The sixth and final chapter of the book asks how the illusion of smallness affects the management of the government by creating at least four other illusions: an illusion of merit as the government enforces strict rules for its own work force, but not for its shadow; an illusion of accountability as the government manages an ever-larger inventory of shadow relationships with an ever-shrinking acquisitions and human resources work force; an illusion of capacity as the government becomes dependent on private and nonprofit agencies for everything from janitorial services to policy analysis; and an illusion of a unified public service as many of the government’s high-impact programs migrate to the private and nonprofit sectors. The final chapter concludes with a discussion of how the federal government can better manage the new public service it has built over the past half century.

Although his colleagues in Congress and the White House have been pretending for a half-century that the true size of government is smaller than it is, Senator David Pryor never embraced the illusion of smallness. From almost his first day on the Senate Governmental Affairs Committee in 1979 to his last in 1996, Pryor pressed for answers about what the true size of government was. Using his Civil Service Subcommittee as a platform, he chaired nearly four dozen hearings over the years on the role of contractors and consultants in government.

Pryor’s 1989 investigation of the Environmental Protection Agency (EPA) is just one example. “We have just undergone a transition from the Reagan Administration to the Bush Administration,” Pryor said at the first of three consecutive hearings on EPA that year. “There are new faces all over town and throughout the Cabinet. . . . This hearing will look into the part of Government that remains the same, no matter who wins or loses an election. You may think of the civil service, and while they do provide a very great measure of continuity, I am talking about a group that often remains with the agency and with the Government even longer. I am referring to a very large, invisible, unelected bureaucracy of consultants who perform an enormous portion of the basic work of and set the policy for the Government.”

The investigation revealed the all-too-familiar conflicts of interest, hidden costs, and poor performance associated with contracting out. Some con-
tractors were working for EPA and were representing regulated parties at the same time; others were using subcontractors to evaluate their own work; still others were doing menial tasks at anything but menial costs. The investigation also suggested that EPA was using consultants to perform what appeared to be inherently governmental functions. "If EPA contracts are to be believed," Pryor's investigative report concluded, "it is almost impossible to identify important EPA functions not being performed by consultants." Consultants were analyzing proposed legislation, drafting EPA's budget documents, overseeing the agency's field investigation teams, preparing work statements for other EPA contracts, writing draft preambles to formal rules, responding to public comments on those rules as part of the formal rulemaking process, developing guidelines for monitoring other contractors, organizing and conducting public hearings, and advising senior officials on legislative reauthorizations, even though federal regulations explicitly prohibited consultants from engaging in exactly that kind of policymaking function.

Awash in a sea of anecdotes, Pryor became increasingly frustrated by the lack of even the slightest information on the size of the contractor and consultant work force. Lacking hard numbers, how could he make the case that contractors were becoming the backbone of government? In October 1989, for example, Pryor wrote EPA to ask exactly how many contract employees were engaged in rule making, enforcement, preparation of congressional reports, and communication with the public. The agency's response was typical of the dozens he received over the years: "EPA does not track the information requested. The Agency has the ability to compile it, but it would require a substantial amount of time and effort to do so. The activities in question may be performed under any of several hundred contracts. Each contract would include hundreds, if not thousands, of individual work assignments."

Having spent so many years in a futile quest for data, Pryor must have hoped that his Arkansas friend, Bill Clinton, would provide the needed executive leverage for finally defining the true size of government. "Dear Leon," Pryor began his first letter to the new budget director, Leon Panetta, in February 1993, "I am writing to express my concerns about the government's extensive reliance on contractors and consultants. ... I believe that the Office of Management and Budget should establish a Contract Review Board to take a hard, close look agency-by-agency of every contract awarded. The agencies should have to justify each contract, explain why it is necessary in these tough budgetary times to continue to rely on a private sector work force, and consider more cost effective ways of getting the job done."

The letter produced a victory of sorts. Panetta warned departments and agencies about the misuse of contracts, reminding them that contracting out was to be used only when warranted by cost or need. But Pryor wanted more than a simple warning and fired a fusillade of letters asking for tighter oversight. He wrote Panetta a month later, on March 16, calling for an agency-by-agency review, and followed with letters to Panetta's new deputy director for management, Philip Lader, on March 24, Vice President Gore on April 2, and Panetta again on May 4. He could not have made his position clearer. By late summer he had finally decided that the only way to get action was to make the Clinton administration count the contractor work force. "If we cannot count the Federal government's contractor work force," he wrote Panetta on August 30, "we are left without complete information when it comes time to make decisions regarding the appropriate size of our Federal work force. In this regard, I request that you consider developing a more complete system to measure the government's total work force." The OMB's response was classic bureaucratic evasion:

As you are aware, there are a number of issues associated with trying to collect private sector employment figures. It is not clear, for example, what the definition of the "Federal work force" should include. A definition might include employees in the States, local governments, and universities that work under contracts funded through Federal grants, Federal prime contract and subcontract employees, and private sector employees involved in the manufacture, sale and delivery of both military and non-military products purchased by the Federal Government. Collecting the information would require developing standard agency reports; providing guidance on how to accommodate such things as seasonal or temporary requirements; overhead resource allocations, benefit packages; and adjusting existing contracts and grants to provide the information required. It is not at all clear, however, that the benefits of such an effort would exceed its costs."

Undaunted, Pryor continued what was becoming a mythic quest for information. He persuaded his colleagues to prohibit agencies from using contractor employees to fill in for federal employees lost to downsizing created under the Federal Workforce Restructuring Act of 1994, then he pestered OMB to measure any such shifts. Once again, OMB pled the difficulties inherent in counting contractor heads. "Some contractors and their service and material subcontractors, for example, may be reluctant to provide such detailed employment data because the number of persons fuc-
tuates over the life of the contract," new OMB director Alice Rivlin wrote Pryor in response to yet another letter. "Under fixed price contracts, which the Administration is encouraging, the number of persons required for contract performance may not be available. Thus, we suspect that even if we imposed an employment data collection requirement on the agencies, it would not provide the true number of persons working on Federal contracts."

It is actually quite easy to generate reasonable estimates of the shadow work force. All it takes is valid multipliers of the end demand created by federal contracts and grants and some way to identify the time commitments of federal mandates on state and local employees. Before turning to such estimates in some detail and asking how the true size of government varies over time, however, it is useful to ask why Pryor never got an answer from OMB. It is obviously not because he was willing to take no for an answer.

**Comparing Apples to Apples**

The obvious reason Pryor never got an answer is that the data simply did not exist. The procurement and grant offices that purchase shadow capacity deal in dollars, not head counts. They see workers as another commodity to be acquired, rather like computers, water bottles, or furniture. They measure their economic impacts not by the number of jobs each dollar creates, but by the services or products produced.

But the reason the data did not exist is not because they are so difficult to collect. The General Services Administration already collects a portfolio of information on each contract let by the executive branch of the federal government. Its Federal Procurement Data System (FPDS) contains fifty data elements on every contract issued since 1978, including the kind of contract action, amount of money involved, type of contract instrument (which is different from kind of action), a product or service code (which reveals what is being purchased), a standard industrial classification (SIC) code (which reveals the nature of the industry involved), estimated completion date, contractor name and entity code, parent company, contractor owner (if there is one), place where the work is being performed, solicitation procedures used to make the contract, type of contractor (small, large, nonprofit, and so on), minority preference program (if the contract involved one), subcontracting plan (if there was one), emerging small business indicator (if the contractor was one), size of small business (including a specific number of employees), labor statutes applicable to the contract, and whether the contractor was minority or woman owned.³

At a minimum, the General Service Administration could easily develop an estimator of labor impacts for each contract modeled on the one used in this book. Indeed, that is precisely what OMB suggested in 1998 under pressure from Representative Dennis Kucinich (D-Ohio). After once again noting that such estimates would not be either "useful or important," Deputy Director G. Edward DeSeve admitted that the FPDS data could be used to develop reasonable estimates of the number of federal contract employees, based on a range of economic and performance assumptions and using reported contract dollar values.⁴

At a maximum, GSA could require departments and agencies to collect work force estimates as part of the ordinary tracking process involved in contract transactions. Although such tracking would create a new paperwork burden on contractors, it is the only way to generate information on pay and benefits of the contract work force, which is what Kucinich and his colleague, Representative Stephen Horn (R-Calif.) also requested in 1998.⁵

**The Advantage of Ignorance**

The reason the data do not exist, therefore, is that no one wants them to exist. Hard numbers can only do damage to the head count conceit. Having lived by one head count that shows a leaner, meaner government, Congress and the president would rather not die by another head count that shows a shadow work force of surprising proportions. Far better to deny the shadow than sharpen it through careful measurement.

That was certainly the case in the wake of a March 1996 *New York Times* story entitled "As Payroll Shrinks, Government's Costs for Contracts Rise." After first telling readers that federal payroll and contract costs were unrelated, reporter Jeff Gerth proceeded to suggest that the two trends were actually tightly linked. "Even as President Clinton and Congressional Republicans race to take credit for shrinking the Federal payroll," his lead sentence began, "the Government's cost for outside, or contract, employees keep rising."⁶

Central to Gerth's hypothesis was a chart comparing federal payroll costs, which had fallen slightly since 1993, to service contract costs, which had increased by 3.5 percent a year. Although the chart was hardly dramatic, the trends were clearly moving in opposite directions. Service contracts had increased from just over $100 billion in 1993 to $114 billion in 1995, while federal payroll costs had fallen from $104 billion to $103 billion in the same period. After quoting Pryor, who argued that using private contractors to
cover what were once federal jobs "is not an honest portrayal of what's going on with tax dollars," Gerth criticized the Clinton administration for claiming paper job cuts when "many of the responsibilities are now being fulfilled by outside contractors." Gerth also quoted OMB Deputy Director John Koskinen, who acknowledged that the federal government does not know how many private workers it employs. "You can use any number you want," Koskinen admitted. "But whatever it is it is a lot of people."

Despite his earlier cautions to the contrary, Gerth concluded his story with a sweeping indictment of the administration's personnel policy. "Eliminating Federal jobs and giving them to private contractors is a trend not only at rapidly shrinking agencies, like the Pentagon, but at departments that are still growing, like the Justice Department. There, the Administration plans to cede broad new law-enforcement responsibilities to private contractors, who will run most new Federal prisons but will not be subject to Federal rules."

With the vice president's political future riding in part on the reinventing government campaign, the Gore team reacted quickly. Reading the article as an attack on reinventing, Gore's staff released a study just four weeks later, which argued that replacing downsized federal workers with more expensive private sector contractors "is not and never has been, the intent of the Clinton/Gore Administration." The fact sheet noted the controlling legal authorities prohibiting such a shift, paying homage to the Workforce Restructuring Act, which specifically states, "The President shall take appropriate action to ensure that there is no increase in the procurement of service contracts by reason of the enactment of this Act, except in cases in which a cost comparison demonstrates such contracts would be to the financial advantage of the Federal Government." It then presented an apples-and-oranges analysis comparing agency-by-agency reductions in full-time federal personnel to changes in federal spending on an ambiguous subset of service contracts. While the chart clearly showed that twelve out of nineteen "major" agencies had shown cuts in both civil service head count and service contract dollars from 1993 to 1995, the chart did not, could not, compare head count to head count.

Gerth and Gore were both stretching their data beyond reasonable limits, however. Although Gerth did a better job comparing apples (service contract costs) to apples (payroll costs), he reached beyond his data in concluding that downsized federal jobs were being contracted out. There is simply no way to know whether the jobs lost to attrition or voluntary buyouts made their way to contractors or simply disappeared altogether. Gore was well beyond the data envelope, too, particularly in allowing his staff to entitle the fact sheet "Downsized Workers Are Not Being Replaced by Contractors." The staff charts told two essentially unrelated stories on head count and contract costs, comparing apples and oranges.

The challenge in tracking the true size of government, of course, is to compare apples to apples. Since federal employee head counts have become the coin of the realm for measuring the size of government, apples-to-apples analysis means creating reasonable estimates of how many people work for the federal government under contracts, grants, and mandates. Although the numbers presented below look precise, they are only rough approximations of the shadow work force and should be treated with caution.

The Contract Work Force

The methodology used for estimating the contract work force involves simple multiplication, albeit using a model of the U.S. economy that has taken decades to perfect. The methodology starts with the five hundred thousand contract transactions recorded annually in the FPDS, each one of which carries a dollar amount, agency source, and the location, size, and status of the contractor, and concludes with the job multipliers supplied by the Bureau of Economic Analysis input-output model of the economy. The bridge between the contract dollars, which were adjusted for inflation, and the input-output model, which provided multipliers for 471 categories of the economy, is the SIC code attached to each transaction. That code reveals the type of work purchased by each contract, differentiating between specific products and services produced. Once each SIC code is matched to its appropriate input-output identifier, the dollars involved can be multiplied to determine the estimated end demand in jobs. Simply stated, contract dollars in, estimates out.

Table 2-1 shows the top job-producing product and service contracts in 1984 and 1996. As noted in chapter one, this estimate methodology tends to undercount the total number of jobs created through contracts and grants, not because of some fatal flaw in the underlying assumptions, but because the federal procurement database does not count roughly $20 billion a year in small purchases and $10 billion in foreign contracts. Nevertheless, the input-output model does produce a single head count against which to illustrate shifts in the contract-created work force over time. Table 2-2 shows the estimated contract work force for four years: 1984, 1990, 1993, and 1996.

The table reveals a number of patterns underpinning the true size of
government. Democrats and Republicans alike can take some pride in noting the sharp decline in the estimated contract work force. Starting at nearly 6.8 million in 1984, the work force falls by well over 1 million by 1996, with roughly two-thirds of the drop coming under Reagan and Bush. Whether measured in deflated dollars or head counts, the total contract work force has been shrinking.

There are important variations lower in table 2-2, however. First, the decrease in the contract work force is due entirely to reductions in contracts for products. The federal government just did not buy as many tanks, missiles, ships, and fighter planes in 1996 as it did in 1984. And though it did buy more computers than ever before, competition in the industry reduced unit costs, thereby reducing the job per contract dollar accordingly.

The biggest decline in estimated jobs occurred in the defense industry, resulting almost entirely from shrinking demand for weapons systems. Declining purchases of fixed-wing aircraft, for example, accounted for the loss of nearly 200,000 estimated jobs, electronic countermeasures for another 120,000, aircraft engines for 100,000, nuclear reactors for 40,000, and liquid propellants for 50,000. Although some product categories showed an increase in estimated jobs, particularly in personal and mainframe computers, those gains were not enough to offset the declining Defense budget.

As we shall see later in this chapter, this downsizing is a key explanation in the illusion of smallness that allows Congress and the president to claim victory in shrinking government. For now, the Defense downsizing is confirmed in the head counts presented in table 2-2. The Defense Department declined from 5.24 million contract-created jobs in 1984 to just 3.63 million in 1996, accounting for all but 100,000 of the overall reduction in contract-created jobs during the period.

Many observers credit the 1988 military base closing commission with the Defense Department employment decline. Convinced of the need to close hundreds of obsolete military bases but unwilling to inflict the political pain, Congress and the president created the commission to provide the targets in a series of all-or-nothing lists. By the time the commission disbanded in 1995, it had closed 243 bases and eliminated over 100,000 civilian jobs. The commission could not have succeeded, however, absent the end of the cold war. Having lost its durable enemy, the Defense Department was bound to have problems convincing the American public of the need for continued investment in a far-flung necklace of bases.

Even as the Defense Department contract work force declined, its shadow grew, in large measure driven by the purchase of services. By 1996 the ser-

<table>
<thead>
<tr>
<th>Table 2-1</th>
<th>The Top Five Job Producers, 1984 and 1996</th>
</tr>
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<tbody>
<tr>
<td>1984</td>
<td>517,000 Fixed-wing aircraft engines</td>
</tr>
<tr>
<td>1996</td>
<td>332,000 Guided missile systems</td>
</tr>
<tr>
<td></td>
<td>155,000 Airframe components</td>
</tr>
<tr>
<td></td>
<td>136,000 Data processing systems</td>
</tr>
<tr>
<td></td>
<td>108,000 Miscellaneous communication equipment</td>
</tr>
<tr>
<td></td>
<td>86,000 Operation of government facilities</td>
</tr>
<tr>
<td></td>
<td>528,000 Operation of government facilities</td>
</tr>
<tr>
<td></td>
<td>250,000 R &amp; D missile engines</td>
</tr>
<tr>
<td></td>
<td>92,000 R &amp; D communications</td>
</tr>
<tr>
<td></td>
<td>68,000 R &amp; D aircraft engines</td>
</tr>
<tr>
<td></td>
<td>58,000 Systems engineering</td>
</tr>
</tbody>
</table>

Source: Estimates provided by Kagye publishers.
<table>
<thead>
<tr>
<th>Year</th>
<th>FY00</th>
<th>FY01</th>
<th>FY02</th>
<th>FY03</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>3000</td>
<td>1200</td>
<td>9000</td>
<td>7200</td>
</tr>
<tr>
<td>2001</td>
<td>4000</td>
<td>1300</td>
<td>9000</td>
<td>7200</td>
</tr>
<tr>
<td>2002</td>
<td>5000</td>
<td>1400</td>
<td>9000</td>
<td>7200</td>
</tr>
<tr>
<td>2003</td>
<td>6000</td>
<td>1500</td>
<td>9000</td>
<td>7200</td>
</tr>
</tbody>
</table>


Note: Estimated number of FTE jobs created under authorized plans.
service work force accounted for nearly three out of four contract-created jobs, up by half over 1984. Had the service work force followed the same pattern as the product work force followed, the total contract work force would have fallen to roughly 3.4 million. Instead, the service work force grew by 14 percent over the period. Much of the growth results from information technology, which shows up as hardware in product contracts but which shows up as everything from research and development to installation, maintenance, operations, and systems integration in services contracts.

Service contracts are likely to increase over time as government struggles to reap the benefits of new technologies. As of 1998, for example, the Federal Aviation Administration was planning to spend $1.3 billion on modernizing its air traffic control systems, the Internal Revenue Service $500 million on yet another run at rebuilding its antiquated tax systems, the Veterans Affairs Department nearly as much on medical record keeping in its 172 hospital centers, the Defense Department $200 million on a new communications system, and the Education Department $172 million on a new student loan-servicing system. And those are just the acquisition and programming costs. Once up and running, each of the new systems will require ongoing maintenance, operations, and administrative service contracts.

Agencies vary greatly in the mix of products and services purchased, however. Defense purchased roughly two service jobs for every one product job in 1996, while the Department of Energy and NASA purchased roughly twenty service jobs for every one product job. The Department of Energy uses contractors to operate the nation’s nuclear weapons plants and to clean up the waste those plants create, while NASA uses contractors to stack the space shuttle and pack the payload before each launch and to recover the reusable solid rocket engines afterwards. NASA even uses a single contractor to oversee the work of the other contractors. Together, the two agencies contract for nearly one million service workers and fewer than fifty thousand product workers. The rest of the federal government, which includes every agency from the American Battle Monuments Commission to EPA, the Social Security Administration, and the Departments of Agriculture, Health and Human Services, and State, purchased roughly three service jobs for every product job.

The analysis of product versus service jobs leads to one simple, inescapable conclusion confirmed later in this chapter: but for a nearly 1.7 million decline in the number of jobs created by Defense purchases, the total federal shadow work force would have grown dramatically. Much as Congress and presidents like to claim credit for creating a leaner federal government, it is the fall of the Soviet Union that provided the essential lever for the shrinking shadow.

Buried even further in the data underpinning table 2-2 (as presented in appendix A at the end of this book) is a partial vindication of Pryor’s complaint about the shift of service jobs from federal agencies to private contractors. Although the growth in service jobs among the “other” agencies slowed somewhat with reinventing government, dropping from a 26 percent rate in the 1984–90 period to 6 percent in the 1993–96 period, there is limited evidence that some agencies did replace downsized federal employees with private providers.

Overall, total federal employment fell 10 percent from 1984 to 1996, from 2.1 million to 1.9 million, while contract-purchased jobs dropped 17 percent, from 6.8 million to 5.6 million. Some agencies appeared to compensate for cuts in one work force with gains in another, however. Agriculture took a 7 percent cut in its civil service, but it acquired an 8 percent increase in its contract work force; Labor took a 14 percent cut in its civil service, but it acquired a 15 percent gain in its contract work force; State took a 5 percent cut in its civil service, but it made a 111 percent gain in its contract work force; and Education took a 6 percent cut in its civil service, but it made a 129 percent gain in its contract work force.

In all, twelve of the twenty-two agencies shrank their civil service but expanded their contract work force (Agriculture, Education, Health and Human Services, Housing and Urban Development, Labor, State, the Agency for International Development, the General Services Administration, NASA, the Social Security Administration, the Tennessee Valley Authority, and the United States Information Service); five increased both work forces (Commerce, Justice, Transportation, Treasury, and EPA); three shrank both work forces (Defense, Interior, and OPM); and two expanded their civil service but shrank their contract work force (Energy and Veterans Affairs).

Contrary to the Gore staff analysis, which compared civil service apples to contract oranges, fourteen of the twenty-two agencies show at least some circumstantial link between the surge and decline across the two work forces. This link, coupled with the earlier data on the growing service work force and data presented later on the role of Defense in masking the true size of government, provides enough evidence to suggest that further empirical analysis should be conducted of the possible shift of civil service jobs to the shadow work force in the form of service contractors. It is a problem worth investigating, particularly given the anecdotal evidence suggesting some use of contractors to fill the gaps created by what was an essentially random downsizing.
Table 2-2 also shows several intriguing patterns in the shift of jobs across the private and nonprofit sectors. Big business took the biggest cuts in the Defense downsizing, losing almost 1.3 million estimated jobs. All of the losses came in product jobs, however. Further analysis of the data shows that big business lost 1.5 million product jobs over the twelve years covered in table 2-2 but gained roughly 250,000 service jobs, reaping its fair share of the growing service market. It was small business, not big, that absorbed the disproportionate share of job cuts. Small business product jobs were cut nearly in half from 1984 to 1996, falling from 400,000 to 195,000, while service jobs remained essentially flat. The only category of small businesses to prosper during the period was that of small, minority-owned businesses, which gained ground across the board in large part because of continued federal incentives. Although minority-owned firms never had a significant share of product jobs (only 55,000 in 1996), they almost doubled their service jobs.

All but a handful of the jobs created by state and local government and nonprofit agencies were created through service contracts. State and local governments created most of their jobs for contract-based research and development at public universities, while almost all of the nonprofit jobs were purchased by the Department of Defense, NASA, and the Department of Energy through contracts to nonprofit Federally Funded Research and Development Centers (FFRDCs) such as the National Renewable Energy Laboratory, the Pacific Northwest Laboratory, the Aerospace Corporation, Arroyo Center, the National Defense Research Institute, Mitre’s C2I Division, and the Logistics Management Institute.

FFRDCs are a special breed of federal organization established during and after World War II to meet highly specialized research demands on a semipermanent basis. By government charter, they receive 70 percent or more of their financial support from Washington and are available on call for whatever tasks might be needed. By 1995 thirty-nine FFRDCs were in the federal budget, some nonprofit, others university based, and still others private. The technical expertise does not come cheap. According to a 1996 General Accounting Office (GAO) report, Defense Department FFRDC technical staff members each cost approximately $181,000 per year.18

The Grant Work Force

Once past the contract work force, the data on the shadow of government become increasingly soft. Grant-created jobs are particularly difficult to estimate, not because there is no data whatsoever, but because it is so difficult to convert for the input-output model. Unlike the Federal Procurement Data System, which contains an SIC code for each and every contract, which in turn links easily to the input-output model, the Federal Assistance Awards Data System uses a standard code from the Catalog of Federal Domestic Assistance, which inventories roughly 600 federal assistance programs. Each record may contain up to thirty-four pieces of information, including the type of recipient (state, county, city, special district, Indian tribe, private, nonprofit), the amount of the grant, the type of assistance (block grant, formula grant, project grant, cooperative agreement, direct payment, loan, guaranteed loan, and insurance), and a Catalog of Federal Domestic Assistance code that tells the user just what the grant is purchasing.19

Unfortunately, the catalog does not provide SIC codes that might be used as a link to the input-output model. The only way to crosswalk the data is to create an implied SIC code for every entry in the Catalog of Federal Domestic Assistance. Before doing so, it is important to winnow the list of grants to those that produce goods or services on the federal government’s behalf. That means, for example, eliminating grants that involve transfer payments, insurance, and loans. Such grants go directly to individual citizens and do not create a shadow work force for the federal government. That also means eliminating block grants that eventually involve transfer payments, insurance, and loans. Even though such grants contain administrative overbread that finds its way into the state and local head count, it is impossible to separate the shadow administrative jobs from the transfer payments. Finally, that means eliminating what the Catalog labels as “contingent liabilities” such as crop insurance. Those liabilities reside and fall with disasters and market forces and do not purchase shadow jobs of any kind.

By definition, the shadow work force must be restricted to the production of public goods, whether through the purchase of products or services. Thus the following analysis of grant-created jobs is restricted to formula grants, project grants, and cooperative agreements, all of which can be used to purchase shadow jobs. In 1996, for example, this winnowing produced $232 billion in eligible expenditures. Once this first pass through the data set is completed, each remaining grant can be attached to an SIC code based on a careful reading of its project title. With these ersatz SIC codes in hand, the grants can be winnowed even further to exclude transfer payments and ambiguities hidden in the eligible expenditures.

Once all the winnowing is completed, the final dollars can be pushed through the input-output model. Because the original Federal Assistance
Estimated number of FTE jobs created, unless otherwise specified

<table>
<thead>
<tr>
<th>Measure</th>
<th>1984</th>
<th>1990</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total grant work force</td>
<td>2,207,000</td>
<td>2,416,000</td>
<td>2,413,000</td>
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<tr>
<td>Change from prior data point</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td></td>
<td>209,000</td>
<td>-3,000</td>
</tr>
<tr>
<td>Percent</td>
<td></td>
<td>+9.5</td>
<td>-0.1</td>
</tr>
<tr>
<td>Total 1994 dollars</td>
<td>50,088,000</td>
<td>54,523,000</td>
<td>54,925,000</td>
</tr>
<tr>
<td>Change from prior data point</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dollars</td>
<td></td>
<td>4,435,000</td>
<td>402,000</td>
</tr>
<tr>
<td>Percent</td>
<td></td>
<td>+8.9</td>
<td>+0.7</td>
</tr>
<tr>
<td>Agency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>645,000</td>
<td>567,000</td>
<td>642,000</td>
</tr>
<tr>
<td>Education</td>
<td>518,000</td>
<td>684,000</td>
<td>762,000</td>
</tr>
<tr>
<td>Labor</td>
<td>359,000</td>
<td>190,000</td>
<td>166,000</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>336,000</td>
<td>599,000</td>
<td>395,000</td>
</tr>
<tr>
<td>Environmental Protection Agency</td>
<td>207,000</td>
<td>157,000</td>
<td>143,000</td>
</tr>
</tbody>
</table>

Source: Estimates provided by EagleEye Publishers.

Awards Data System records do not provide information on what each grant purchases by way of products and services or who is actually delivering the services by way of business, nonprofits, and state and local government, the input-output analysis can only provide a gross estimate of grant-created jobs agency by agency. Table 2-3 shows the results from three years: 1984, 1990, and 1996.

Not all of the estimated jobs were created solely to produce federal goods. Unlike contract-created jobs, where the jobs exist entirely because of the federal dollar, state and local governments are notorious for using federal grants to subsidize jobs that are already on their payrolls. Past research suggests that states use roughly 60 cents out of every federal grant dollar as a substitute for their own spending, meaning that only 40 cents actually is new spending. Studies of highway construction grants, education grants, and sewer system construction grants all suggest that federal grants have very high substitution effects, sometimes reaching 100 percent. Although grants differ greatly in the degree to which they allow substitution of federal dollars for state and local dollars, including dollar-for-dollar matching re-

quirements and more deliberate accounting of spending patterns, the vast majority of grants included in this analysis permit substitution.

The fact is that the federal government exerts little control over the public goods purchased through these grants. After assessing all 633 federal grants available to state and local governments for everything from public assistance to highway construction and education to boating safety, GAO concluded that most grants are simply not designed to maximize federal control. Although 617 were grant programs that were narrow-purpose categorical grants, which theoretically would prevent substitution, GAO concluded that "few federal grants contain the combination of design features that would encourage states to maintain their spending levels and reduce the extent of substitution. About half the 87 largest grants, representing 30 percent of the funds for those programs, did not require state matching. Of the grants containing matching provisions, almost all had federal shares in excess of 50 percent."20

The question is how such substitution affects the shadow of government. Simply asked, is it reasonable to count grant-created state and local government jobs as part of the federal shadow? On the one hand, little anecdotal evidence exists to suggest that federal agencies see grants as a way to extend their reach in an era of downsizing. Grants do not so easily lend themselves to intentional shadow casting. If they did, more directive behavior in the grant instruments likely would be seen.

On the other hand, even if state and local governments use federal dollars to displace costs that would have otherwise been used to cover their own employees, the federal dollar makes the substitution possible. In buying a share of the state and local government payroll, the federal government lengthens its own reach, albeit without much direct control. Those jobs, while not as closely linked to federal agencies as contract jobs, are still part of the shadow. Whether a job resides at the murky boundary of the shadow with a library construction grant or at the sharp center with a federal services contract, and whether the worker is laying asphalt on Interstate 80 in Iowa or collecting soil samples from a toxic waste dump in New Jersey, it is still in the shadow and should be counted as such. Much as those highway workers on Interstate 80 might complain about big government and vote for "New Democrats" and "Blue Dogs" who promise to cut government, they are actually more dependent on big government than the civil service workers, who at least have some protection when the downsizings begin.

As table 2-3 suggests, the number of noncontingent grant-created jobs has gone up by 9 percent since 1984. The biggest jump occurred from 1984
to 1990, with a very slight decrease in the six years that followed. The 1996 figures include five especially large job categories:
— 640,000 highway and street construction jobs, most of which likely passed through state government directly into the private sector,
— 602,000 research jobs, most of which likely passed public and private universities,
— 555,000 job training jobs, most of which likely passed to state governments on their way down to a mix of local governments and nonprofit organizations,
— 401,000 school and education service jobs, most of which likely passed through state government on the way out to local schools and institutions of higher education, and
— 125,000 engineering services jobs, most of which likely passed through state governments on the way down to city and county environmental projects.

The emphasis here is on the word “likely” because the FAADS does not record the ultimate provider of the grant-purchased good or service, making it impossible to know exactly where the dollars ended up. Created under federal law, the data system is designed to track what Congress deems most important: who receives the dollars first, not who gets them last. Thus the data system records the congressional district in which the grant recipient resides, but not the congressional district in which the final demand was created.

Given the mix of jobs described above, it is hardly surprising that the top five producers of grant-created jobs would be EPA and the Departments of Education, Health and Human Services, Labor, and Transportation. At Education, for example, the big job-producing grants involve Indian education, education for the disadvantaged, special education, rehabilitation services, vocational and adult education, higher education, and library construction. What is more interesting perhaps is that none of these departments was a particularly large producer of contract-created jobs. Education purchased just 16,000 contract jobs in 1996, Labor just 33,000, EPA 43,000, Health and Human Services 102,000, and Transportation 180,000. But putting the contract and grant work forces together, Transportation becomes the second largest shadowmaker in government at 822,000, well behind Defense at 3.7 million, and just ahead of Education at 778,000, Energy at 673,000, Health and Human Services at 490,000, NASA at 376,000, Labor at 190,000, and EPA at 186,000.

The Mandate Work Force

There is little doubt that federal mandates encumber the state and local work force. Some might even argue that such encumbrance is the whole point. Unfortunately, there is no database to mandates, ongoing list of impacts, standard methodology for estimating effects, or summary table of costs against which to calculate the employment effects of mandates to the states. Indeed, but for occasional “top ten” lists of the most oppressive mandates generated by state and local government trade associations, it is impossible to assemble a comprehensive list of mandates against which to measure impacts. The one agency that used to make mandates its business, the U.S. Advisory Commission on Intergovernmental Relations, was summarily abolished in a frenzy of budget cutting in 1995.

Yet mandates may be the most important, even pernicious, of all the shadow-casting instruments. Unlike contracts and grants, where Washington provides all or at least some of the dollars needed to produce the goods, mandates require state and local governments to shift priorities to cover the costs. Much as the Americans with Disabilities Act or Clean Air Act can be admired, such legislation clearly shifts costs from the federal government down to states and localities, while giving Congress and the president tight control over the actual design of public goods. By the 1950s, writes Martha Derthick, “Congress discovered the political advantages of mandates without money—it could order other governments to do worthwhile things like provide health care to pregnant women and children or educate handicapped children or treat sewage to a very high standard or guarantee transportation for the disabled while leaving them to figure out how to pay much of the cost. . . . The result often has been domestic policymaking by federal decree, while frustrated governors and their budget officers and department heads devised strategies for shifting the costs right back to Washington through exploiting whatever fiscal loopholes in federal law they could find. And they found a great many.”

Efforts to estimate the impact of such mandates have been beset by difficulties, not the least of which involves the definition of just what a mandate is. Congress struggled mightily with the issue in drafting the Unfunded Mandate Reform Act of 1995. A centerpiece of the Republican Contract with America, the act defines mandates as (1) “a condition of Federal assistance,” (2) “a duty arising from participation in a voluntary Federal program,” unless that duty is offset by other federal support, or (3) any change in an exist-
mandates that it viewed as acceptable national goals: the Safe Drinking Water Act, the Endangered Species Act, the Clean Air Act, and an assortment of labor relations statutes, most notably the Davis-Bacon Act. Under the Clean Water Act, for example, states are required to develop and implement plans for meeting water quality standards. According to the commission, state and local governments are concerned that federal rules, especially those dealing with storm water drainage, have become increasingly expensive, even as federal funding has dwindled to near zero. It is a complaint at least indirectly supported by table 2-3, which shows a steady decrease in EPA grant-created jobs over the 1984–96 period. As the grant dollars fell, state and local government had to absorb an increasing share of the costs of environmental protection.

The commission is hardly the only source of concern about mandate costs, of course. The National Association of Counties has its own list of twelve burdensome mandates, including seven environmental statutes, while the United States Conference of Mayors has its top ten, including eight environmental statutes. All three organizations agree on Clean Air, Clean Water, Safe Drinking Water, Endangered Species, Americans with Disabilities, and Fair Labor Standards, while the counties and cities add asbestos abatement, leaking underground storage tanks, lead-based paint, and solid waste disposal. Counties throw in Superfund, immigration, and constraints on municipal bonds. Although none of the organizations offers any indication of the general costs involved, let alone the number of workers, it is clear that EPA would be the lead producer of most mandate-created state and local jobs.

Even if consensus existed on a list of top mandates against which to measure actual costs, it is not clear that a reasonable method to count heads could be created. It is easy to discover how difficult such estimating can be, however. Just read through the studies that the National Association of Counties and Conference of Mayors produced in advance of the Unfunded Mandate Reform Act. Both studies were conducted by Price Waterhouse and were released on October 26, 1993. Both also used a simple survey methodology.28

The city study was based on a mail questionnaire to over one thousand cities with populations over thirty thousand, meaning all members of the Conference of Mayors. Respondents were asked to estimate the employee hours and dollar costs of complying with ten specific mandates. Having received 314 responses, Price Waterhouse extrapolated its data to all cities that were sent questionnaires, and concluded that the cities had spent 92 million hours and $6.5 billion implementing the ten mandates in fiscal year 1993. Clean Water was by far the most expensive mandate for the cities, account-
ing for an estimated 57 million hours and $3.6 billion. Assuming that an average employee year consisted of 2,000 hours, the mandates would have encumbered forty-six thousand full-time-equivalent employees, of which roughly forty-three thousand could be tracked to environmental mandates.

The county study used a similar mail questionnaire to a random sample of the nation’s three thousand counties. This time, however, respondents were only asked to estimate the dollar costs of complying with twelve mandates. Having received 128 responses, Price Waterhouse extrapolated its data to all counties, and concluded that the counties had spent $3 billion, not including capital costs, implementing the twelve mandates in fiscal year 1993. This time immigration reform was by far the most expensive mandate, accounting for an estimated $1.5 billion of the total. Assuming that county staff costs were roughly the same as city costs, and again assuming a 2,000-hour year, all twelve mandates would have encumbered seventy-five thousand full-time-equivalent employees, of which roughly thirty-eight thousand could be tracked to the immigration mandate, and another twenty-five thousand to an assortment of environmental mandates that again included Clean Water.

Such estimates are highly suspect, of course. Price Waterhouse never gave the respondents instructions on just how to do the estimates and did not have the funds to verify any of the responses. As a result, it is not clear whether cities or counties subtracted offsetting federal grants or state support in making their final cost estimates.

These and other problems eventually prompted a caustic staff report from the Senate Committee on Environment and Public Works. After quoting the famous maxim “garbage in, garbage out,” the report concluded that “the Price Waterhouse survey is an ineffective tool for measuring the cost of unfunded mandates. Its estimate of $11.3 billion in unfunded federal mandates lacks credence. It overestimates the problem by billions of dollars and provides inaccurate and misleading cost figures for specific federal programs. It also does not consider the enormous benefits of federal mandates.” Better not to know at all, the staff report seemed to conclude, than to not have absolute precision.

If self-assessment by states and localities is fraught with bias, mandate-by-mandate review from Capitol Hill is prohibitively expensive. Under the Unfunded Mandate Reform Act, the Congressional Budget Office (CBO) became responsible for detailed cost estimates for any legislation that imposes a duty exceeding $50 million on state and local government. Having done occasional estimates of state and local impacts since 1982, CBO was the logical place to handle the comprehensive estimating required under the new legislation. The agency only needed to create a new state and local government cost estimates unit and allocate enough staff to cover the twenty-four staff years required annually to do the job. In 1996 calculating the cost of mandates meant reviewing the 718 bills that could have contained state and local mandates and another 673 that could have created private sector mandates. Of the 718 state and local possibilities, 69 actually had mandates, of which 11 had costs exceeding the $50 million threshold and 6 had costs that could not be estimated. After completing their first-year analysis, CBO staffers concluded that most mandates did not impose significant costs and that most significant mandates imposed costs on state and local governments as employers, not as governing bodies. Interestingly, according to the CBO staff, the estimating method is highly idiosyncratic from bill to bill. Staffs use any and all resources at their disposal, including conversations with trade associations. (To date, the Senate Environmental and Public Works Committee has not issued a report on the CBO methodology.)

Lacking a precise mandate-by-mandate method for estimating job impacts, the best that can be done is to estimate the overall impact of federal mandates through subjective means. Doing so for this book involved a secondary analysis of a 1997 Pew Research Center for The People & The Press survey of 1,772 Americans, of whom 358 were state and local government employees. The state and local employees were asked the following question: “How much time do you spend in your work doing things that are required by the federal government in Washington—for example, following certain rules that the federal government, not the state or local government, asks you to follow?” The answers fell into five categories: no time, less than 25 percent, between 25 percent and half, between half and 75 percent, and more than 75 percent. When the five categories are converted using conservative percentages (no time equals zero, less than 25 percent equals 10 percent, between 25 and 50 percent equals 37.5 percent, between 50 and 75 percent equals 62.5 percent, and more than 75 percent equals 75 percent), they can be multiplied against the total 1997 state and local government employees of 16,669,000 to produce an estimated mandate-created work force of 4.6 million. Table 2-4 provides the methodology and the result.

Obviously, 4.6 million is a very large number. By random sample, it would include a very large proportion of school teachers, with smaller but still large numbers of police and fire fighters, and with still smaller concentrations of health workers and corrections guards. Of the 16 million or so state and local, roughly a third work for school districts, another quarter for
Table 2-4. Estimated Mandate Work Force, 1997

<table>
<thead>
<tr>
<th>Percentage of time spent complying with mandates</th>
<th>Percentage of survey respondents selecting category</th>
<th>Estimated number of state and local employees in category</th>
<th>Estimated number of FTE positions encumbered by mandates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>18</td>
<td>3,000,420</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>35</td>
<td>5,834,150</td>
<td>583,415</td>
</tr>
<tr>
<td>37.5</td>
<td>19</td>
<td>3,167,110</td>
<td>1,187,662</td>
</tr>
<tr>
<td>62.5</td>
<td>12</td>
<td>2,000,280</td>
<td>1,220,175</td>
</tr>
<tr>
<td>75</td>
<td>13</td>
<td>2,166,970</td>
<td>1,625,228</td>
</tr>
<tr>
<td>Don't know</td>
<td>3</td>
<td>500,700</td>
<td>0</td>
</tr>
<tr>
<td>Total who estimate mandate time spent</td>
<td>79</td>
<td>13,168,510</td>
<td>4,646,000</td>
</tr>
</tbody>
</table>

Source for survey: The Pew Research Center for The People & The Press, October–November, 1997; total sample was 1,772, of which 358 were state and local government employees.


state government, slightly more than an eighth for cities, an eighth for municipalities, and less than 5 percent each for special districts and townships.

The question is whether such an estimate can be taken seriously. There are several reasons to be cautious, not the least of which is that the survey did not ask respondents whether the time spent was purchased under a grant or contract. Since a sizable proportion of grant-created jobs involve state and local employees, there likely is some double counting in the survey. Moreover, like the self-report surveys from cities and counties, the question certainly allowed respondents to take their anger out on Washington.

Nevertheless, for the purposes of this book, the question gives a little greater definition to what has been an acknowledged, if poorly measured, part of the federal shadow. Koskinen was quite right about the shadow of government,: you can use any number you want, but whatever it is it is a lot of people. Unfortunately, the number presented here is much too weak to withstand any further analysis. Where the 4.6 million jobs are, which mandates created them, and whether the number might be increasing or decreasing cannot be discerned. The best that can be done is to muse about the potential size of the mandate-created work force and encourage others with more resources to become much more rigorous in measuring what appears to be "a lot of people," indeed.

Exploring the Shadow of Government

Like any shadow, the shadow of government is sharp in some places, particularly in the contract-created jobs, and quite fuzzy in others, obviously in the mandate estimates. Whether the boundaries are sharp or blurred, however, the data reveal an implied federal work force of surprising reach. The era of big government may be over in civil service head count, but not in the shadow. Like a small figure projected on a distant screen, the federal government casts a very large shadow.

As coming chapters will show, there are good reasons, political, legislative, and managerial, for keeping the civil service small. For now, suffice it to say that almost everyone involved in government, including federal labor unions, wants to keep government looking small. The illusion of smallness allows Congress and the president, Democrats and Republicans, and even civil servants to declare victory against big government even as they satisfy the public's demand for more of virtually everything the federal government delivers. Before turning to this political economy of looking small, however, it is important to ask two questions about the numbers presented earlier in this chapter: what do the combined numbers reveal about the true size of the federal work force, particularly when compared with other sectors of the economy, and how has the true size of government changed over the shorter and longer term?

Is the True Size of Government Big or Small?

When defined as the total work force needed to fulfill its mission, whatever that mission might be and wherever that work force might be employed, the true size of government in 1996 was 16.9 million. As table 2-5 shows, that number includes 1.9 million full-time-equivalent federal civilian employees, 1.5 million uniformed military personnel, 850,000 Postal Service workers, and 12.7 million contract, grant, and mandate employees. Whether 16.9 million is a big or small number depends in part on what it is compared against and which numbers are used. Consider, for example, the relative size of the federal government compared against state and local governments, the private sector, and other nations.

When compared to state and local government, the federal civilian employment has always looked relatively small. The Budget of the United States Government has long advertised that fact in its historical tables comparing government employment to population. In 1996, for example, total federal
Table 2-5. *The True Size of Government, 1984, 1990, and 1996*
Estimated number of FTE jobs created, unless otherwise specified

<table>
<thead>
<tr>
<th>Measure</th>
<th>1984</th>
<th>1990</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Federal civilian workforce</td>
<td>2,083,000</td>
<td>2,174,000</td>
<td>1,892,000</td>
</tr>
<tr>
<td>2. Federal contract-created jobs</td>
<td>6,790,000</td>
<td>6,347,000</td>
<td>5,635,000</td>
</tr>
<tr>
<td>3. Federal grant-created jobs</td>
<td>2,207,000</td>
<td>2,416,000</td>
<td>2,413,000</td>
</tr>
<tr>
<td>4. State and local mandate-created jobs</td>
<td>...</td>
<td>...</td>
<td>4,646,000</td>
</tr>
<tr>
<td>5. Total federal shadow workforce A (2 + 3)</td>
<td>8,997,000</td>
<td>8,763,000</td>
<td>8,048,000</td>
</tr>
<tr>
<td>6. Total federal shadow workforce B (2 + 3 + 4)</td>
<td>...</td>
<td>...</td>
<td>12,694,000</td>
</tr>
<tr>
<td>7. Total federal workforce A (1 + 2 + 3)</td>
<td>11,080,000</td>
<td>10,937,000</td>
<td>9,940,000</td>
</tr>
<tr>
<td>8. U.S. postal workers</td>
<td>707,000</td>
<td>817,000</td>
<td>852,000</td>
</tr>
<tr>
<td>9. Uniformed military personnel</td>
<td>2,178,000</td>
<td>2,106,000</td>
<td>1,507,000</td>
</tr>
<tr>
<td>10. Total federal workforce B (1 + 2 + 3 + 8 + 9)</td>
<td>13,965,000</td>
<td>13,860,000</td>
<td>12,299,000</td>
</tr>
<tr>
<td>11. Total federal workforce C (4 + 10)</td>
<td>...</td>
<td>...</td>
<td>16,945,000</td>
</tr>
</tbody>
</table>


civilian employment, including postal workers but excluding uniformed military personnel, represented just 13.3 percent of what OMB estimated to be 21 million federal, state, and local government employees, a number that includes federal civilian, uniformed military, federal judicial and legislative, and all state and local personnel, while federal civilian employment represented roughly 11 federal employees per 1,000 Americans.²⁶

When the federal contract and grant work force is added to the civilian, military, and postal service head count presented in table 2-5, and when the 4.6 million mandate jobs are moved from the state and local total to the federal, the relative size of governments changes dramatically. Instead of ac-"
under 14 percent of total employment, larger than any of the central governments studied by OECD.

Because many of those governments hide their work forces in public enterprises of one kind or another, however, the only fair comparison between nations is to total all employees—national, state, and local, general government and public enterprises. Using this expansive definition of the public sector, U.S. government employment sans shadow regains its illusion of smallness, accounting for just 15 percent of the nation's total employment, far behind Denmark at 39 percent, Sweden at 38 percent, Finland and France at 27 percent, and Mexico at 26 percent. But when the federal shadow is added into the totals, total U.S. government employment rises to roughly 22 percent of total employment, placing it right in the middle of the international pack. Although this analysis could grossly underestimate the amount of private contracting used by other governments, it does illustrate how the traditional measure of federal employment can create an illusion of smallness far out of proportion to a more accurate head count, which, in turn, may lead the public to believe that government employment can and should shrink year after year with no appreciable loss in effectiveness.

Two caveats are in order before examining the true size of the government over time. First, the state and local work force is not likely to remain smaller than the federal work force for long. According to Governing magazine's Jonathan Walters, "local and state government both win a place on the BLS top-10 list of growth industries in the 1990s. Local government ranks third behind 'business services,' having added more than 1.2 million jobs. State government ranks eighth, with 200,000 new jobs. All told, between 1990 and 1996, state and local government accounted for more than one-seventh of all the new jobs in the U.S. non-farm economy." Moreover, as Walters also notes, state and local governments are employing increasing numbers of contract employees. "Nationally, at a minimum, tens of thousands of individuals work full time for state and local government on a contract basis."

Second and more important, the federal government is clearly not alone in using contractors and contingent employees. There is no question, for example, that the private sector has become expert at using what it sometimes labels contingent, or supplemental workers. According to a recent Business & Legal Reports survey of 1,100 private firms, nine out of ten firms used temporary employees in 1997, six out of ten used part-time employees, and four out of ten used independent contractors. Forty percent of the supplemental employees were in technical jobs, 35 percent in service jobs, and 28 percent in professional jobs. Earlier surveys by the conference board and the W.E. Upjohn Institute for Employment Research found similar patterns. The supplemental work force is clearly here to stay.

Where the federal government differs from the private sector is its much greater dependency on supplemental workers to fill out its work force. According to the conference board survey cited above, only a fifth of all private firms surveyed used supplemental employees to cover more than 10 percent of their total work force demand. The vast majority used supplemental employees as 5 percent or less of their total work force. Depending upon how the shadow work force in 1996 is counted, the federal government used supplemental employees to cover anywhere from half (service contracts only) to three-quarters (service contracts plus state and local mandates) to nearly 90 percent of its work force.

Is the True Size of Government Getting Bigger or Smaller?

The past decade and a half have produced what appears to be steady slimming of both the body (full-time-equivalent work force) civil service and the shadow (contract- and grant-created work force) of government. As table 2-5 shows, all federal work forces have all shrunken since 1984, with most of the decline occurring since 1990. After growing from 1984 to 1990, the grant-created shadow work force is also down ever so slightly. At this first aggregate glance, Clinton was quite right to declare the era of big government over.

It would be a mistake, however, to interpret the decline as entirely or even significantly the result of the Workforce Restructuring Act of 1994 or of the Gore reinventing government campaign. The heaviest cuts fell exactly where expected after the end of the cold war, in the Department of Defense. Although Domestic agencies did absorb significant civil service cuts here and there, most notably in the Departments of Interior (down nearly 6,500 jobs from 1984 to 1996) and Agriculture (down 8,000), the General Services Administration (down almost 10,000), the Tennessee Valley Authority (down 16,000), and the Social Security Administration (down almost 16,000), the federal government never would have met the downsizing targets without the 260,000-position Defense cut. Remove the Defense Department from the tables in this chapter and the federal civil service grew 5 percent from 1984 to 1996 (up from 1.06 million to 1.11 million), the contract work force grew 29 percent (up from 1.54 to 2 million), and the grant work force grew 7 percent (up from 2.2 million to 2.36 million).

Tables 2-6 and 2-7 provide two portraits of the masking effects of the Defense downsizing on the true size of government. When the Defense
Department's contributions are subtracted from the 1984–96 comparisons, the effects of the recent downsizing are significantly muted. Instead of a dramatic 1.7 million drop in the true size of government, the non-Defense work force (civil service, postal, contract, and grant) grows dramatically over the 1980s, adding almost 1 million jobs from 1984 to 1990, then dropping 133,000 from 1990 to 1996. Assuming that the Defense grant-created work force would have been under 50,000 jobs in 1993, a fair assumption given the trend line revealed in appendix A, and assuming that the Defense downsizing would have occurred with or without Clinton in the White House, the Clinton administration can take credit for shrinking the true size of government by roughly 300,000 full-time-equivalent jobs (civil service plus shadow), or about 3 percent, far from the kind of sweeping downsizing that might support the claim that the era of big government is over, but still a significant achievement given the growth in the 1980s.

The masking effects of the Defense Department on the true size of government are even more obvious in table 2-7. Remove Defense civil servants from the total end-of-year head count, which was the traditional measure of government employment until OMB switched to the full-time-equivalent measure in the 1980s, and there is a mostly steady rise in the non-Defense service from 1960 until 1992, when Clinton and Congress did, in fact, order a serious, often painful downsizing for most domestic agencies. Add in the postal service, which has grown steadily since the 1960s, and the totals would be much higher.

Unfortunately, there is no way to go back to 1960 and survey state and local employees on their mandate burdens, and the procurement database only goes back to 1984. Although it might be possible to track the grant-created work force back to 1960 by coding the Catalog of Federal Domestic

### Table 2-7. Defense Department Illusion of Smallness, 1960–96

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>1,808,000</td>
<td>761,000</td>
<td>239.5</td>
<td>31.0</td>
</tr>
<tr>
<td>1964</td>
<td>1,884,000</td>
<td>854,000</td>
<td>277.5</td>
<td>66.0</td>
</tr>
<tr>
<td>1968</td>
<td>2,289,000</td>
<td>972,000</td>
<td>357.0</td>
<td>72.2</td>
</tr>
<tr>
<td>1972</td>
<td>2,117,000</td>
<td>1,009,000</td>
<td>315.2</td>
<td>84.9</td>
</tr>
<tr>
<td>1976</td>
<td>2,157,000</td>
<td>1,147,000</td>
<td>305.0</td>
<td>94.8</td>
</tr>
<tr>
<td>1980</td>
<td>2,161,000</td>
<td>1,201,000</td>
<td>341.7</td>
<td>109.0</td>
</tr>
<tr>
<td>1984</td>
<td>2,171,000</td>
<td>1,127,000</td>
<td>393.0</td>
<td>96.2</td>
</tr>
<tr>
<td>1988</td>
<td>2,222,000</td>
<td>1,172,000</td>
<td>452.0</td>
<td>106.7</td>
</tr>
<tr>
<td>1992</td>
<td>2,225,000</td>
<td>1,273,000</td>
<td>448.9</td>
<td>130.0</td>
</tr>
<tr>
<td>1996</td>
<td>1,934,000</td>
<td>1,166,000</td>
<td>408.9</td>
<td>138.2</td>
</tr>
</tbody>
</table>


a. Does not include postal service employees.
tion expenditures have certainly declined since the end of the cold war, non-
Defense consumption expenditures have gone steadily up, showing no par-
allel decline with the civil service downsizing described above. Instead of
taking the true size of government back to 1960, it seems more accurate to
argue that the recent downsizing has taken the size of the Defense Depart-
ment work force (civilian plus shadow jobs) back to the 1970s, and that the
downsizing has taken the size of the non-Defense work force back to the
mid-1980s. Both may be notable achievements, of course, for the earlier
trend lines were all rising. But it is only by the most limited reading of the
federal work force data that it could be concluded that the era of big govern-
ment is over, if, in fact, it ever began.

Conclusion

Some readers will interpret the figures presented above as proof positive
that the federal government is, indeed, a giant wolf in the New Democrat’s
clothing. Others will see troubling evidence that the federal government has
cut too deeply, forcing agencies to push inherently governmental functions
into the shadow work force, while creating a new class of highly vulnerable,
underpaid workers, who shift from job to job in search of security. Still oth-
ers will see evidence of a new kind of military-industrial complex, involving
domestic, not defense, agencies. The problem is that none of these views can
be disputed by the evidence presented in this book. The data are so sketchy
that just about any specter can be seen in the shadow of government.

The one irrefutable finding is that the true size of government is much
larger than federal civil service head counts suggest. Faced with constant
pressure to look smaller, most government agencies did what comes natu-
 rally; they pushed more and more of their mission out to contractors, grant-
ees, and state and local governments, while protecting the middle and upper
tiers of the work force. As Donald Kettl writes,

The inescapable reality is that the federal government is organized for a
world that no longer exists. Government is organized hierarchically and
managed through authority, but its fundamental strategies increasingly are
neither. The federal government, in particular, does relatively little itself. It
mails Social Security checks, manages air-traffic control, inspects meat, and
collects taxes, among other functions. But it does most of its work through
contracts with the for-profit and not-for-profit sectors, grants to state and
local governments, special provisions in the tax code, and regulations on
corporate and individual behavior.31

David Pryor would not be so sanguine about the new public service,
however. He would lecture us, as he did in 1989, about the dangers of abdi-
cating our responsibilities “to a private work force, unseen, unmonitored,
and unchecked.” He would warn us about the lost accountability, hidden
costs, and the potential for mischief in transferring the government’s insti-
tutional memory to a smaller and smaller number of larger and larger con-	ractors. If there is one lesson in this chapter, it is that Pryor was right about
the general trend. “If we looked at Commerce, if we looked at HUD, if we
looked at the Department of Defense,” he said in 1989, “we would see those
same patterns: a reduced official work force where we know how many people
are employed and in what function, and what their salaries are in addition
to a private contractor work force that has grown dramatically and at alarm-
ing rates. Their influence and impact is becoming more and more signifi-
cant.”32

The question for the next chapter is how the federal government got
into this situation. The answer can be found in the structure of incentives
that makes the illusion of smallness so attractive to almost everyone involved:
the public, Congress and the president, Democrats and Republicans, civil
servants, and even federal employee unions, if only on occasion.