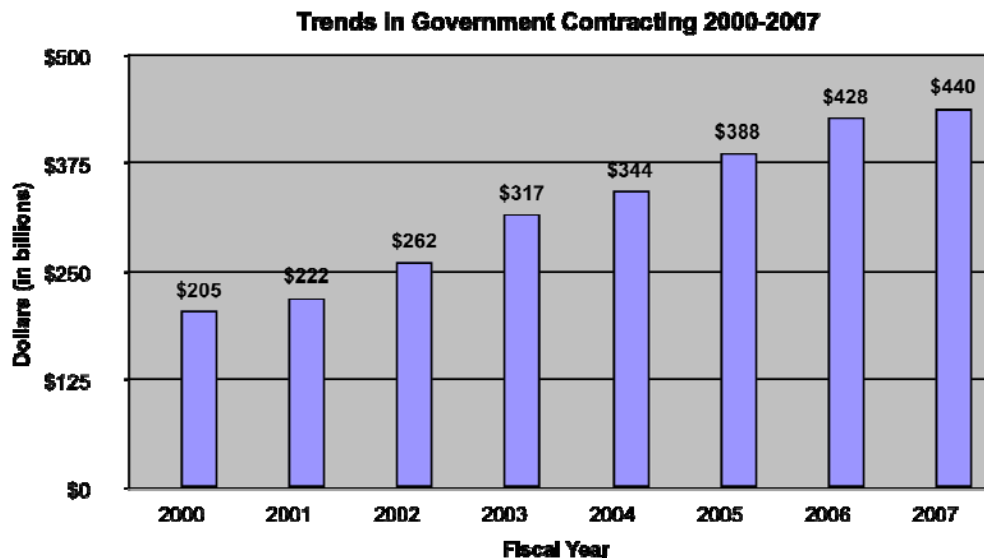


Federal Government Contracting

March, 2008

The federal government is responsible for providing a diverse array of services to its citizenry. Many of these services provided by federal agencies employ a skilled workforce. Products and services that are not offered in an efficient and effective manner are often contracted out in order to help government achieve results. Through contracting, other businesses and organizations serve the public by performing specialized functions that help government be more accessible to its constituents.

Contracting out to the private sector has become increasingly popular in recent decades. As indicated in the graph below, in FY2007 alone, the federal government awarded over 9 million contracts at the cost of \$440 billion¹. According to the Federal Procurement Data System, the dollar amount of contracts has more than doubled since FY2000, in which the expense was around \$205 billion². To date, the exact number of total contractors employed by the federal government is unknown. The latest and best estimate available is 7,634,000. This number is based off of 2005 data and comes from Paul C. Light's paper, "The New True Size of Government".³



¹ Federal Procurement Data System, Federal Contracts Action and Dollar report, February 28, 2008.

² Ibid.

³ Light, Paul C. "The New True Size of Government." Aug. 2006. NYU, Wagner Graduate School. <http://wagner.nyu.edu/performance/files/True_Size.pdf>.

Government Contracts and Abuse Issues

While contracting out has allowed the government to offer specialized services without increasing the size of the federal workforce, and at times cutting costs, issues have arisen concerning contract mismanagement. Members of Congress in both parties have acknowledged the need for contracting reform measures in several areas. US Representative Waxman (D-CA) chairs the House Government Reform Commission. He stated that, “procurement spending has grown rapidly over the last six years, nearly twice as fast as the rest of the federal budget... This surge in contract spending has enriched private contractors, but it has come at a steep cost to taxpayers through rising waste, fraud, abuse, and mismanagement”.⁴

Furthermore, there are three major types of abuse-prone contracts: no-bid, cost-based, and monopoly contracts.

- **No-bid contracts** are more formally known as “sole source” contracts. Typically, a government awards them after negotiating with only one firm. An advantage of these contracts is that they can be settled quickly. However, the absence of competition tends to drive up the prices, while decreasing the quality of work completed.⁵
- **Cost-based contracts** are used when the initial cost of the work is unknown. The contractor receives compensation for all the incurred expenses from the government. An advantage of these contracts is that it drives high quality work. Unfortunately, it does not include an incentive for the contractor to minimize on cost.⁶
- **Monopoly contracts** are noncompetitive contracts given to companies to perform a job in an entire sector of the economy. For example, Halliburton, Bechtel, Parsons, and other large contractors were given sole control over reconstruction work in a sector of Iraq’s economy by our government.⁷

⁴ "Chairman Waxman Delivers Speech on Federal Contracting." Committee on Oversight and Government Reform. 14 May 2007. 110th Congress.
<<http://oversight.house.gov/story.asp?ID=1318>>.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

Presidential Candidate Proposals

While on the campaign trail, the major presidential candidates have denounced the waste and abuse of government contracts in various areas.

Senator Hillary Clinton:

“I want to see my government be more transparent. I want to make sure that we limit, if we can't eliminate all the no-bid contracts, the cronyism, I want to cut 500,000 government contractors.”⁸

Senator Clinton's Proposed Reforms:

1. Cut 500,000 contracting jobs over 10 years

Senator Clinton states that 2.4 million contracting jobs have been placed on the federal payroll between 2002-2005.⁹ She proposes to cut 500,000 of those contracting jobs over the next 10 years by executive order.¹⁰ The campaign says this will save between \$10-18 billion a year.¹¹

2. End no bid contracts

Senator Clinton emphasizes that in 2004 nearly half of all contracts were awarded without competition.¹² She proposes to restore competitive bidding except during times of national emergency.¹³ In cases of national emergency, no-bid contracts are often used for the purpose of expediency. Even during these times, she wants to have close oversight over non-competitive contracts.¹⁴

3. Post all contracts online

⁸ "Meet the Candidates 2008 Series: on Government Reform." On the Issues. 13 Jan. 2008. <http://www.ontheissues.org/Archive/2008_Meet_the_Press_Government_Reform.htm>.

⁹ "A Comprehensive Plan to Reform Government." Hillary for President. <<http://www.hillaryclinton.com/feature/realplan/>>.

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ "Remarks on Government Reform." Hillary for President. 13 Apr. 2007. <<http://www.hillaryclinton.com/news/speech/view/?id=1445>>.

Senator Clinton points out that all government contracts should be transparent and subject to public disclosure. She proposes to make all contracts accessible on-line.¹⁵

Senator Clinton's History on Contract Issues:

In 2008, she cosponsored S.2398, the Stop Outsourcing Security Act, which would phase out the use of private military contractors in Iraq and Afghanistan¹⁶

In 2006, she was among the sponsors of S.2361, the Honest leadership and Accountability in Contracting Act of 2006, which would improve contracting and procurement by eliminating fraud and abuse, increase competition and penalize war profiteers.¹⁷

Senator John McCain

“Fixed price contracts based on realistic cost estimates with clear, consistent requirements will ensure that the contractor pays for cost overruns, not the taxpayers... We must also limit sole-source contracting and make cost discipline a priority using market competition to keep costs down and innovation up.”¹⁸

Senator McCain's Proposed Reforms:

1. Expand the use of fixed price contracts

Senator McCain proposes to expand the use of fixed price contracts in order to ensure that requirements are fulfilled, schedules are kept and costs are minimized.¹⁹ In this case, the burden of overrun costs will land on the contractor, not the taxpayers.

¹⁵ A Comprehensive Plan to Reform Government." Hillary for President. <<http://www.hillaryclinton.com/feature/realplan/>>.

¹⁶ "S.2398." Thomas. The Library of Congress. <<http://thomas.loc.gov/cgi-bin/bdquery/z?d110:SN02398:@@P>>.

¹⁷ " S.2361." Thomas. The Library of Congress. < <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:SN02361:@@P>>.

¹⁸ McCain, John. Speech. State Legislature, Oklahoma. 21 May 2007. <<http://www.johnmccain.com/Informing/News/Speeches/48474414-5864-4de8-921e-d2d51de82bdd.htm>>.

¹⁹ Ibid.

Senator McCain's History on Contract Issues:

In 2007, he introduced S.32, the Defense Acquisition Reform Act, which would reform the acquisition process and prescribe cost cutting measures to contracts with the Department of Defense.²⁰

In 2006, he was one of four original cosponsors of the bill S. 2590, the Federal Funding Accountability and Transparency Act, which allowed OMB to create a searchable database of federal spending. The "Google for government" bill placed contracts, grants, earmarks and loans online through www.usaspending.gov.²¹

In 2006, he cosponsored Senate Amendment S.AMDT.4772 to H.R. 5631, the Department of Defense Appropriations Act of 2007, which ensured that no funds would be appropriated to any defense contractor whose performance didn't match the requirements within the contract.²²

In 2003, he uncovered a corrupt tanker procurement deal between the Pentagon and Boeing.²³ As a result, two Boeing officials went to jail and Air Force Secretary James Roche resigned.

Senator Barack Obama

"I will end the abuse of no-bid contracts in my administration. In the last six years, the unprecedented use of these contracts has wasted billions of taxpayer dollars and outsourced critical government services to friends and supporters who are more connected than they are qualified."²⁴

Senator Obama's Proposed Reforms

²⁰ "S.32." Thomas. The Library of Congress. <<http://thomas.loc.gov/cgi-bin/bdquery/z?d110:SN00032:@@D&summ2=m&>>.

²¹ "S.2590." Thomas. The Library of Congress. <<http://thomas.loc.gov/cgi-bin/bdquery/z?d109:SN02590:@@P>>.

²² "S.AMDT.4772." Thomas. The Library of Congress. <[http://thomas.loc.gov/cgi-bin/bdquery/L?d109:./temp/~bdacgRs:1\[1-186\]\(Amendments For H.R.5631\)&./temp/~bd7Vs2](http://thomas.loc.gov/cgi-bin/bdquery/L?d109:./temp/~bdacgRs:1[1-186](Amendments For H.R.5631)&./temp/~bd7Vs2)>.

²³ "McCain Deplores Boeing Tanker Scheme." Global Security. 23 May 2003. <<http://www.globalsecurity.org/military/library/news/2003/05/mil-030523-dod0.htm>>.

²⁴ Obama, Barack. Speech. "Taking Our Government Back." Manchester, NH. 22 June 2007. <http://www.barackobama.com/2007/06/22/remarks_of_senator_barack_obam_17.php>.

1. Create a “Contracts and influence” database

Senator Obama states, “the nation’s top government contractors have spent millions lobbying the government and contributing to federal candidates.”²⁵ He proposes to expand on the “Google for government” idea by creating a database of “Contracts and Influence.” This will help to disclose how much is spent on lobbying efforts by any government contractors with more than \$150,000 in government business.²⁶

2. End no bid contracts

Senator Obama proposes that all government contracts worth more than \$25,000 will be subject to competitive bidding, except those deemed to be emergencies.²⁷ Written justification will have to be provided by the contracting officer for this rule to be lifted.²⁸

3. Closing the revolving door

Senator Obama asserts that no political appointees will be allowed to work in his administration on contracts or regulations related to their prior employer for 2 years after employment.²⁹ He believes this will remove some of the incentive for employers to provide financial incentives to a former government employee.

Senator Obama’s History on Contract Issues

In 2007, he introduced S.674, the Transparency and Accountability in Military and Security Contracting Act of 2007, which would enhance congressional oversight for personnel performing private security functions under Federal contracts in Iraq and Afghanistan.³⁰

In 2006, he was one of four original cosponsors of S. 2590, the Federal Funding Accountability and Transparency Act, which allowed OMB to create a searchable

²⁵ "Restoring Trust in Government and Improving Transparency." Pg. 6. Barack Obama. <<http://www.barackobama.com/pdf/TakingBackOurGovernmentBackFinalFactSheet.pdf>>.

²⁶ Ibid.

²⁷ "Restoring Trust in Government and Improving Transparency." Pg. 2. Barack Obama. <<http://www.barackobama.com/pdf/TakingBackOurGovernmentBackFinalFactSheet.pdf>>.

²⁸ Ibid.

²⁹ Obama, Barack. Speech. "Taking Our Government Back." Manchester, NH. 22 June 2007. <http://www.barackobama.com/2007/06/22/remarks_of_senator_barack_obam_17.php>.

³⁰ “S.674.” Thomas. The Library of Congress. <<http://thomas.loc.gov/cgi-bin/bdquery/z?d110:SN00674:@@@P>>.

database of federal spending. The “Google for government” bill placed contracts, grants, earmarks and loans online through www.usaspending.gov.³¹

In 2006, he cosponsored S.2361, the Honest Leadership and Accountability in Contracting Act of 2006, which would improve contracting and procurement by eliminating fraud and abuse, increase competition and penalize war profiteers.³²

³¹ “S.2590.” Thomas. The Library of Congress. < <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:SN02590:@@P>>.

³² “ S.2361.” Thomas. The Library of Congress. < <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:SN02361:@@P>>.