

Will In-Sourcing Help Solve Federal Budget Problems?

Written by Nick Sanders
Thursday, 16 February 2012 00:00

For at least a decade, the Federal government has used A-76 competitions and other opportunities to replace government employees with contractor employees—a practice generally known as “outsourcing”. It was generally held that outsourcing resulted in taxpayer savings. But late last year, the self-appointed watchdogs over at the Project on Government Oversight (POGO) [released a study](#) that claimed that using contractors to perform services formerly performed by government employees “actually increases costs to taxpayers” instead of resulting in savings.

POGO asserted that “while federal government salaries are higher than private sector salaries, contractor billing rates average 83 percent more than what it would cost to do the work in-house.” POGO reported—

POGO’s study compared 35 federal job classifications, covering more than 550 service activities. The occupations included everything from auditing and law enforcement to food inspection. The results surprised even POGO investigators...

In 33 of the 35 job classifications POGO looked at, the average contractor billing rate was significantly steeper than the average compensation for federal employees. The two jobs where it was more cost-effective to hire contractors were groundskeeper and medical records technician. So when the White House needs its lawn mowed, it shouldn’t hire in-house. Still, in every other case, it was cheaper for the government do the job itself.

In some occupations, the difference in price was so dramatic, any coupon-clipping soccer mom could easily have seen the government was getting ripped off. When the government hired a claims examiner for example, it paid the contractor nearly *five times* more than if it had gone with a federal employee.

(Emphasis in original.)

In a [follow-up article](#), POGO asserted the following—

For years, federal agencies have assumed that outsourcing work to contractors would reap the benefits of private sector efficiencies and save taxpayer dollars. Policy makers have debated the size of the government and whether federal employees are overpaid, often relying on studies that simply compare federal and private sector salaries.

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However, those analyses have not recognized that the cost of outsourcing is not what the employees of contractors are paid by their employers, but rather the amount that the government pays to the employing private sector contractors. As a result, previous analyses did not reflect the fact that actual government contractor billing rates for federal service contractors are significantly higher than the full costs (salary and fringe benefits) of hiring federal employees.

In that same article, POGO also responded to several criticisms it had received regarding its methodology.

Long-time readers of our blog may recall that [we've addressed this issue](#) before. We reported on a GAO study that indicated that use of State Department employees to perform OCONUS security functions was significantly more expensive than using contractor employees. As we reported—

So in three of four contract scenarios evaluated, using contractors actually saved the State Department money. And not just a little bit of money—GAO reported that use of Government employees was more than *10 times more expensive* than using contractors. Moreover, where use of Government employees would have been cheaper, GAO noted that ‘because the State Department does not currently have a sufficient number of trained personnel to provide security in Iraq, the department would need to recruit, hire, and train additional employees at an additional cost of \$162 million.’ In other words, when one adds the additional \$162 million in government costs to the State Department’s estimated annual estimated cost of \$240 million, one gets \$402 million versus the contractor’s charges of \$380 million—i.e., the contractor is marginally cheaper. To sum up, GAO found no instance where use of State Department employees to replace contractors would result in any cost savings to the U.S. Government or to the taxpayers. That GAO finding was consistent with the viewpoint expressed by Dr. Loren Thompson of The Lexington Institute.

Adding more acquisition, audit, and program management professionals to DoD’s ranks ... will compound the problem. ... Dr. Thompson notes that those new heads will take additional funds—not just to cover the costs of salary and benefits, but also to cover the costs of training, equipping, housing and supporting them. As Dr. Thompson notes, ‘When you add up all these costs, the long-term burden of taking on 20,000 new acquisition professionals will be over \$80 billion -- which just happens to be the projected cost of buying a replacement for the Trident ballistic-missile sub.’

So POGO says it’s dramatically more expensive to use contractor employees, while GAO and Dr. Thompson have reached the opposite conclusion. Who’s right?

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Well, we're not sure. But in late January, 2012, Government Executive [reported](#) on a study by the Congressional Budget Office (CBO) that government employees received higher compensation than their private industry counterparts—but that the pay gap varied by education level. GovExec reported—

In a comparison of civilian federal employees to private sector workers with similar observable characteristics, CBO found that federal workers come out on top in average wages (2 percent higher), benefits (48 percent higher) and total compensation (16 percent more). ... After separating out the data by level of education, more distinctions became apparent. Federal civilian workers with only a high school diploma or less fared much better than private sector employees with the same: They earned 21 percent more wages, 72 percent higher benefits and 36 percent more in total compensation.

Government workers with bachelor's degrees still did better, but not by as much. Though they earned roughly the same hourly wages, they made 46 percent more in benefits and averaged 15 percent higher total compensation than their private sector counterparts.

In contrast, among employees with a professional degree or doctorate, federal workers earned 23 percent less in wages and 18 percent lower total compensation, while receiving about the same benefits as the private sector employees with identical degrees.

In addition to the foregoing, GovExec reported that CBO found that Federal employees averaged four years higher in age—45 years versus 41 years.

This debate is not going away as long as there is a Federal budget deficit and politicians ready to point fingers at one side or the other. In the meantime, our readers may want to consider in detail the various studies summarized in this article--the POGO study, the GAO study, and the CBO study—and decide for themselves who's right and who's wrong.

While you're doing that, we're going to be busy reading a recent Accenture study on "human capital" issues facing the A&D industry, which is going to be the subject of a future blog article.