, and more than **2 times** the total compensation paid in the private sector for comparable services. [emphasis original]

In other words, not only is the federal government spending a lot more by paying contractors, in the end it pays more even than the private sector for the same function.

And while limitations on the data prevented POGO from pinpointing where those costs came from, it did suggest two obvious sources: profit and executive compensation.

Contractors make profits by providing services,[95] and that is a sound business practice. The federal government also

provides services, but does so without making any profit. The critical question is not whether contractors are entitled to earn profits but whether the government is paying higher costs to contractors for comparable services that could be provided by federal employees.

Because POGO's cost analyses were limited to contracts for services entered into under GSA's Schedule program, we did not address the issue of contractors' executive compensation.[96] Federal law currently permits a contractor to bill the federal government a portion of executive compensation.

For example during FY 2010, contractors were allowed to bill the government up to \$693,951[97] of a contractor's executive compensation.[98] While that rate may reflect only a partial level of an executive's corporate compensation, it constitutes approximately **three times** the level of actual salary the federal government pays its top executives. For example, in 2010, the President was paid \$400,000 per annum, the Speaker of the House was paid \$223,500 per annum, the Senate Majority Party Leader and the Senate Minority Party Leader, as well as the House Majority and Minority Leaders, were each paid \$193,400 per annum, and Cabinet Members were paid \$199,700 per annum.[99] The fact that high-level executives in the private sector often receive seven-figure salaries and benefit packages should not have any bearing on how much those executives should bill federal taxpayers, which should not exceed the salary paid to senior federal employees performing comparable work.
[emphasis original]

And for some functions, the outsourced work is a gross rip-off, as with the Claims Assistance Clerks we're paying more for than Federal judges.

The most egregious example of an outsourced occupational classification that resulted in excessive costs rather than cost savings is claims assistance and examining-administrative support positions that involve examining, reviewing, developing, adjusting, reconsidering, or recommending authorization of claims by or against the federal government. To provide these services, on average, federal employees are fully compensated at **\$57,292** per year, private sector employees are fully compensated at **\$75,637** per year, and the average annual contractor billing rate is **\$276,598** per year. POGO found the government may therefore be paying contractors, on average, nearly 5 times what it pays government employees to perform the same services.[77] Put another way, the government may be paying the contractor providing support services for claims assistance and examining more than it does federal judges or administrative law judges, who earn less than **\$200,000** per year.[78] Contractors may be billing the government, on average, approximately **3.66 times** what private sector employees are compensated for performing similar services.

Federal judges have been lobbying for raises for some time, because judges can make so much more in the private sector. I do hope they use this factoid to prove their point.

And, as the report's narrative of NeoLiberal Democrat followed by corporatist Republican shows, the problem is just getting worse. Not only has Obama backed off his early efforts to insource, but Bush effectively created an entirely new federal workforce during his term.

Since 1999, the size of the federal employee workforce has remained relatively constant at about 2 million,[6] while the contractor workforce has increased radically—from an estimated 4.4 million to 7.6 million in 2005.[7] In other words, the federal

contractor workforce dwarfs the federal employee workforce nearly four-fold.

3.2 million new government jobs in the first half of the Bush Administration (this excludes things like military and postal service jobs). It's as if Bush created one and a half new federal workforces in a matter of years, all while claiming to make government smaller.

Then again, these contractors are paying a lot to the same politicians who allow this to persist. So I suspect it's not going to end anytime soon.