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Study Finds Government Pays More in Contracts

BY RON NIXON

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WASHINGTON — Despite a widespread belief that contracting out services to the private sector saves the federal government money, a new study suggests just the opposite — that the government actually pays more when it farms out work.

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.

“That’s a big difference,” said Scott Amey, POGO’s general counsel. “We compared the full compensation paid to federal government and private sector employees to the billable rates in federal service contracts. Across the board you see that it cost government more to pay for contractors.”

For example, the study found that, on average, the federal government paid contractors \$268,653 per year for computer engineering services, while government workers in the same occupation made \$136,456.

For human resources management, the federal government paid contractors an annual rate of \$228,488, more than twice the \$111,711 to have the same services done in-house.

The Office of Personnel Management, which administers the federal work force, did not respond to questions about the study, but in the past it has criticized reports that say federal workers are overpaid.

Mr. Amey said the study was limited because it looked only at General Services Administration schedule, or previously negotiated, contracts, which are unfinanced five-year contracts listing the fees the federal government has agreed to pay for outside commercial products and services. Financing occurs when an order is placed and signed by a federal agency. Mr. Amey said schedule contracts were also the only ones that had salaries and benefits information included.

“Part of the problem with doing studies like this is the lack of data about what the government pays contractors,” he said. “While this study is limited to a subset of government contracts, it’s the only area where you have information.”

James Sherk, a policy analyst with the Heritage Foundation and the author of the federal salary study, said he was skeptical of the POGO findings. “It’s not a real apples to apples comparison,” he said. “When the federal government hires contractors, it’s for the short-term. When they hire for the public sector, they are on the hook for the salaries and compensation for years.”

Mr. Amey counters that the government usually pays contractors for multiple-year jobs, not just short term.

Paul C. Light, a professor at New York University who has studied the contractor work force, said he found the POGO study interesting. “Contracting out to the private sector is often oversold as the answer to better services, better performance and better cost,” Mr. Light said. “But doing this type of analysis shows that it’s not the case.”