TRUE COMPETITIVE SOURING:
EXPANDING COMPETITION IN FEDERAL PROCUREMENT TO REDUCE
GOVERNMENT EXPENDITURES

by
Jordan David Maurand

A capstone submitted to Johns Hopkins University in conformity with the requirements
for the degree of Master of Arts in Public Management

Baltimore, Maryland
December 2019

© 2019 Jordan Maurand
All Rights Reserved
Abstract

Competitive sourcing of services for the federal government has been practiced for some time. Recently, however, several U.S. municipalities and foreign countries have experimented with a new model of competitive sourcing, which is enhanced by allowing government entities to bid on government contracts. This model, referred to as “true competitive sourcing” in this memo, has shown promising results, and a nonpartisan think tank estimates it could reduce government expenditures by up to $35 billion annually. At the same time, recent research on government contracting indicates the current procurement process is not functioning efficiently. True competitive sourcing is a policy option that could reform federal procurement practices while reducing federal spending. However, the political considerations surrounding this policy indicate it will be difficult to maintain in the long term.

Capstone advisor: Paul J. Weinstein, Jr.
Table of contents

Abstract.....................................................................................................................ii
Action-forcing event............................................................................................1
Statement of the problem.......................................................................................1
History/background.............................................................................................4
Policy proposal......................................................................................................11
Policy analysis......................................................................................................18
Political analysis.................................................................................................23
Recommendation.................................................................................................29

List of figures

Figure 1: Number of Federal, Contract, and Grant Employees (in millions)...........6
Figure 1: Budget Projections for FY2019..............................................................10
Figure 3: BPC's Deficit Tracker ..........................................................................22
Figure 4: Five Largest Federal Contractors FY2018 ..........................................24
Memorandum
To: Mick Mulvaney, Director of the Office of Management and Budget
From: Jordan Maurand
Subject: Competitive sourcing in federal acquisitions
Date: September 30, 2019

Action-forcing event

On September 13, 2019, the Department of Justice announced the United Parcel Service agreed to return $8.4 million to the United States to settle claims it had overcharged the Government Services Administration from 2007-2014.¹ Could using the United States Postal Service have been a better deal for the government?

Statement of the problem

Over the last several decades, federal agencies have come to rely more and more on government contractors to carry out agency work. Federal contract and grant employees (collectively referred to as contractors in this paper) have consistently outnumbered federal employees by at least two-to-one since the 1980s.² Over $900 billion of the FY2019 budget (13.2%) was spent on contractual goods and services.³ We have come to this arrangement because contracting allows the government to acquire expertise it does not have in the federal workforce and also to use competition to drive down the cost of goods and services. Thus, contracting ostensibly results in higher quality

and lower cost work.\textsuperscript{4} However, more recent research indicates that taxpayers are not getting their money’s worth in this arrangement.

One of the two main issues with the current procurement process is that some of the work contracted has proven not to be cheaper, and it would be more cost-effective to keep this work “in house.” Typically, contractor personnel bill the government at hourly rates agreed to in the original contract for the work awarded. These rates are tied to individuals or roles and are intended to be commensurate with experience and market value. In 2011, the Project on Government Oversight studied these contractor rates and found that “the federal government approves service contract billing rates—deemed fair and reasonable—that pay contractors 1.83 times more than the government pays federal employees in total compensation, and more than 2 times the total compensation paid in the private sector for comparable services.”\textsuperscript{5}

On the other hand, the other main issue with the current procurement process is that there are likely additional government services that would benefit from outsourcing that are not considered for it. This is related to the process outlined in the OMB A-76 Circular, which is used to determine what government activities are suitable for contracting. The George W. Bush administration used this process to outsource much more government activities until Congress imposed a moratorium on the practice in 2007 in response to concerns that contracting was not as efficient as promised.\textsuperscript{6} The Reason Foundation, a libertarian think tank, argues that the moratorium on competitive sourcing

\textsuperscript{5} Chassy, Paul and Scott Amey. “Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors.” Project on Government Oversight, September 13, 2011.
has led to both cost and quality impacts on government programs. For the reasons noted above, the concerns leading to the moratorium were likely valid. However, taken together, these two issues describe a contracting process in which contracting is not saving money in some areas of government, while other areas that could potentially benefit from contracting are not open to the process.

Ultimately, this dynamic leads to inefficient government programs and, ultimately, overspending that contributes to the federal deficit, which increased by nearly $1 trillion in FY2019 to a total of $16.7 trillion. While deficit spending in itself is not necessarily a problem, economists argue that it should be kept at a minimum, particularly during periods of economic expansion (such as the one we currently enjoy), so that in the event of an economic recession the federal government has more capacity to spend and ease the negative effects of recession. In other words, economists believe that deficit spending is unsustainable and that eventually a ceiling will be hit at which point investors will no longer buy the U.S. Treasury bonds that enable deficit spending. If this ceiling is reached during a recession, there will be significant economic costs for the nation. Thus, if government contracting, which has become such a large part of government spending, is not efficient, the current procurement process is needlessly adding to deficit spending at a time when it should be avoided. However, even if the country was not currently running a deficit, the problems with contracting would still be hurting Americans by using their tax dollars to support inefficient programs when that money could be better

---

7 Ibid.
spent elsewhere or used to lower taxes. Given the sheer dollar amount spent on contractors, even modest gains would result in real reductions in federal spending.

**History/background**

The U.S. government has contracted with the private sector for its entire existence, beginning with supplies for soldiers in the Revolutionary War. In fact, the modern government procurement process can be traced to the sealed bid system Robert Morris implemented for the Continental Army in 1781.\(^{10}\) As the country and its government grew, so did the government’s dealings with the private sector. Without a doubt, it is impossible to run a modern, effective government without contracting for certain types of goods or services. It is simply the case that some private enterprises can more cheaply or more quickly provide these goods or services than the government could produce on its own, often because these enterprises must respond to competition, which forces them to become more efficient.\(^{11}\)

Beginning in the post-WWII era, many leaders have sought to expand the government primarily through contracting, rather than simply hiring more federal workers. This effort was justified as a means of government reform to combat a bloated and inefficient federal workforce.\(^{12}\) This introduced ideology in addition to practicality to the justification for government contracting. This change reflected changes in the country at the time and was inspired by the rhetoric of the Cold War. Dan Guttman, a fellow at

---


\(^{12}\) Guttman, 323.
the Johns Hopkins University Washington Center for the Study of American Government, argues that

[...] reformers believed that harnessing of private enterprise to public purpose would serve two complementary purposes. First, the private sector would provide both technical expertise and powerful political support for increased federal commitment to national defense and public welfare tasks. Second, the private bureaucracy would countervail against the dead hand of the official bureaucracy and alleviate concern that a growing Government meant a centralized big Government.13

By the early 1960s, there were some misgivings about this private bureaucracy, marked by Dwight D. Eisenhower’s famous warning about the size and power of the military-industrial complex in his 1961 farewell speech.14 However, this speech proved to have little real effect, and by the Reagan era the creation began of what Paul Light describes as the “blended workforce,” meaning a government comprised of federal, contract, and grant employees working very closely to carry out government work. As Figure 1 below demonstrates, it is likely that war and peace are the biggest drivers of contract and grant workers.15 However, the figure also shows that the number of contract and grant workers dwarf federal employees, and suggests that if these workers are not being used efficiently, there are serious implications for the country.

---

13 Ibid., 326.
14 Light, 1.
15 Ibid., 4-5.
As Figure 1 above shows, the greatest increase in contract and grant workers occurred during the presidency of George W. Bush. While some of this jump is attributable to the Afghanistan and Iraq wars, it is also attributable to Bush’s “competitive sourcing” initiative, which was an attempt “to use competition as a means of identifying the best supplier of goods and services to the federal government.” This initiative began during the Clinton administration, during which the entire federal workforce, both employees and contractors, shrunk as a result of the end of the Cold War. The Bush administration continued the competitive sourcing process, but implemented this policy differently than Clinton, and Bush’s approach ultimately resulted in the government outsourcing much more work than in the past. This practice was the logical extension of the ideology of reformers who sought to limit the size and power of the federal workforce by growing the government through contracting. This was a controversial policy at the time, and some use this as an example of government contracting gone too far. In response to these concerns, President Obama issued a moratorium on the practice in

---

17 Light, 6.
18 McTigue.
2011, which has since prevented additional government functions from being put up for bid; however, President Trump has explored reinstating the practice early in his presidency.\(^1^9\)

With or without active competitive sourcing, government contracting remains a large part of how the government operates. Treasury reports that 13.2% of all federal spending in 2018 went to contractual goods and services, totaling over $900 billion.\(^2^0\) To be sure, the government’s acquisition of goods and services through grants and contracts allows the government to procure goods it has no business manufacturing and expertise that agencies have traditionally struggled to hire outright (e.g., bullets and IT experts, respectively). Indeed, Paul Light notes “Washington’s blended workforce has contributed to many of the federal government’s greatest achievements, such as building the Interstate Highway System, conducting the basic research to help reduce life-threatening disease, exploring space, and administering antipoverty programs.”\(^2^1\) However, recent analysis suggests that this system is not operating efficiently, and points to two primary concerns about the current federal acquisition process: that it is a byzantine system that federal workers and contractors alike struggle to navigate, and that contractors have proven to be more expensive than are often estimated. Given the sheer amount of work the government outsources, these systemic inefficiencies can be very expensive for taxpayers.

During the appropriations process, budgeters determine what goods and services should be outsourced, either by contracting or grant writing. Then, agencies will name a

---


\(^2^0\) U.S. Department of the Treasury, Bureau of the Fiscal Service.

\(^2^1\) Light, 28.
contracting officer, who is responsible for issuing the request for proposals, reviewing the proposals, awarding the contract, and executing the contract. All of this is subject to the Code of Federal Regulations Title 48: the Federal Acquisition Regulations System (the FAR). These regulations, issued by the General Services Administration (GSA) is 2,010 pages long. This document details all of the applicable rules and regulations that the government and bidders must follow in order to do business with each other. Many of these rules are general and apply to all situations, such as rules addressing potential conflicts of interest; however, many more are very specific, such as the procedures required to purchase helium. Additionally, the GSA amends the document frequently; for example, the October 10, 2019, version of the FAR included 25 new amendments since September 10, 2019. The reality of this system is that it is impossible for both federal employees and contractors to fully learn everything about the system, and instead they “muddle through” this system as best as they can. This indicates the system is not working as designed.

Another relevant concern about the current state of government contracting is recent studies suggest contractors are not as cost-effective as generally believed. The Office of Management of Budget (OMB), Office of Federal Procurement Policy’s states “it is imperative that contract actions result in the best value for the taxpayer.” This implies that cost savings is the primary goal of government contracting. However, recent

---

22 General Services Administration. “Title 48 Federal Acquisition Regulation System,” Volume I, Parts 1 to 51, FAC 2019-06, October 10, 2019, 1.6-1.
23 Ibid., 8.505.
24 Ibid., 1-3.
25 Guttman, 325.
studies suggest that contracting may not always be the best financial decision for the government. In a 2018 review of the literature on government contracting, Ole Helby Petersen et al. determined that “the widespread belief in the private market as superior to public service provision was reinforced by a number of much-cited reviews and meta-analyses of empirical studies published throughout the 1960s–90s”, but “recent analyses have contested the magnitude of previously documented cost savings from contracting out.”

Previously cited above, one such analysis is a Project on Government Oversight (POGO) 2011 report “Bad Business: Billion Wasted on Hiring Contractors,” which compared actual contractors’ billed hourly costs to hourly costs for equivalent federal employees, factoring in relevant costs such as benefits. This report looked at 35 federal classifications of work, and found that the federal government on average approves contractor rates of nearly twice that of equivalent federal employees. This study has concluded that the current contracting system is not providing cost-efficient solutions to the government.

The implication of an inefficient acquisitions system is enormous. As previously discussed, the government spends hundreds of billions of dollars every year on contracts and grants. At the same time, the government is running historically high deficits--the Congressional Budget Office projects the FY2019 deficit will approach $1 trillion. This deficit will be added to the debt already held by the government that must be repaid with interest. If the acquisitions process is as inefficient as the POGO report suggests, the government could be overpaying for services by billions of dollars. This is corroborated

---

27 Petersen et al., 131.
28 Chassy et al, 1.
29 Congressional Budget Office.
by an estimation that a return to competitive sourcing would save $35 billion, which could shave 3.5% off this year’s deficit. The government simply cannot afford an inefficient acquisitions process, which ultimately is a government hand-out to private industries.

The solution discussed in this memo is competitive sourcing. As mentioned above, this process began during the Clinton administration, was fully embraced and most commonly associated with the George W. Bush presidency, and stopped by the Obama administration. The Trump administration has considered reinstating the practice. This process, detailed in OMB Circular A-76, requires agencies to categorize all functions as either “inherently governmental” or “commercial,” as defined by the FAR. Then, any function deemed “commercial” is considered for outsourcing by the government. As evidenced by Obama’s moratorium, however, competitive sourcing was controversial during Bush’s presidency. Federal labor unions strongly opposed the practice, and it was seen by many as an unjustified giveaway to private industry and an undermining of the federal workforce. The GAO found the process flawed and recommended against its use. However, there have been innovations in this process at the local level to address these concerns and have shown promising results. The primary change is to allow for

---

30 Reason Foundation.
33 Clark, “OMB 'Out of Practice' on Competitive Sourcing, Adviser Says.”
government agencies to compete along with the private sector for work. This has been
successfully executed in Chicago, Indianapolis, Phoenix, and Philadelphia, and also has
been used in Canada and the United Kingdom. In this model, whether private industry
or government wins the work, there is an average savings of 27% for the government,
and “applying that savings rate across all 1.1 million commercial positions referenced
above would yield up to $35 billion in annual savings—regardless of whether the public
or private sector performs the function.”

Policy proposal

The policy this memo considers is the full adoption of competitive sourcing in
federal acquisitions along with changes in the process to allow the government to bid on
any contract opened up to the private industry. Moving forward, this memo will refer to
this policy as “true competitive sourcing.” The goal of this policy is to reduce federal
spending on the programs and projects put up for bid such that it pays for itself within a
six-year implementation period and then reduces federal spending by at least $20 billion
per year thereafter.

There are three parts to this policy: 1) an expansion of what government functions
that are deemed suitable for outsourcing, 2) an overhaul of the federal acquisitions
process that will allow for government bidders on contracts, and 3) granting government
agencies the express authority to bid on government contracts. These changes would be
limited to contracts for services and not goods, as there is no evidence the federal
government ought to start manufacturing goods. In this memo, service contracts refers to

---

35 Reason Foundation.
an “agreement whereby a contractor supplies time, effort, and/or expertise instead of a
good (tangible product).”

The policy goal of reducing spending can be measured by tracking agencies’
expenses on programs and projects put up for bid and determining if they fall, either in
real terms or relative to each agencies’ spending overall. Observing the share of agency
expenditures on these costs will help control for potential developments that substantially
increase or decrease government spending in an area (e.g., war would significantly
increase DOD expenses regardless of whether true competitive sourcing is implemented
or not, while rolling back environmental regulations would decrease EPA expenses). The
projected costs of awarded projects and programs (i.e., the winning bids) could be used as
preliminary data, but it is important to observe actual costs, as contracted programs and
projects often do not go to plan, requiring contract modifications to increase costs down
the road. As these programs and projects generally take place over several years, reliable
results will not be observable for at least one year after implementing the policy.

OMB and the General Service Administration (GSA) will primarily implement
true competitive sourcing, although this policy will require cooperation from all agencies
to be truly successful. OMB will develop new criteria to determine what government
functions are suitable for outsourcing and revise OMB Circular A-76 as appropriate.
Additionally, OMB, with input from GSA, will design a new acquisition process that
allows for government agencies to bid on any government contract. Likewise, OMB’s
Office of Federal Procurement will work with GSA will revise the FAR to reflect this
new system. Individual agencies’ procurement departments will then be expected to

(available at: http://www.businessdictionary.com/definition/service-contract.html).
follow the new processes outlined in OMB Circular A-76 and the FAR, although it is likely that OMB and GSA will need to provide additional guidance and support, particularly during the early years of this new process.

The primary policy authorization tool is an executive order. This would be an expansion of President Trump’s March 13, 2017, Executive Order 13781, which directed the OMB to develop a plan for government reorganization and also gives the OMB Director the ability to override agency heads’ determinations of “commercial” or “inherently governmental” functions (i.e., those suitable or unsuitable for contracting). Under EO 13781, OMB already has the authority to revise OMB Circular A-76. However, an additional executive order is needed to order the overhaul of the federal acquisition process and expressly grant agencies the authority to bid on government contracts. These changes will be made to the FAR. Executive order is the appropriate tool to authorize these activities, as Congress has legislated in the Office of Federal Procurement Policy Act of 1974 that “To the extent the [Office of Federal Procurement Policy] Administrator considers appropriate in carrying out the policies and functions set forth in this division, and with due regard for applicable laws and the program activities of the executive agencies, the Administrator may prescribe Government-wide procurement policies. The policies shall be implemented in a single Government-wide procurement regulation called the Federal Acquisition Regulation.” This law has expressly given OMB the authority to revise the FAR to meet the executive’s policy goals.

---

The primary policy implementation tool for the enforcement of true competitive sourcing are penalties. Both government agencies and private contractors will be expected to follow the new guidance and procedures detailed in the FAR. If a government agency does not follow this process, it will open that agency up to legal challenges to its contracting decisions, which will result in costly legal expenses for the agency and negatively impact progress on contested contracts. Additionally, individual federal employees can be cited for not following procedures, which can be detrimental to their careers. If contractors fail to follow relevant procedures, this could disqualify their bids. These negative consequences serve as incentives for federal employees and contractors follow the rules necessary to implement true competitive sourcing.

A secondary policy implementation tool is to make federal employees want to implement true competitive sourcing. This is achieved with communications directed internally at government employees. The biggest change for agencies will be their new ability to bid on contracts. This process will be outlined in the new FAR, but getting agencies to understand and embrace this new system will take additional communications and trainings from OMB and GSA. This will be a major shift for agencies. What agencies bid on is largely voluntary, as it is impracticable for there to be penalties for an agency that determines it should not bid on a contract. However, if motivated, federal employees may be excited to bid on new work, as this could represent new career opportunities for them. Further, some federal employees may be sympathetic to appeals to curb government spending and lesson the government’s reliance on contractors and would like to be part of the solution to current procurement issues.
Overhauling the FAR is no small feat and will take the longest of the three parts of this policy. Developing and documenting a new acquisitions process is likely to take at least one year. Additionally, this policy should be implemented several months in advance of a new fiscal year, as this is when the majority of government contracts are released for bid. Therefore, the earliest possible target for first implementing this policy is by June 2021, so that the FY2022 contracts will follow the new process. This is admittedly an aggressive timeline and it will need to be paired with communications to ensure the new process is understood by agencies and contractors alike.

The implementation of competitive sourcing will have a two-phase transition period. If this policy is implemented by June 2021, the first transition phase will take place between June and September, as both bidders and federal agencies follow the new policy for bidding on and awarding contracts for FY2022. The second phase of the transition will last much longer. As an executed legal document, any government contract in place prior to the implementation of the new policy will remain unchanged. Therefore, there will be a transition period of several years while the government oversees contracts awarded under the current policy as well as newer contracts awarded under true competitive sourcing. The FAR currently recommends a five-year limit on government contracts, although this can be adjusted if justified and contracts can be extended via modification at a later date if needed to complete the work. Therefore, this secondary transition period will last at least five years, after which most active government contracts will be awarded under true competitive sourcing. Thus, if the new policy is implemented

39 General Services Administration, *Title 48 Federal Acquisition Regulation System*, 8.4-9.
in June 2021, we would expect to see the full benefits of true competitive sourcing in FY2027.

Overall, implementing true competitive sourcing will save taxpayer money on government procurement after the implementation period is complete. The goal is to reduce government spending by at least $20 billion annually once implemented. However, there are costs associated with implementing this policy: namely personnel costs. In September 2019, the Bureau of Labor Statistics estimated the current average government worker’s full compensation costs $50.78 per hour, or about $106,000 annually.\(^\text{40}\) The initial redesign of the OMB Circular A-76 and the FAR will require dedicated, full-time employees for both OMB and GSA to ensure the changes are adequate, properly reviewed, and effectively communicated to impacted parties. Once implemented, OMB and GSA will need to retain this staff to oversee this new process, train colleagues, and provide guidance to agencies during the transition period.

GSA will require the most staff, as implementing a redesigned FAR is a heavier lift than revising OMB Circular A-76, and agencies and bidders will need much guidance for following the new FAR. Therefore, this policy proposes an additional 25 FTEs for GSA over the next 6 years, at a cost of approximately $16.7 million (this figure anticipates 2% annual increases to account for cost-of-living adjustments and advancements among staff). 25 FTEs is appropriate for a job as big as redesigning the FAR, and, once that task is complete, these experts in the new FAR can specialize in certain areas. Each cabinet agency will be able to have a dedicated GSA liaison

throughout the transition process. These liaisons will lead the communication and training process for each agency to ensure the new policy is understood and followed.

Similarly, OMB will need several new FTEs to redesign the A-76 process and documentation and oversee the new policy. However, the needs here are not nearly as significant as GSA’s. Therefore, this policy proposes an addition of five FTEs for OMB for the next six years, at a cost of about $3.3 million, making the same assumptions as noted above. Thus, the total personnel costs for both GSA and OMB in the first year would cost approximately $3.2 million, and would total around $20 million for the six-year transition period. This is in comparison to estimated annual savings of up to $35 billion.41

Ultimately, the true competitive sourcing policy targets both federal employees and the employees of any organization that bids on government contracts and grants. Both parties will need to adhere to the new FAR, but for the most part private bidders will not have a substantially different process. The primary change for the private industry is they will need to anticipate and beat government bids in order to continue winning contracts. It is possible that some organizations will no longer wish to bid on contracts. That, however, would indicate the firm does not believe it is a truly competitive source for these contracts, and that the policy is working to increase competition and lower costs for the government.

Federal employees, on the other hand, will need to take on two new roles: bidding on government contracts and evaluating government bids on contracts. It will not come naturally to federal employees to prepare proposals and bid on federal contracts.

41 Reason Foundation.
However, this new process represents an opportunity to perform additional services that are better suited to “in-house” work, which will create new career opportunities for federal employees. On the other side of the process, federal procurement employees will need to grow accustomed to evaluating federal bids on their contracts. The FAR will need to give clear guidelines to procurement offices to ensure they are truly selecting the best bids for their contracts. These procurement offices will be legally required to follow the FAR and ideally these workers will be motivated to realize reduced costs for their projects and programs.

**Policy analysis**

The goal of true competitive sourcing is to reduce the federal deficit by introducing more competition into government acquisitions. This is achieved by opening up more governmental functions to outsourcing while simultaneously allowing government agencies to bid on contracts. This policy has successfully reduced expenditures in various U.S. municipalities and at the national level in the United Kingdom and New Zealand.\(^42\) The Reason Foundation estimates implementing this policy for the U.S. federal government will be effective in meeting its goal, reducing federal expenditures by tens of billions of dollars annually.\(^43\) The short-term policy goal (within the implementation period) is to reduce government expenditures by more than the $20 million this policy’s implementation will cost (e.g., to pay for itself during the initial transition period). Given the upper limit of savings is in the billions per year, it is likely this low bar can be cleared in the first several years. For example, given true

\(^{42}\)Schnurer.  
\(^{43}\)Reason Foundation.
competitive sourcing has been shown to reduce project costs by 27%, the policy would only need to be successfully used on a single $100 million contract in order to pass the break-even point. The relatively low cost of implementing this policy speaks to its efficiency. Much of the “work” to gain the financial benefits of this policy is achieved through competition rather than person-hours.

However, this policy’s success in reaching its full potential of tens of billions of dollars saved is not guaranteed. Although U.S. municipalities such as Indianapolis and Philadelphia have executed this policy with success, true competitive sourcing has not been attempted at the national or state level in the U.S., which would give us a better idea of how this policy works at a greater scale in this country. Although the United Kingdom and New Zealand have had success with this policy at national level, these countries are significantly smaller than the United States and also have a parliamentary system of government, which may have impacted their implementations of true competitive sourcing. Thus, the policy is untested at the scale proposed in this memo.

The biggest risk associated with the untested nature of competitive sourcing is that the transition period could take significantly longer than six years, which is already quite a long time in a country with a four-year political cycle. For example, the FAR redesign could result in unintended consequences and need to be overhauled one or more times before the policy is truly effective. And once the policy is in place, there is no guarantee that agencies will immediately take it up, either. The benefits of true competitive sourcing are only realized if government agencies begin bidding on contracts, and this will be an unfamiliar process that is voluntary for the agencies. Once

---

44 Reason Foundation.
45 Schnurer.
agencies see the benefits of true competitive sourcing they will be more likely to participate, but this will be a significant cultural shift in large institutions not known for their flexibility, and it cannot be known if this will take two years or ten years.

If the policy is successfully implemented on the proposed six-year schedule, there are other concerns. Many government contractors are small businesses, and the government has committed to supporting these small businesses--especially minority-owned--by establishing set-asides for these firms as a way to support equality through government contracting. These companies typically operate on thin margins and some will likely not be able to compete under the new process. In this scenario, the policy is working--the government is getting a better deal--but it is undermining other goals the government has for supporting small businesses. However, this could be offset by opening up more government functions to outsourcing, some of which small and minority-owned businesses may be better suited to perform, giving them new revenue sources.

Similarly, some large contractors stand to lose a lot of money as a result of true competitive sourcing. Again, the expansion of government functions that will be put up for bid could offset this, but it may be that some contractors lose quite a bit while others gain. The losers in this case may pursue legal challenges against the policy. As we are implementing this policy via executive order rather than legislation, legal challenges pose a real threat even though this policy is legal per the Federal Office of Procurement Policy Act of 1974. The government is free to contract as it sees fit, but court challenges could still delay its implementation and/or adoption, which would delay the policy’s benefits.

46 General Services Administration. *Title 48 Federal Acquisition Regulation System*, 19.5-1.
Because true competitive sourcing’s goal is to cut contracting costs, it is reasonable to assume that government contractors' margins will suffer as a result. Again, this will be at least partially offset by increasing the sheer amount of work put up for bid, but contractors will likely be hurt economically by this policy. Industries with the most government contracting, such as the politically powerful defense industry, are likely to oppose this policy. Because of the strong connection between defense contractors and the Pentagon, we can expect significant opposition to this policy.47

Despite anticipated opposition to true competitive sourcing, the goal of this policy is to cut the federal deficit, and there is overwhelming public support for this policy goal. Every year beginning in 2011, Gallup has polled Americans about the following question: “How much do you personally worry about federal spending and the budget deficit?” In every year since, about 80% have responded either a “great deal” or “a fair amount.” In 2019, fully 50% responded a “great deal.”48 This indicates a policy such as true competitive sourcing, which can reduce federal spending with minimal investment, will enjoy bipartisan support. As the government has run consistent, increasing deficits for years, as shown in the following graph, every dollar saved through true competitive sourcing will therefore reduce deficit spending by the same amount.49 As long as messaging around the policy is tied to reducing the federal deficit, it ought to enjoy wide public support. This would benefit OMB’s standing in the public eye as well as your own, as the OMB Director. Additionally, the long-term success of true competitive

sourcing, with a real impact on reducing the federal deficit, would give you a bipartisan political legacy.

We can look to past historical examples for lessons to apply to the implementation of this policy by analyzing the procurement efforts of the last three administrations. Each pursued different strategies under the OMB A-76 Circular process described earlier.\(^{50}\) The Clinton administration introduced more competitive bidding into federal acquisitions process, which was part of the larger “reinventing government” initiative.\(^{51}\) This effort was successful in reducing expenditures, but differed from true competitive sourcing in that the Clinton administration was shrinking the size of the government overall after the end of the Cold War, not replacing federal employees with contractors or vice versa. In the 2000s, the Bush administration grew the government in response to the War on Terror, and did so primarily through outsourcing new functions to contractors.\(^{52}\) The Bush administration has been described as “pro-privatization,” but in

---

\(^{50}\) Clark, “OMB 'Out of Practice' on Competitive Sourcing, Adviser Says.”

\(^{51}\) Light, 6.

\(^{52}\) Ibid, 7.
this process it recognized the benefits of true competition and ultimately ended “a long-standing policy that discouraged government from competing with the private sector.”\textsuperscript{53}

While the Clinton and Bush administrations seemed to be trending towards true competitive sourcing, the Obama administration--in response to concerns that contracting basic functions was cost-effective--halted this process with a moratorium on the practice.\textsuperscript{54} Obama’s concerns were valid and remain valid today. However, there is another option, rather than a moratorium, that could determine if services ought to be outsourced or not: true competitive sourcing, where the government will win the bid if it is better suited to perform the work.

\textbf{Political analysis}

Although true competitive sourcing is likely to meet its policy goals if enacted, there will be much political opposition to the policy. This opposition stems from those most impacted by the policy: private government contractors and government employees. Private government contractors as a whole will likely oppose the aspect of this policy that allows government entities to compete for contracts. Conversely, federal employees will oppose changes that allow more governmental functions to be opened up for competition. These groups are organized and exert significant influence on the executive branch of government. Of the two groups, government contractors are the more formidable opponents to true competitive sourcing.

True competitive sourcing will reduce contractors’ margins by design. While more work may be opened up for contracting, no contractor will be guaranteed to win this

\textsuperscript{53} Schnurer.
\textsuperscript{54} Clark, “OMB 'Out of Practice' on Competitive Sourcing, Adviser Says.”

23
new work. This policy in general introduces uncertainty into the government contracting industry, and contractors will likely oppose it for this reason. Government contractors as an industry are not well organized, but individually they are adept at influencing the government via lobbying. The largest 100 contractors in particular regularly spend millions of dollars per year on lobbying, and the amount spent on lobbying is correlated with larger amounts of contracts won. This indicates large contractors’ lobbying is effective in influencing agencies. Reviewing a list of the largest government contractors in FY2018, it is apparent these organizations work for many agencies and therefore could have influence on many in the Cabinet. Notably, large contractors have a disproportionately large amount of defense contracts. The five contractors that received the most government contract dollars in FY2018 were all in the defense industry. This indicates that contractor influence will be strongest in the Department of Defense. This poses a significant

<table>
<thead>
<tr>
<th>Rank</th>
<th>Contractor</th>
<th>FY2018 Contract Actions</th>
<th>Amount Obligated</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lockheed Martin Corporation</td>
<td>140,260</td>
<td>$40,552,880,120.29</td>
</tr>
<tr>
<td>2</td>
<td>Boeing Company</td>
<td>19,688</td>
<td>$29,755,579.932.10</td>
</tr>
<tr>
<td>3</td>
<td>Raytheon Company</td>
<td>13,418</td>
<td>$18,767,821.886.04</td>
</tr>
<tr>
<td>4</td>
<td>General Dynamics Corporation</td>
<td>31,055</td>
<td>$17,503,127,011.85</td>
</tr>
<tr>
<td>5</td>
<td>Northrop Grumman Corporation</td>
<td>11,669</td>
<td>$11,987,896,282.90</td>
</tr>
</tbody>
</table>

Figure 5: Five Largest Federal Contractors FY2018 (source: Federal Procurement Data System)

threat to true competitive sourcing. When it comes to getting the President to agree to issue an executive order, it will be difficult to overcome opposition from the Pentagon, particularly if they argue that the policy will lower the quality of defense contractors’ work.

Looking at the above table, it is easy to see that large contractors and defense contractors in particular represent big business for states and congressional districts. For example, much of the $40.5 billion obligated to Lockheed Martin last year will end up in the paychecks of senators’ and congresspersons’ constituents across the country. In addition, it can be expected that contractors will lobby their congressional representatives, who will also want to keep this money coming into their districts. Although Congress has no formal influence on the executive order process, their support is needed for other legislative matters, and implementing true competitive sourcing may damage the Trump administration’s relationship with Congress. Additionally, Congress could outlaw true competitive sourcing via legislation, although the President could veto such a bill. The current Congress has not been able to come together to override any of the President’s 5 vetoes thus far, making this scenario seem unlikely. However, members of Congress have a platform from which they can oppose policy and influence public perception of it. This could mobilize citizens against true competitive sourcing before the President has a chance to argue its merits to the people.

Federal employees are also likely to oppose true competitive sourcing, but not for the same reasons that contractors will. Federal employees can be expected to oppose the opening up of more government functions to competition, as this policy could threaten

---

some of their jobs and in general encroaches on their turf. While some federal employees may well recognize and appreciate the cost saving intention of the policy, most federal jobs are part of either the National Federation of Federal Employees or the American Federation of Government Employees, and “federal union leaders have long opposed excessive contracting out of government work.”58 These unions and employees can be expected to have some influence on their respective agency heads, who, like all employers, need to be responsive to employee needs and desires. Thus, some cabinet members may oppose the policy to appease their employees. This will make it more difficult to convince the President to execute true competitive sourcing.

While it may be tempting to appease one of these groups by only implementing half of the policy and eliminating some opposition, this would undermine the whole policy. The critical element of this policy is to allow the government to bid on contracts, which is what the contractors will oppose. Without this aspect of the policy, competition will not be increased and we cannot expect costs to fall.59 On the other hand, expanding the government work that will be opened up for bid serves two purposes: cut the cost of more government work by introducing competition and mollifying some contractors’ opposition. This aspect of the policy could be eliminated--at a cost to its effectiveness--in order to gain more support from federal employees. However, since government contractors are more influential, it is prudent to implement the policy intact.

The public is likely to support the policy. As mentioned above, polls show that the majority of Americans consistently report they worry about government spending and the

59 Schnurer.
deficit. Since the goal of true competitive sourcing is to reduce federal spending and therefore the deficit, it ought to enjoy public support. This public support would translate to congressional support, and may offset congressional opposition related to protecting contractors in their districts.

Additionally, the public’s concern over the deficit is important politically. Cutting federal spending has long been a Republican policy goal, but thus far the Trump administration’s most significant accomplishment is the 2017 passage of the Tax Cuts and Jobs Act (TCJA), which is projected to increase the federal deficit by at least $1 trillion by 2025. Democrats have been able to establish a narrative that Republicans are responsible for unpopular runaway government spending, and TCJA has proved to be “deeply unpopular” with the majority of Americans. The Reason Foundation has estimated that true competitive sourcing could save $35 billion annually once implemented. Over the long term, the projected savings could seem quite impressive, for example, $350 billion over the next 10 years. If true competitive sourcing was implemented, the Trump administration and the Republican party could use these projections immediately to counter the Democrats’ narrative. This is the primary political benefit of the policy, and the policy need not save a dollar for this benefit to be realized. Should the policy prove to actually save these kinds of amounts after implementation, this would also add to the political legacy of the Trump administration as one willing to make bold, hard decisions and reject the status quo..

60 Gallup.
The main political benefit of true competitive sourcing is the immediate use of deficit-saving projections. There is an alternative way to achieve a similar benefit: cutting the federal budget. However, this is simpler said than done. While the administration can and does prepare federal budgets that would substantially cut federal spending, the Democratic-controlled Congress ultimately decides the federal budget, and getting the President’s desired spending levels passed is a fraught process that is not guaranteed.63 True competitive sourcing, on the other hand, can be passed by executive order and without congressional meddling.

Your decision as OMB director is to either pursue true competitive sourcing or keep the status quo. True competitive sourcing’s political benefit is to show the Trump administration as cost cutting, innovative, and ready to make hard decisions. However, this policy has political costs, notably by drawing the ire of large contractors and federal employees alike, which will cause rifts in the Cabinet, particularly with national defense cabinet members. These costs could be ameliorated by meeting with these groups and explaining the aspects of the policy that could benefit them. For example, contractors can expect to bid on more work under the policy. Federal employees, on the other hand, will be able to work on projects previously put up for bid, which could give them more professional opportunities to build skills and advance their careers.

The status quo likewise has benefits and costs. The benefits are that it keeps stability in the government contracting market and doesn’t “rock the boat.” Very few outside of academia are concerned with reforming government procurement, so there is no immediate political cost associated with maintaining the status quo. That is to say,

---

there are no politically powerful interest groups clamoring for true competitive sourcing who will be alienated by a decision not to pursue the policy. However, choosing the status quo keeps in place a system that is not getting Americans the maximum value for their tax dollars. This is, in a sense, leaving political capital on the table.

There is one last group of stakeholders key to the success of true competitive sourcing: the next administration. As discussed in the Policy Proposal section, the implementation timeline is at least six years, meaning the policy will not reach its full potential FY2027, beginning in October 2026. Regardless of the outcome of the 2020 election, the success of true competitive sourcing will require its continuation by future administrations. Both the Obama and Trump administrations began their presidencies by reviewing all of the prior administrations’ executive orders and reversing those orders that do not meet their policy goals. If the next administration continues this new tradition, it is likely that the winner of the 2024 presidential election could eliminate true competitive sourcing while it is still in the transition phase. There is little that can be done to mitigate this risk other than communicate to the American people about the policy and its goals. If true competitive sourcing is popular with the people, it will be less likely to be rescinded prematurely.

**Recommendation**

From a policy perspective, true competitive sourcing is a no-brainer. It is relatively inexpensive to implement and highly likely to achieve its policy goal of reducing the federal deficit by at least $20 billion annually once successfully

---

implemented. The estimated implementation cost is $20 million over six years, which compares favorably to Reason Foundation’s projection of savings up to $35 billion annually. The exact savings cannot be known until implemented, but, given that estimate, it is safe to assume this policy will save billions more than it costs. Further, should the policy fail completely, it would be relatively simple to revert the acquisitions process to current 2019 practices to cut any losses. Thus, the financial risk of implementing the policy is acceptable, and the research suggests the policy, if successfully implemented, will likely be successful in reducing federal spending.

That said, the political considerations around this policy indicate it will be exceedingly difficult to successfully implement it in the long term. I recommend you do not pursue true competitive sourcing at this time, and instead maintain the current procurement process. The primary political problem with this policy is its relatively lengthy implementation timeline. This will require future, unknown administrations to finish the job and there is little that can be done to guarantee that will happen. The long implementation timeline compounds the effects of another significant political problem: opposition from influential defense contractors who will continue to lobby for support from defense agencies and Congress after its implementation. Additionally, members of Congress whose districts are expected to lose federal contracting dollars are likely to oppose the policy, regardless of any lobbying. Not only will this opposition result in significant obstacles to overcome in order to pass the policy now, during the implementation phase, these contractors will be working hard to build up opposition and influence future administrations to reverse the policy.
The public greatly supports reducing federal spending, particularly deficit spending. However, although the policy is not expected to have any impact on the quality of government work put up for bid, if impacted stakeholders are able to convince the public that the quality of government is suffering as a result of true competitive sourcing, support for the policy could easily be lost. Federal employees will also oppose some aspects of the policy, and if they oppose alongside contractors, this could create a political narrative that overcomes the cost-saving aspect of the policy. So, for example, if defense contractors, national defense administrators (whom contractors have been lobbying), Senators and Congresspeople from impacted districts, and federal employees successfully put forth a narrative that true competitive sourcing is saving money at the cost of the quality of national defense, that could shift public support away from the policy. It is easy to imagine this narrative developing during the implementation phase, and if the policy’s implementation does not go perfectly smoothly, which is a real possibility, that would give credence to the arguments against it. Unfortunately, the nature of this policy requires support from future administrations, and this opens the policy up to extended attacks that could doom its implementation.

Ultimately, I think it is possible to overcome the immediate opposition and pass an executive order to implement true competitive sourcing. However, it will use up valuable political capital to do so and the next administration may well pull the plug on the policy, making it a wasted effort. I believe the administration likely has better uses of this political capital, and I recommend continuing with the status quo for federal procurements, flawed as it is, so that the administration can pursue more achievable policy goals.
Curriculum vitae

Jordan Maurand moved to Washington, D.C. after graduating from Boston University in 2008 with a Bachelor of Arts in Political Science. He has spent his career in Washington working for nonprofits and governmental clients, specializing in program and project management. Currently, Jordan is a Program Analyst at Mathematica, Inc., where he manages public policy research projects for federal clients. In 2014, he was certified as a Project Management Professional (PMP) by the Project Management Institute. Jordan was born on June 23, 1986 in Hamilton, Massachusetts.