

ISSUE BRIEF

Privatization of Federal Services

The Bush administration is seeking to open more vital federal services for private competition—work that could span everything from processing Social Security checks to repairing the planes, ships and tanks necessary to defend the nation.

Congress should reject the administration's efforts to privatize huge numbers of federal jobs without public-private competition or a system for tracking and reviewing contractor performance.

The federal Office of Management and Budget (OMB) has directed federal agencies to review the jobs of at least 850,000 federal employees for privatization, with or without public-private competition. At the same time, the OMB is completing a controversial rewrite of OMB Circular A-76, which establishes rules for public-private competition, that would further tilt the process in favor of private contractors.

There is no system for accounting for the cost of contractors. Federal agencies currently contract out in excess of \$125 billion annually for services. Although the impetus for contracting out is to save money, there is no system in place for those agencies to track the cost and quality of service contracting. In its recent audit, the Inspector General (IG) of the U.S. Department of Defense, which spends the most on service contracting, "found problems with every one of the 105" contracts surveyed. "In nearly 10 years of managing the audit office" of Defense's Inspector General, the IG did not "ever recall finding problems on every item...." Further, the General Accounting Office (GAO) long has expressed concerns about the accuracy and reliability of the Defense Department's reporting on the costs related to contract services (see GAO-01-295, page 4). Without a proposal to improve the reporting, the GAO predicts the Defense Department's "report on the costs of contract service will still be inaccurate and likely understate what [the department] is paying for certain types of services." The work of federal employees, on the other hand, is meticulously tracked and documented in extraordinary detail through the budget, appropriations and Federal Activities Inventory Reform Act inventories processes. The rewrite of OMB Circular A-76 imposes additional accountability provisions on federal employees but none on contractors.

Public-private competition is lacking. In another step that undermines the apparent goal of privatization—to save money—federal agencies are directly converting work performed by federal employees to the private sector without any public-private competition. And the Bush administration's privatization quotas explicitly encourage agencies to continue doing so. The Department of Defense admits that contractors had to compete against federal employees for only 2 percent of its contracts. According to the department's March 10, 2000, IG report, 77 percent of the surveyed contracts had "inadequate cost estimates" that "clearly left the government vulnerable—and sometimes at the mercy of the contractor to define the cost."

Privatization has placed no emphasis on accountability for the taxpayer. OMB has imposed quotas only to privatize work, not to ensure that agencies begin to subject work to public-private competition, to establish systems to track work performed by contractors or to systemically review work performed by contractors to determine whether taxpayer dollars could be saved by bringing the work back in-house.

Insourcing is actually common at the local level. According to Mildred Warner and Amir Hefetz at Cornell University, "From 1992 to 1997, 88 percent of the governments had contracted back in at least

one service and 65 percent had contracted back in more than three services.” On average across all places, five services were contracted back in from 1992 to 1997. Moreover, the administration has done nothing to rectify a longstanding inequity allowing only contractors to contest agencies’ procurement decisions before the General Accounting Office of the Court of Federal Claims.

Large-scale privatization efforts will worsen the human capital crisis. The federal workforce has shrunk by more than 400,000 over the past dozen years—the product of indiscriminate downsizing and privatizing. As a result, the federal government is now facing a shortage of federal employees in numerous key occupational categories, a federal brain drain termed a human capital crisis. The administration’s attempt to eliminate more than one-half of the remaining workforce will exacerbate the shortage.

Privatization could have broad implications for the economy. As the *New York Times* recently noted, government employment long has been a stepping stone into the middle class for many, especially black and female workers, who benefited greatly from efforts by the public sector to reduce discrimination in hiring. Black and female workers still depend more on public sector jobs than their white counterparts. According to the Urban Institute, federal, state and local government employment currently accounts for 15 percent of employment among black males, compared with 11 percent for white males.

Privatizing can undercut workers’ wages and benefits. While privatization may sometimes save money, federal agencies should not privatize in order to lower the living standards of those who perform the work of the government. The Economic Policy Institute has reported that “[e]ven the federal government jobs at the low end of the pay scale have historically paid better and have had more generous benefits than comparable private-sector jobs.” Nevertheless, the Bush administration’s rewrite of the privatization process actually increases the emphasis on wages and benefits in the award decisions.