

THE NEW TRUE SIZE OF GOVERNMENT

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Summary

As the Bush Administration makes the turn to its final two years, it has overseen the most significant increase in recent history in the largely hidden workforce of contractors and grantees who work for the federal government. Fueled by nearly \$400 billion in contracts in 2005 and another \$100 billion in grants, the true size of the federal government now stands at 14.6 million employees, which includes civil servants, postal workers, military personnel, contractors, and grantees. The total is up from 12.1 million in 2002, and just 11 million in 1999.

More than half of the 2005 total is composed of contract employees, which accounted for an estimated 7.6 million jobs. This number is up nearly 2.5 million since 2002, the last year that the true size of the federal workforce was measured, and the most recent year for which complete data are available. And it is up 3.2 million since 1999. As such, the growth in contract employees between 2002 and 2005 marks both the single largest absolute and percentage increase since 1990 at the end of the cold war, which produced sharp declines in the number of civilian, military, and contractor employees during the 1990s. All of the increase in contract employees is due to increased spending at the Department of Defense. The trend is tracked in the table attached to this fact-sheet.

Background

There are many good reasons to use contracts and grants to procure goods and services, not the least of which is that the federal government is technically prohibited from competing with private businesses for commercially available work. The federal government often uses contractors and grantees to provide talent it cannot recruit, specialized services it cannot produce, competition it cannot generate among its own organizations, and equipment that it cannot and should not build itself.

Moreover, the federal government no longer needs to produce basic goods and services such as soil testing, weather forecasting, satellite technology, basic scientific research, or even dentures, which the Department of Veterans Affairs produced until the 1950s. Although it still provides a great deal of medical research through the National Institutes of Health, its grants to private and public universities have produced some of the most important breakthroughs in creating new vaccines, reducing disease, and speeding new technologies such as the internet to the market.

As such, contractors and grantees are often vital in converting government's greatest endeavors into lasting achievements. The federal government may have administered the Marshall Plan, but private contractors did most of the work. The federal government may have imagined the interstate highway system, but private contractors and grantees did most of the construction. And the federal government may have implemented the Clean Water Act, but state and local government employees did much of the monitoring and enforcement, while grantees built the water treatment plans.

But there is also one service the federal government must produce through its contracts and grants. It must achieve and maintain basic accountability for what goes right and wrong whomever produces the goods and services. It hardly matters who delivers basic services such as the launch of a space shuttle if the federal hierarchy is so thick with needless management that it cannot monitor quality control before and during flight, nor does it matter who makes the body armor if the federal procurement workforce is so thinly stretched that it cannot make sure the armor works. Finally, it hardly matters who produces the goods and services as long as the federal government is honest with the public about the true cost of delivering on the promises it makes.

The federal government does not use contracts and grants just to procure needed goods and services, however. It also uses contracts, grants, and mandates to state and local governments to hide its true size, thereby creating the illusion that it is smaller than it actually is, and give its departments and agencies much greater flexibility in hiring labor, thereby creating the illusion that the civil service system is somehow working effectively. Not only does the federal government's largely hidden workforce of contractors and grantees encourage the public into believing that it truly can get more for less, it diffuses accountability about just who might be in charge of the launch-pad camera that failed to provide a precise image of the damage to the shuttle Columbia's left wing.

Measuring the True Size of Government

It is difficult to know precisely how many contractors, grantees, and state and local government employees actually work for the federal government, however. Contractors and grantees do not keep count of their employees, in part because doing so would allow the federal government and scholars like me to estimate actual labor costs, and state and local governments make no effort whatsoever to quantify the number of hours their employees spend administering federal mandates.

The best one can do is estimate the number of contractors and grantees by using the input/output model of the U.S. economy that is constantly updated by the U.S. Bureau of Economic Analysis. Basic on actual transactions involving the purchase of specific goods and services, such an estimate assigns a specific Standard Industrial Code that describes both what is being purchased and how much labor is actually involved in the production of a good or service. Building a battle tank would involve much more material than labor, for example, while providing building security or management consulting would involve much more labor than material.

The information needed to actually produce the estimated true size of government is contained in two federal databases: (1) the Federal Procurement Data System, which tracks contract transactions, and (2) the Federal Assistance Awards Data System, which tracks grants. According to Eagle Eye Publishers, which is the Virginia-based research firm that developed the estimating methodology on my behalf, these databases contain enough information to create reasonable estimates of the total number of full-time-equivalent employees who work in the federal government's hidden workforce. Because these estimates capture both direct and indirect contract- and grant-generated employment, however, they tend to over-estimate the contract- and grant-generated workforce, but they are the best available tool for measuring what I call the "true size of government."

Absent a hard headcount, which private contractors and grantees are loathe to provide, these estimates provide an anchor more for measuring the change in the true size of government than an absolutely precise count of actual employees. Unfortunately, such estimates are only available back to the mid-1980s when the Federal Procurement Data System was first established.

Moreover, it is impossible to estimate the number of state and local mandate employees, though I did try to do so in 1997 by asking state and local employees to estimate the time they spent working under federal mandates, whether funded or unfunded. The resulting numbers, while provocative at more than 4 million employees in 1996, are simply too soft to use in the following discussion. Much as they complain about the impacts of unfunded mandates on budget and personnel, states and localities simply do not know themselves how much those mandates actually cost.

Readers should note that the following discussion reflects a good deal of rounding of figures, in part because rounding makes the text easier to read, but also because it reduces the perceived precision of the estimates. Although the civil service, postal worker, and military personnel figures come from federal sources, including historical tables of the U.S. budget, the contract and grant estimates are just that, estimates, and should be treated as such. The trends matter far more than the estimates, and the trends suggest that the true size of government is growing rapidly.

The 1990 Baseline

Eagle Eye's 1990 estimates provide a mark against which to measure the changing true size of government. After all, 1990 expenditures reflect the last decisions of the year before the end of the cold war, and show the true size of government after the end of one of the largest defense build-ups since World War II. As Appendix G shows, this build-up helped create a true size of government of more than 12.6 million employees, including more than 2.2 million civil servants, 820,000 postal workers, 2.1 million uniformed military personnel, 5.1 million contractors, and 2.4 million grantees. As of 1990, there were roughly three-and-a-half contractors and grantees for every federal civil servant.

A true size of 12.6 million employees is no small number, but was already significantly smaller than 1984, when it reached just under 14 million. The number of contract-generated employees had fallen by 400,000 by 1990, with much of the decline in Defense and Energy department contracts. Although the total number of military personnel remained virtually unchanged over the six years, the end of the cold war had already produced the start of a peace dividend that would increase by 1993.

1993

By 1993, the true size of the federal government showed the rise of the post-cold war peace dividend. Although there were small cuts in the number of contract-generated and civil service jobs between 1990 and 1993, the number of military personnel fell by almost 500,000 jobs, while the Defense Department's civilian workforce fell by 100,000. All totaled, the true size of government was 12 million jobs, including 2.2 million civil servants, 820,000 postal workers, 1.7 million military personnel, 4.9 million contractors, and 2.2 million grantees. At the time, there were barely three contractors and grantees for every federal civil servant.

In a very real sense, the declining number of military personnel had become a leading indicator of future cuts in the contract-generated workforce. Fewer soldiers needed fewer weapons, which meant lower contract spending. Reducing the size of the armed services can be done almost immediately at the recruiting stations, while contracts usually run their course. Moreover, a significant draw-down in military personnel requires at least some increased contracting out just to study the impacts and handle the eventual base closings they produce. They also put pressure on Congress and the president to help state and local governments convert military bases to civilian use, which became a growth industry in contracts and grants during the early 1990s.

However, the grant-generated workforce did not decline during the same period, as federal grants continued to hold steady. Unlike total procurement spending, which fell by \$60 billion, grant spending increased ever-so-slightly as the federal government continued to pursue endeavors such as reducing disease and strengthening the highway system through its grants. Although grant-generated employment is particularly difficult to estimate given

the lack of hard transactions to track, grant employment appears to have increased during the period by roughly 200,000 jobs.

1999

By 1999, the true size of government was at its smallest level since the end of the cold war. When all the numbers are added up, the true size of the federal workforce was approximately 11 million, including 1.8 million civil servants, 870,000 postal workers, 1.4 million military personnel, 4.4 million contractors, and 2.5 million grantees. Nevertheless, the ratio of contractors and grantees actually increased—the civil service was shrinking much faster than the hidden workforce. By 1999, there were nearly four contractors and grantees for every federal civil servant.

Even in 1999, however, the pressure to increase the true size of government was beginning to show. Nine of every ten jobs that had been cut from the true size of government between 1993 and 1999 had come from the Defense Department during the continued post-cold war downsizing, including another large cut in military personnel, a nearly 250,000 cut in civilian employment, and a sharp decline in contract-generated jobs. These cuts were echoed, albeit in smaller numbers, at the Department of Energy and National Aeronautics and Space Administration, both of which experienced significant growth during the cold war.

This peace dividend gave Congress and the president the room to invest at least some of the savings in a growing domestic workforce that included 220,000 new jobs at the Transportation Department grew by 220,000 jobs, 117,000 at Justice, 90,000 at the General Services Administration, and 59,000 at Treasury. Whereas the Defense, Energy, and the National Aeronautics and Space Administration cut the true size of government by 1.3 million jobs between 1993 and 1999, the rest of government added back more than 300,000 of the total.

All totaled, the peace dividend had sliced nearly 1.6 million jobs from the true size of government, a substantial achievement, but an illusion nonetheless. Although the decline was widely heralded within Democratic circles as proof positive that they could cut government, it was actually 100,000 employees larger when Defense, Energy, and the National Aeronautics and Space Administration were removed from the calculations.

Moreover, there were plenty of harbingers of increased growth across the federal government, including at Defense. Even as the department was already preparing for another round of base closings that will take effect from 2006-2010, its procurement budget began increasing in 1999 as the Clinton administration began to replace aging weapons systems. Modernization spending alone accounted for a nearly \$20 billion increase in procurement from 1999-2002, while increases in domestic departments such as Education and Health and Human Services pushed their contract- and grant-generated workforces steadily higher.

These gains did not protect the civil service, which had dropped from nearly 2.2 million employees in 1993 to 1.8 million in 1999. Nor did the increase in the true size of the domestic workforce prevent Bill Clinton from declaring the end of the era of big government in his 1996 State of the Union Address. Although most of the decline involved little more than post-cold war downsizing, including a total cut of nearly 400,000 jobs in the Defense civil service, the peace dividend nonetheless created the illusion of large federal job cuts, and helped the Clinton administration eventually meet and exceed its reinventing government promise of a dramatic reduction in total civil-service employment.

With federal employment budgets tight, problems recruiting and retaining talented employees rising, and frustration about hyper-reform and needless paperwork growing, the federal government clearly started viewing the hidden workforce as a much more pliable option for procuring labor, especially in hard-to-recruit positions such as information technology, science and engineering, program evaluation, and management analysis.

The most important question at the time was not how the federal government got so big, but whether it had the human capital to sustain high performance and meet increasing public demands. It could have been that a 12 million workforce was still too small for the federal mission, or that a civil service of just 1.8 million employees was still too big for political comfort, or even that the federal government desperately needed more procurement workers to oversee the consolidation of contractors into mega-providers of key federal services such as the day-to-day operation of the space shuttle program.

2002

By 2002, most of my predictions about the pressure to grow had come true as the true size of government reached its highest level since before the end of the Cold War. All totaled, the true size of government hit 12.1 million in October, 2002, including 1.8 million civil servants, 810,000 postal workers, 1.5 million military personnel, 5.2 million contractors, and 2.7 million grantees. With contract- and grant-generated jobs up by nearly a million, and the civil service down by just 2,000, there were more than four contractors and grantees for every civil servant.

Although the 2002 true size of government was still smaller than it had been at the end of the cold war in 1990, the era of the end of big government was clearly over. During the three short years between 1999 and 2002, the federal government added back more half of the headcount savings produced by the end of the Cold War. All totaled, the end of the cold war produced a reduction of more than 2 million jobs, allowing the federal government to add 550,000 non-Defense jobs back into government during the last two years of the Clinton administration and first two years of the new Bush administration. In addition, increased defense spending produced roughly 500,000 new Defense contract jobs.

At least some of this growth was sparked by new defense spending in the Clinton administration's final two budgets, but most of the 1.1 million new jobs came during the Bush administration's first two years. Although there is no way to know just how much of

the money reflected the war on terrorism, the greatest growth occurred at the Defense, Health and Human Services, Justice, State, and Treasury departments, where the war was being fought.

The number of contract workers would have been even higher, and the civil service cuts even deeper, if the federal government's 60,000 new baggage and passenger jobs had been contracted out at the Transportation Security Administration. Even as the new agency began hiring the new civil servants, it created new contracts for virtually every aspect of the employment process, including hiring, training, and payroll management, which increased the number of contract-generated jobs. The agency's \$554 million recruitment contract went to a consortium of California government agencies, while the \$224 million pay and personnel management contract went to Accenture, a private consulting firm.

When coupled with the hard headcounts from federal sources, the 2002 estimates produced five insights about the true size of government.

1. The true size of government was growing again. Between 1999 and 2002, the true size of government grew by 1.1 million jobs to 12.1 million in 2002. Although military personnel and postal employment inched up during the period, almost all of the growth has occurred in two categories: contract and grant-generated jobs.
2. The federal workforce remained a very large presence in the labor force, and was growing larger. By 2002, the true size of the federal government was equal if not larger than the nonprofit sector, which employed as many as 11 million Americans, and was two-thirds as large as state and local government, which employed another 18 million. Assuming that as many as one in five state and local employees were working on federal mandates, funded and unfunded, the federal government had the largest public presence in the national labor force. And that presence could only have increased with the annual testing requirements in the No Child Left Behind Act and the added personnel associated with terrorism alerts.
3. The federal civil service was not the source of the 1999-2002 growth. Indeed, civil service employment only increased by 16,000 jobs during the period, which means that it actually fell when the Transportation Security jobs are subtracted out of the total. During the same period contract-generated jobs went up by more than 700,000 jobs and grant-generated jobs by 333,000.
4. The peace dividend was half gone by 2002. What had gone down dramatically with the end of the cold war had increased by more than 600,000 jobs between 1999 and 2002, largely driven by new investments at the departments of Defense, in part because of modernization, and in part because of the war on terrorism.
5. The true size of government grew across government, however, not just at Defense. Although some might attribute most of the 1999-2002 growth to the new war in terrorism and increased defense spending with the war in Afghanistan, the growth actually occurred in all areas of government. But for

Energy and the National Aeronautics and Space Administration, both of which continued to lose jobs as the demand for nuclear weapons and aeronautics development ebbed, and declines a handful of domestic agencies such as Housing and Urban Development, which clearly fell out of favor in the new Bush Administration, virtually all other major departments and agencies gained jobs.

The increase in the contract workforce did not reflect significant success in the Bush administration's push for more job competitions with the private sector. Although unions complain that the Bush administration's agenda has shifted jobs outward to contractors, the increase in contract-generated jobs is so large that only the tiniest fraction could be tied to the A-76 process that governs job competitions between government employees and private providers. Not only were many of the early competitions won by federal employees, there were only a handful of competitions underway by the early 2000s, and most of those involved only a few dozen jobs here and there across the federal hierarchy.

These trends suggested that the true size of government was headed back to its pre-1990 highs. Although there is no way of knowing whether the numbers were even higher in the 1960s and 1970s, it seems quite reasonable to suggest that the true size of government peaked before the end of the cold war, fell dramatically in the six years after, then started rising again. This peace dividend was not invested in the civil service, however, which continued to operate under de facto ceilings that allowed congressional and presidential candidates to vow no growth in government.

2005

Preliminary estimates of the true size of government in 2005 confirm the continued growth of the true size of government, especially at the Defense Department. By 2005, the true size of government reached 14.6 million employees in 2005, including 1.9 million civil servants, 770,000 postal workers, 1.44 million military personnel, 7.6 million contractors, and 2.9 million grantees. With the vast expansion in the contract-generated workforce, which reflected a nearly \$50 billion increase in contract spending between 2004 and 2005 alone, there were five-and-a-half contractors and grantees for every federal civil servant, up from just three-and-a-half at the end of the cold war.

Readers are warned that these estimates are softer than my earlier numbers because of a shift in how the federal government tracks contract expenditures. Departments and agencies are now required to use an entirely new coding system for reporting transactions, which has led to delays and mistakes in the final data set. As a result, about \$75 billion of the \$375 billion in 2005 contract expenditures could not be tracked by the exact destination or purchase, which meant that the dollars could not be used in estimating contract-generated jobs without assigning them to other expenditures on a proportional basis.

Using this proportional approach to estimate the jobs created by the rest of the \$3.1 billion, the true size of the federal government in 2005 exceeded its 1990 mark by more than 2

million jobs, and its 1999 mark by 3.5 million. Government has been growing very fast, indeed.

This time, almost all of the growth can be attributed from the war on terrorism, which boosted Defense spending for both goods and services systems and covered the continued cost of the wars in Afghanistan and Iraq. There was almost nothing the Defense Department did not buy—it paid for new airbases abroad, the purchasing of body armor, tank treads, ammunition, meals, security, and trailers in Iraq, research and development in the fight against terrorism, and management consulting for internal reform.

Between 2002 and 2005, the number of Defense contract employees jumped from 3.4 million to 5.2 million, with a mix of jobs in both “hard contracts” for material and “soft contracts” for services. The rest of the hidden workforce held steady at roughly 2.9 million grantees, while civil service employment inched up and postal employment fell.

Twenty years after the Reagan administration’s defense build-up, the true size of government had come full circle. By 2005, the post-cold war peace dividend was completely gone. Like 1984, most of the contract-generated jobs were at Defense, where the war on terrorism had replaced the cold war. But unlike 1984, there is no sign that the growth trends will abate anytime soon. Although expenditures for the war in Iraq will eventually decline, the war on terrorism will continue to exert pressure for growth far into the future.

A deeper analysis of the estimates suggests two other trends of note. First, although most non-defense departments and agencies lost small numbers of contract-generated jobs between 2002 and 2005, while several others gained. The Department of Homeland Security was the most noticeable because all of its contract-generated jobs were new to the hidden workforce. The department produced 140,000 contract jobs during the period, most due to the war on terrorism.

Second, most of the increases in contract employment involved service jobs. Whereas the number of manufacturing jobs remained virtually unchanged between 2002 and 2005 at roughly 2.2 million, mostly in defense industries, the number of service jobs increased by almost 2.5 million, up from 3 million in 2002 to more than 5.4 million in 2005. The increase suggests that many of the new jobs involved the outright purchase of labor, whether to build roads, manage parks and forests, or manage public outreach, technology services, financial systems, and personnel. For example, the Transportation Security Administration uses contracts to manage virtually all aspects of the hiring, training, and payroll process for its baggage and passenger screeners. All of these jobs could have been placed in the civil service, which is how almost these services are provided in other departments and agencies.

Is Government Too Big

The new numbers on the true size of government raise the obvious question of whether the federal government has somehow grown too big. My answer is that the better question is whether the civil service has remained too small. Although many of the contracts and grants involve perfectly legitimate transactions, some also involve the continued effort to keep the civil service small. Just as one cannot know how big the civil service would be without so many contracts and grants, one cannot know how small the hidden workforce would be if federal employment was allowed to rise to meet the growing federal mission.

But all jobs are not created equal. Although there is little hard evidence on the true cost of the hidden workforce, one can easily imagine that Congress and the president are paying a premium for their insistence on a relatively small civil service. Federal employees certainly feel the pinch in their concerns about the lack of enough employees to do their jobs well. One can also argue that the lack of hard headcounts from the hidden workforce prevent the kind of labor-cost comparisons that might drive some jobs back into the civil service.

The case is also easily made in the thickening of government, the appointments process, and the mostly unsuccessful hyper-reform. Contracts and grants may disguise the true size of government, but they also promise political comfort and a measure of responsiveness, albeit a responsiveness that is often extremely difficult to monitor and sometimes comes at a cost in eventual dependencies that weaken the salutary effects of what is often heralded as a competitive process. In turn, unfunded mandates may be the most tempting tool of all for hiding the true size of government—they simply pass the cost of implementing laws such as the No Child Left Behind Act to state and local governments, while reserving the rewards for members of Congress and the president.

THE TRUE SIZE OF GOVERNMENT, 1990-2005

<i>Measure</i>	<i>1990</i>	<i>1993</i>	<i>1999</i>	<i>2002</i>	<i>2005</i>	<i>Change 1999-2002</i>	<i>Change 2002-2005</i>
1. Civil servants	2,238,000	2,157,000	1,820,000	1,818,000	1,872,000	-2,000	54,000
2. Contract jobs	5,058,000	4,884,000	4,441,000	5,168,000	7,634,000	727,000	2,466,000
3. Grant jobs	2,416,000	2,400,000	2,527,000	2,860,000	2,892,000*	333,000	32,000
4. Military personnel	2,106,000	1,744,000	1,386,000	1,456,000	1,436,000	70,000	-20,000
5. Postal service jobs	817,000	820,000	872,000	810,000	767,000	-62,000	-43,000
The True Size of Government	12,635,000	12,005,000	11,046,000	12,112,000	14,601,000	1,066,000	2,489,000

* Grant data are from 2004, the last year for which complete data were available at the time of this analysis.