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Contracting Memorandum
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Good afternoon. I am John Podesta, the President and CEO of the Center for American Progress. Thank you for giving me the opportunity to testify.

As previous panelists have made clear, the federal contracting process needs to be reformed to limit waste and ensure the government's interests are upheld. The Center for American Progress and its sister organization The Center for American Progress Action Fund have long advocated the kinds of reforms President Barack Obama has indicated he wants to pursue, including improved transparency and oversight, increased competition, and preventing the contracting out of essential government functions—something I had considerable experience with during the Clinton administration, particularly with respect to employees making benefit decisions.¹

These changes are essential, but I want to focus on a less well-known but equally critical set of reforms. These reforms will improve the quality of the jobs that are created when the federal government contracts out.

I want to make three quick points:

First, the federal government has a key role in promoting high standards for the treatment of contract workers and those efforts can have significant effects in the broader labor market.

Second, far too many contracted workers work under poor conditions for low pay and few benefits, which is bad for workers but also imposes costs on the government and taxpayers and makes it hard for high-road companies to compete.

Finally, improving accountability for how contractors treat their workers and encouraging companies to pay decent wages and provide benefits can support key aspects of the president's agenda—including to ensure that taxpayers receive value for contracted work and to help rebuild the middle class.

Let me briefly expand on those points.

First, the federal government's contracting policies can have tremendous influence on the millions of employees that directly perform contracted work. But it is also important to understand that nearly a quarter of the country's civilian workforce is employed by companies that the federal government contracts with, according to the Department of Labor.² This means the government is in the position to help integrate higher standards among a much broader group than just contract employees themselves.

Through numerous laws and executive orders, the United States has regularly expressed its intent to influence practices in this regard—and historical evidence bears out its effectiveness. For example, Executive Order 11246, signed in 1965, requires that all individuals working for federal contractors have an equal opportunity for employment. This procurement policy has been key to creating equal opportunity and has promoted a dramatic increase in the percentage of women and minorities who are managers at firms that contract with the federal government.

For example, studies show that both minority and female employment increased significantly faster in contractor than in noncontractor establishments—12 percent faster for black females, 3 percent faster for white females, 4 percent faster for black males, and 8 percent faster for other minority males.³

Second, improving accountability and promoting better pay and benefits in contracting can help workers, businesses, and the government. Estimates from the Economic Policy Institute—which are rough because the federal government does not keep or make publicly available quality data—indicate that 20 percent of all federally contracted workers earn poverty-level wages and often do not receive benefits.⁴

That means that one in five workers on a federal contract does not earn enough to keep a family of four out of poverty.

And low wages are much more common in some contracted industries. Paul Light estimates that 80 percent of service contract workers earn low wages.⁵

When contract workers are poorly compensated on the front end, taxpayers often bear additional costs on the back end, such as for Medicaid and food stamps.⁶ In practice, this amounts to something like a government subsidy for low-road companies, while high-road companies are placed at a competitive disadvantage.

Furthermore, research by the Center for American Progress finds that there is a correlation between contractors' failure to adhere to basic labor standards and wasteful practices and sometimes even illegal activity.⁷ Contractors that frequently violate labor laws are among the most wasteful of taxpayer funds, with histories of tax evasion and fraud. To add insult to injury, many companies charge the government higher rates under the terms of the contract than they pay their contracted workers.

Third, high standards are a good value for taxpayers. They reduce the government's unintentional "subsidies" for low-road companies and the likelihood that companies will operate in a wasteful fashion while also promoting increased competition.

For example, after Maryland implemented a living wage standard, the average number of bids for contracts in the state increased nearly 30 percent—from 3.7 to 4.7.⁸ Nearly half of contracting companies interviewed by the state of Maryland said that the new labor standards encouraged them to bid on contracts because it leveled the playing field. Several companies commented that in the future they will only bid on living wage

contracts because of the leveling effect it has on competition. One current contractor noted that her contract was the first state procurement for which her firm had submitted a bid. She explained that without strong labor standards, “the bids are a race to the bottom. That’s not the relationship that we want to have with our employees. [The living wage] puts all bidders on the same footing.”

As subsequent witnesses will make clear, state and local governments are leading the way to promote higher standards for the treatment of contract workers.⁹ New York City has become a model of transparency with its public Vendex database containing important information about contracting companies, California for its rigorous evaluation process, and El Paso, TX, for its efforts to promote health care coverage among contracted workers. These and other governments have implemented the kinds of reforms that the federal government can and should replicate.

Reforming federal contracting to promote higher labor standards and improve accountability would not only be the right thing to do for workers and taxpayers, but is also doable within the existing contracting framework.¹⁰ And perhaps most importantly, these reforms support many other goals of the Obama administration, such as increased transparency, limiting wasteful contracting, and perhaps most importantly, rebuilding the middle class.

¹ See for example, Scott Lilly, “A Return to Competitive Contracting,” Center for American Progress, May 14, 2007; David Madland and Michael Paarlberg, “Making Contracting Work for the United States: Government Spending Must Lead to Good Jobs,” Center for American Progress Action Fund, December 8, 2008.

² Office of Federal Contract Compliance Programs, “Facts on Executive Order 11246,” revised January 4, 2002, available at <http://www.dol.gov/esa/OFCCP/regs/compliance/aa.htm> (last accessed June 12, 2009).

³ Jonathan S. Leonard, “The Impact of Affirmative Action on Employment,” *Journal of Labor Economics* 2 (4) (October 1984): 439-463.

⁴ Kathryn Edwards and Kai Filion, “Outsourcing poverty: Federal contracting pushes down wages and benefits,” *Economic Policy Institute*, February 11, 2009.

⁵ Jane Zhang, “How Government Adds to Ranks of Uninsured,” *The Wall Street Journal*, March 25, 2008.

⁶ See for example, Carol Zabin, Arindrajit Dube, and Ken Jacobs, “The Hidden Public Costs of Low Wage Jobs in California” (Berkeley, CA: University of California Institute for Labor and Employment, 2004) and UNITE HERE! “Conduct Unbecoming: Sweatshops and the U.S. Military Uniform Industry” (New York: UNITE HERE!, 2006).

⁷ David Madland and Michael Paarlberg, “Making Contracting Work for the United States: Government Spending Must Lead to Good Jobs,” Center for American Progress Action Fund, December 8, 2008.

⁸ Office of Policy Analysis, “Impact of the Maryland Living Wage,” Maryland Department of Legislative Services, December 2008.

⁹ See for example, Paul K. Sonn and Tsedeye Gebreselassie, “The Road to Responsible Contracting,” National Employment Law Project, June 2009.

¹⁰ See for example, David Madland, Karla Walter, Paul K. Sonn, and Tsedeye Gebreselassie, “Making Contracting Work: Promoting Good Workplace Practices in the Federal Procurement Process,” Center for American Progress Action Fund and National Employment Law Project, June 2, 2009.