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## Contracting Out Services In a Wasteful Manner Will Waste Money

By Reihan Salam      September 13, 2011

If you want to save money by contracting out services, you need to have smart, competent people designing the proposal. The proposal should have clear metrics and performance targets, and you should have people on staff who are capable of rigorously and fairly evaluating whether or not targets are being met.

If you're surprised to discover that the federal government does a terrible job of contracting out services, I fear you haven't been paying close attention.

Rather bizarrely, Ron Nixon of the *New York Times* is juxtaposing the fact that the federal government isn't very good at outsourcing, something that virtually all successful U.S. firms have found they must do well to survive and flourish, with the question of compensation differentials between the public and private sectors:

- The study found that in 33 of 35 occupations, the government actually paid billions of dollars more to hire contractors than it would have cost government employees to perform comparable services. On average, the study found that contractors charged the federal government more than twice the amount it pays federal workers.
- The study was conducted by the Project on Government Oversight, a nonprofit Washington group. The federal government spends about \$320 billion a year on contracts for services. The POGO study looked at a subset of those contracts.
- The study comes after months of criticism, mostly by Republicans, about what they see as the high cost of salaries and benefits for federal workers. The House earlier this year passed a Republican budget plan that would freeze pay grade levels and eliminate raises for five years, and cut the government's work force by 10 percent. Last year, President Obama announced a two-year salary freeze for federal workers, which Republicans said did not go far enough.
- The Heritage Foundation, a conservative research group in Washington, released a report last year that found that federal employees earn 22 percent more in hourly wages than the private sector. The Heritage study also found that if federal employee compensation were adjusted to match that of their private sector counterparts, federal spending would be reduced by \$47 billion in 2011 alone.
- But POGO said its study did not just compare the salaries of the two sectors; instead it focused on what the government actually pays contractors to perform services versus how much it would cost to have that work done by in-house staff members.

I have a news flash: it is possible for a firm that is really good at what it does to pay its employees really well and to *still* do a better job than a firm that does what it does much less

well. My impression is that private contractors are hoping to extract as much as they can from the federal government. They are, after all, for-profit firms. Private contractors are also hoping to extract as much as they can from other private firms. The responsibility of the federal government is the same as that of a responsible business owner or manager: to be a shrewd customer.

So why isn't the federal government a shrewd customer? One possibility is that the compensation structure is poorly designed. It's not about overall overcompensation or undercompensation so much as it is about the fact that *some* (if not most) employees are overcompensated while procurement officers, perhaps the most important employees of all, are not a much higher priority — that is, the federal government should be headhunting the best procurement officers from around the world, offering bounties, citizenship, and a large plot of land in scenic Maine or Montana or both to skilled procurement officers from Singapore or Switzerland or private industry and paying them a competitive salary.

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