

Privatizing Personnel: Bureaucratic Outsourcing & the Administrative Presidency

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Abstract

The number of private sector contractors conducting the work of government far outstrips the number of federal bureaucrats. Yet, despite the aphorism that “personnel is politics,” scholars rarely consider the political forces that perpetuate a contracted government workforce. I argue that the privatization of personnel is a bureaucratic management strategy used by the president in response to the political environment. First, relative to bureaucrats, contractors offer reduced external visibility, a feature that is attractive in the face of interbranch conflict. Second, contractors can be used to circumvent career bureaucrats, a useful workaround when bureaucrats are ideologically misaligned. To test these arguments, I develop a novel measure of personnel privatization that combines data on contracts for government services with spending on bureaucratic personnel across more than 180 agencies over nearly two decades. I provide evidence consistent with the theory and show that the findings hold when the types of services being procured and the independence of agencies are taken into account. Overall, the argument suggests that contractors are used by the president to stealthily expand executive power.

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In 2019, an estimated 10.1 million Americans misused opioids, another sobering milestone in the ongoing opioid epidemic (HHS, 2021). The moral urgency of the opioid crisis has put the Food and Drug Administration (FDA), the federal agency charged with regulating access to opioids, under intense public scrutiny. That’s why, amid criticism that the agency had moved too slowly and taken an overly lax regulatory approach, revelations of the agency’s decade plus relationship with the consulting firm McKinsey & Company hit especially hard. In October 2021, reporting by *ProPublica* revealed that McKinsey had been advising the FDA about its regulatory practices ranging “from revamping drug-approval processes to implementing new tools for monitoring the pharmaceutical industry” (MacDougall, 2021). The problem was that, at the same time, the consulting firm counted some of the nation’s biggest opioid companies—the makers, distributors, and sellers of the drugs—as its clients. This meant that “McKinsey consultants helped [the] drugmaker clients fend off costly FDA oversight—even as McKinsey colleagues assigned to the FDA were working to bolster the agency’s regulation of the pharmaceutical market” (MacDougall, 2021).

The egregious conflicts of interest sparked public outrage and prompted a congressional investigation.¹ However, other aspects of the story escaped deeper scrutiny. Notably, the fact that an upscale private sector consultancy served as a long-term “thinking arm” for a government agency—providing strategic planning and idea generation over a 13-year period—was deemed to be an unremarkable feature of contemporary governance. While the use of contractors² occasionally surfaces as a matter of public interest—such as the use of military contractors in Iraq and Afghanistan—the fact that contractors have become an essential source of labor to the federal bureaucracy is mostly an accepted fact. Indeed, one

¹Subsequent reporting revealed that the problem extended beyond opioids, as McKinsey also provided advice to the FDA’s tobacco arm while claiming big tobacco firms and e-cigarette company Juul as clients (Bogdanich and Forsythe, 2022).

²To be sure, the McKinsey employees in question were “consultants.” In this paper, I call them contractors, since they belong to a broader class of for-hire workers who perform work for government under the auspices of a procurement contract.

estimate puts the number of federal contractors at a three to one ratio to career bureaucrats (Light, 2018).³ And contrary to popular understanding, contractors do not just perform ministerial functions for government; instead, they increasingly step in and provide governmental services that involve a high degree of skill (Taylor, 2019)—and often discretion too. For example, contractors are deeply integrated into the rulemaking process at many agencies, assisting with technical and analytic aspects of rule development, and sometimes even writing the first draft of regulatory texts that may eventually become binding law (Dooling and Potter, 2024).

Despite their ubiquity, contractors do not fit neatly into our understandings of the administrative state. For instance, contractors are entirely omitted from counts of bureaucratic employees—a stock “control variable” in most studies of administrative agencies—and they are also not accounted for in theories of political control of the bureaucracy. In this paper, I argue that understanding the current arrangement of the total bureaucratic workforce—by which I mean the mix of career civil servants and service contractors that do the work of the federal government—is central to understanding how political and administrative power is exercised within the executive branch.

Taking the executive’s perspective, my argument highlights the relative merits of outsourced labor compared to bureaucratic labor. First, contractors are a much less visible form of labor than bureaucrats. This visibility differential gives the president strategic leverage relative to Congress, whose ability to monitor and oversee contractors is more

³There are, of course, other estimates of the number of contractors. Reporting by the *Washington Post* indicated that in 2010 the ratio of contractors to federal employees in the Department of Homeland Security was one to one (Priest and Arkin, 2010). And Schooner and Swan (2012) report that in Iraq and Afghanistan the number of contractor support personnel frequently exceeded the number of military personnel. Finally, one federal manager (in a non-defense agency) estimated that for some of the programs they oversee there was a “1 to 10 ratio of Feds versus contractors... maybe even more in some cases where the Feds are serving more as a team lead and as a manager of the [contractor] work.” The manager concluded that “maybe it’s not as balanced as it should be right now.” Author Interview 22; see the Supporting Information (SI) for a discussion of the interview protocols followed in relation to this study.

limited. For presidents, this means that they can hire contractors without the same level of public and interbranch scrutiny that they receive when hiring more bureaucrats. Contractors are, therefore, an attractive labor source during periods of partisan conflict, when avoiding the appearance of growing an unpopular bureaucracy is particularly desirable. Second, contractors face strong incentives to comply with the executive's directions, whereas career civil servants (who are insulated by merit protections) do not. This suggests that contractors should be favored when an agency's work is important to the administration and its bureaucrats are ideologically misaligned and cannot be relied upon to carry out the executive's instructions.

To test this account, I develop a novel dataset of agency spending on bureaucratic personnel and agency spending on service contractors. I then generate a measure of personnel privatization, the ratio of personnel spending allocated to contractors compared to personnel spending allocated to bureaucrats. Analyses using this measure show that, under divided government, contractors are preferred to bureaucrats in agencies that are prioritized by the president. This pattern holds only for executive agencies, and not for independent ones. To evaluate the robustness of this argument, I consider whether the same factors motivate other types of procurement spending—namely spending on products purchased from the private sector. They do not, as expected. I also evaluate contractors as a bureaucratic workaround, finding that they are used to circumvent bureaucratic labor—but only for policy-relevant “thinking” work in misaligned agencies that have been prioritized by the administration.

This argument has two broad implications with respect to how contractors contribute to and may even enhance presidential power (Michaels, 2010). First, research on the administrative state often focuses on how presidents struggle to control the bureaucracy (Acs, 2021; Lowande, 2018; Potter, 2019; Rudalevige, 2021; Prato and Turner, 2022). However, if the full size of the bureaucracy is not visible (and I argue that it is not) and the bureaucratic workforce is more readily controlled than existing theories allow (and I

argue that it is), then existing theories of administrative power understate the president's influence over the bureaucracy. In short, the use of contractors in the administrative state is "executive aggrandizing" (Michaels, 2010, 719). Second, power struggles between Congress and the president are perennial, and the bureaucracy is sometimes a focal point of these struggles. However, the reduced visibility associated with contractors means that Congress is less able to observe and oversee this type of labor. The president does not suffer from this same limitation, suggesting that contractors may give the executive a strategic edge.

Unpacking Outsourced Government

From a normative perspective, the extent of the U.S. bureaucracy's reliance on contractors has potentially enormous consequences for democracy. Government procurement contracts involve billions in federal spending; in fiscal year (FY) 2021 alone, the U.S. government spent \$392 billion on service contracts, with another \$245 billion allocated to the acquisition of products (GAO, 2022). And because many contracting firms are regular players in terms of campaign contributions to politicians (Fazekas, Ferrali and Wachs, 2022; Witko, 2011), outsourcing contributes to the growing role of money in American politics.⁴ Additionally, outsourcing of bureaucratic labor to contractors (i.e., service contracting) contributes to what Mettler (2011) calls the "submerged state," or policies where government's role is obscured from the public; the implications of such policies, she argues, are declining trust in government, diminished capacity for citizens to form meaningful opinions about government, and, ultimately, the undermining of what

⁴I use the terms "outsourcing," "contracting out," and "contracting" to refer the phenomenon whereby government hires private sector actors—either for-profit or non-profit entities—to perform service work on its behalf. Outsourcing is one component of privatization, a broader term which also describes a government's reliance on the private sector, but which encompasses other activities such as asset sales and public-private partnerships.

citizenship in a democracy means.⁵ Finally, some observers have raised concerns about whether broad-scale outsourcing erodes government's legitimacy (Verkuil, 2007), as well as its relationship with citizens (Cordelli, 2020). Like a weak muscle that begins to atrophy, reliance on contractors to perform public functions can diminish government's ability to govern and solve policy problems on its own.

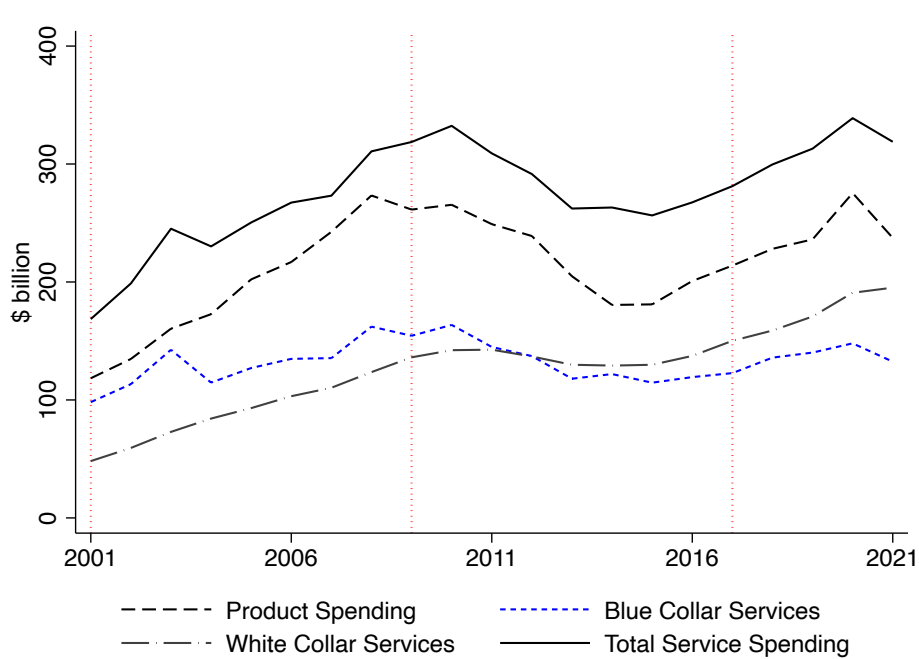
The use of private sectors actors to fulfill the functions of government is not a new phenomenon, however. In the Republic's earliest days, private actors took on numerous government roles, including naval privateers, tax "ferrets," bounty hunters, and postal couriers (Michaels, 2018; Parrillo, 2013). However, as a professionalized administrative state arose through the course of the the 20th century, bureaucrats were catapulted into more central policymaking and implementation roles. While private sector contractors emerged as important political actors in the decades following World War II, their role was largely concentrated in the defense sector (fulfilling President Eisenhower's parting prophesy of a "military industrial complex") or focused on providing goods and products to government.

Federal procurement today is vastly different from its earlier manifestations. The biggest change is perhaps the scale of the U.S. government's procurement and acquisition enterprise; today, procurement spending accounts for approximately 10% of U.S. GDP and about a quarter of government expenditures (OECD, 2021). Figure 1 below highlights two other notable trends in procurement spending. First—and contrary to the notion that government procurement centers on the acquisition of products like printers, syringes,

⁵Consider, for example, the U.S. Department of Education's Direct Loan program, the student loan program that provided an estimated \$91.3 billion in loans to U.S. college students in fiscal year 2022 (CRS, 2021). The agency does not service these loans directly, but instead contracts with nine different loan companies. The upshot is that when a student calls about a loan that is entirely underwritten by the U.S. government, they speak with a private contractor, rather than a government employee. Further, payments are sent to the service provider, not the Department of Education. It is easy to see how one might reasonably misattribute the sponsor of the loan in this situation.

and fighter jets—service spending has outstripped product spending in recent decades. Second, among services, spending on white collar services—services that are of a professional or administrative nature—has steadily increased over time. Meanwhile, spending on blue collar services—services that involve manual labor—has held relatively constant.⁶

Figure 1: Federal Procurement Spending Trends, FY 2001 - 2021



Note: Author’s analysis of data from the Federal Procurement Data System–Next Generation (FPDS). Dotted lines indicate shifts in presidential administrations. Procurement spending on services has outstripped procurement spending on products for the entirety of the period under study. In the last decade, spending on white collar services has exceeded spending on blue collar services.

At the same time that outsourcing has been increasing, the size of the federal

⁶The Office of Personnel Management defines a position as white collar if “even if it requires physical work, [its] primary duty requires knowledge or experience of an administrative, clerical, scientific, artistic, or technical nature not related to trade, craft, or manual-labor work.” (OPM, 2018, 4). Blue collar work is work that involves trade, craft or manual labor. I coded services into white collar and blue collar categories, following the definitions laid out by OPM. For more details on which services are counted as which type of labor, see Table SI-2.

workforce (i.e., bureaucrats in career positions) has remained the same relative size—roughly two million individuals—since about 1960 (DiIulio, 2014). This stasis persists despite massive increases in government spending and in government’s responsibilities over that time period.

These topline trends highlight an important development in American politics: the emergence of a contracted-out bureaucratic service workforce. However, an aggregate focus masks important features of this development. For example, the Department of Defense (DoD) accounts for the lion’s share of procurement spending—approximately 49% of service spending and 79% of product spending (GAO, 2022)—and, accordingly, it has received the most attention from scholars (e.g., Avant, 2005; Minow, 2005; Stanger, 2009; Verkuil, 2007). However, to a greater or lesser degree, nearly all agencies outsource service work to the private sector. And on the bureaucratic side of the ledger, despite the absence of large-scale increases (or decreases) in the total number of bureaucratic positions, individual agencies regularly see movement in the size of their workforces, through new hires (Bolton, 2022) and employee exits (Doherty, Lewis and Limbocker, 2019; Richardson, 2019). Under the Trump administration, for instance, most agencies saw declines in the number of bureaucratic positions, but three agencies—the Department of Defense, the Department of Homeland Security, and the Department of Veterans Affairs—actually grew their permanent workforces (Libgober and Richardson, 2023). In short, pressures that push agencies towards either contract or bureaucrat labor do not land uniformly across the administrative state.

Presidential Administration of the Outsourced Bureaucracy

Historically, scholars of the administrative presidency have viewed management of the administrative state as central to the president’s ability to achieve policy and political goals (Moe, 1985; Nathan, 1983; Neustadt, 1991(1960)). However, Donald Trump’s attack on the bureaucracy—ranging from his frequent, pejorative references to the “Deep State”

to ham-handed attempts “deconstruct” the administrative state (Skowronek, Dearborn and King, 2021)—highlighted gaps in theories about how presidents both use and manage the bureaucracy. Newer work addresses these gaps, pointing out, for instance, how bureaucrats can be an impediment—rather than an aid—to accomplishing presidential goals (Acs, 2021; Lowande, 2018; Potter, 2019; Prato and Turner, 2022; Rudalevige, 2021) and how presidents can use management tools like the appointment power in unconventional ways (Kinane, 2021; O’Connell, 2020; Piper, 2022).

Debates over the Trump administration’s approach to managing the bureaucracy have also raised questions about how presidents positively build administrative capacity and deploy administrative power. Jacobs, King and Milkis (2019, 465) explain that “[b]oth conservatives and liberals redeploy the State’s activities as opposed to retrenching them.” However, such investments are strategically—and not uniformly—applied. For instance, presidents build the federal workforce by requesting—and receiving—increases in Full-Time Equivalent (FTE) bureaucratic positions, but only in agencies that are strategically valuable (Bolton, 2022). And presidents also selectively bolster human capital in agencies, by quickly filling leadership positions and raising the profile of agencies that are political priorities (Bednar and Lewis, 2022).

The role of contractors in supplementing, supplanting, or expanding bureaucratic capacity has received little scrutiny in the literature. Yet, all presidents outsource bureaucratic labor to contractors. Most famously, President Reagan declared that “government is not the solution to our problem, government is the problem,” renewing a push toward the private sector that continued long after his departure. President Clinton’s 1992 campaign prominently featured a “Reinventing Government” initiative, which emphasized privatization and reliance on the private sector as a way of enhancing government services. His successor President George W. Bush promoted outsourcing through a “competitive sourcing” initiative that required competitions between contractors and bureaucrats to get the best “price” for government tasks. President Trump’s attack on the “Deep State,” which

included a hiring freeze for new bureaucrats in 2017, also served to enhance government's reliance on contractor labor.

Recent Democratic presidents have made attempts to reduce the government's reliance on contractors, but these efforts have largely manifested rhetorically rather than fiscally. For instance, shortly after assuming office President Obama issued a memorandum to encourage service insourcing among agencies.⁷ However, as Figure 1 reveals, service outsourcing levels only experienced a slight downward shift during Obama's term and were comparable, in inflation-adjusted terms, to outsourcing levels during the George W. Bush administration. And President Biden has made efforts to scale back outsourcing, attempting to hire more career civil servants in the Internal Revenue Service and ordering the Department of Justice to stop renewing contracts with private prisons. However, early indicators suggest only moderate reductions in total outsourcing levels (GAO, 2022).

Personnel Privatization & the Separation of Powers

Public opinion plays a major role in shaping presidential action (e.g., Christenson and Kriner, 2020) and, undoubtedly, it partially explains why contractors have become so integral to presidential management of the bureaucracy. Trust in government has declined precipitously in recent decades and today both Democrats and Republicans view government "as egregiously ineffective and inexcusably profligate" (Lerman, 2019, 49). Such beliefs exist alongside widespread attitudes that businesses and the private sector are more efficient and effective suppliers of public services (Lerman, 2019). As a result, contemporary presidents face pressure to avoid growing a bureaucracy that is unpopular. Contract labor is convenient in this sense as it fits within the "fiction that Big Government does not grow if the civil service does not" (Guttman, 2004, 41).

In light of this "fiction," contractor labor and bureaucratic labor present different management and political tradeoffs for the president. The advantages of hiring career

⁷See Presidential Memorandum, Government Contracting, 74 Fed. Reg. 9755 (Mar. 4, 2009).

bureaucrats are well-documented (Bolton, 2022). Bringing bureaucrats on board is a way for presidents to expand policymaking and implementation power. And because bureaucrats are hard to dismiss, this is a way presidents can durably lock-in administrative gains in priority areas. However, the process and politics of adding more bureaucrats mean that it is difficult for leaders to quickly build this type of capacity (Bednar, 2022). One immediate advantage of contractor labor vis-à-vis bureaucratic labor is therefore the relative speed with which contractors can be onboarded.⁸ However, a more consequential difference between the two types of labor is that contractors are a much less *visible* presence in government.

Federal bureaucrats are readily countable. Each year, the president’s budget request prominently displays the number of new FTEs that are being requested for each agency for that year. Congress holds annual hearings on agency budgets, scrutinizing these figures as well as other aspects of an agency’s proposed budget. Further, the Office of Personnel Management provides detailed, publicly available data on federal employees’ professional and demographic backgrounds.⁹ The upshot of all of this transparency is that the size of the federal service at any point in time or in any particular agency is easily ascertained, and such figures regularly appear in media and government reports.

In contrast, as I explain later in the data section, there is no standardized way of accounting for contract workers who do the work of government—even though according to most estimates there are far more government contractors than there are federal employees. This means that not only is there limited insight into how many contractors work for government, there is also no sense of who those individuals are (in terms of their demographic or professional backgrounds, etc.) or what tasks they perform for agencies.

⁸The hiring process for bringing new career bureaucrats on board is notoriously slow—agency officials interviewed suggested that while it takes an agency about eight months to hire a new FTE, bringing new contractor labor on board took only about three months (Author interview 19; Author interview 21). In a pinch, the relative difference in speed may bias an agency toward contractors over FTEs.

⁹See the FedScope website: <https://www.fedscope.opm.gov/>.

In short, bureaucratic FTEs are readily observable and countable, but contractor FTEs are not. This data disparity has implications for power relations between the executive and the legislative branches. While eager Hill staffers and attentive interest groups can observe the executive “growing big government” via bureaucrats, they cannot do so when contractors are used instead. It follows that Congress is more likely to exercise its appropriating and oversight powers with respect to visible bureaucratic FTEs than less visible contractor FTEs (about whom it likely has limited information). Indeed, outside of the Department of Defense, contractor labor is rarely an issue that rises to congressional attention. When contractors do garner attention from Congress, it is often in the context of scandal, as the opening vignette about McKinsey illustrates.¹⁰

In the bureaucratic context, visibility is inexorably linked to the canonical principal-agent model, where monitoring (visibility) is expected to result in greater control of the agent by the principal. Increased monitoring is useful because it reduces the information asymmetry between the principal and the agent. Here the model is complicated by the presence of two principals—Congress and the president—and two possible agents—a bureaucratic agency and a contractor.

The hand-in-glove relationship between visibility and control explains Congress’s oversight role over both agents well. When it comes to hiring bureaucrats, visibility is relatively high for Congress, suggesting an operative level of control, although the strength of that control relationship is subject to scholarly debate. And, for contractors, the associated reduction in visibility results in reduced control by Congress. This is just as the principal-agent model might predict. This means that for Congress, control over bureaucrats is *greater* than control over contractors.

For the president, the relationship between visibility and control is not necessarily

¹⁰Indeed, there is another reason that Congress may ignore or be complacent about agencies’ contractor use: contracts may be a form of distributive politics. Resh and Lee (2022) argue that a form of “contract patronage” exists and show that contracting patterns are responsive to changes in Senatorial and presidential leadership.

a textbook one. With respect to bureaucrats, visibility is high and control—although imperfect—exists. Contractors are a different story. Although presidential visibility (and therefore monitoring) into contractor labor is limited (and subject to all the same data problems discussed above), control over contractors is greater than might be expected by the principal-agent model. That is, although government contractors and bureaucrats both fall under the executive branch’s purview, the president’s ability to manage each type of worker is not the same.

Incentives for compliance with presidential direction are different for contractors and bureaucrats. The employment rules for federal employees are more rigid and rule-bound than for contractors; this means that it is hard for presidents (or appointees acting on their behalf) to fire bureaucrats. Contracts, however, can be discontinued or not renewed. This, in turn, may affect the behavior of the two groups, with contractors considered “far more solicitous” than career civil servants, as Michaels (2018, 117) outlines:

Contractors are motivated to be hired, anxious to be retained, and eager to be assigned additional fee-generating responsibilities. They thus have every reason to internalize the agency chiefs’ political priorities. Again, civil servants are quite different. Civil servants are protected against politically motivated hiring and firing decisions. Civil servants enjoy such protections notwithstanding the ostensible inefficiencies job tenure invites—and do so precisely because we have long-valued the rank-and-file’s capacity to assert expertise, resist partisan over-reaching, and further the mission of the agency.

The variation in hiring and firing rules may influence leaders’ perceptions of control over the two types of employees (Verkuil, 2005, 465).

Presidents also have formal tools to direct contractors that are very much akin to their bureaucratic management tools. For example, a president can issue an executive order to guide bureaucrats’ actions. However, executive orders can also be targeted at contractors (Burrows and Manuel, 2011; Gitterman, 2013), often with the same policy goal as an action directed at bureaucrats. And, given the formidable constraints imposed by federal employees’ unions and merit protections, the president is sometimes even able to

issue a stronger version of a policy directed at contractors than bureaucrats.

Taken together with the near constant pressure to appear to keep government “small,” the reduced visibility and (arguably) enhanced control associated with contractors create a political opportunity in the executive. During times of partisan conflict (e.g., divided government)—when growth in the bureaucracy can be weaponized against the incumbent president—adding new bureaucrats may not be politically desirable. While growing counts of federal workers can be used as evidence that the current administration is wasteful and bloated, contractors simply do not afford the same opportunity to opponents. Further, contractors may grant the executive greater latitude to engage in policy actions that are less subject to scrutiny and oversight by Congress.¹¹

Of course, the tradeoffs presented by contractors and bureaucrats may not be relevant for all agencies at all times; most agencies are subject to benign neglect by the president most of the time (Bednar and Lewis, 2022). However, when the president is trying to accomplish goals through the bureaucracy, then hiring some new labor is often necessary, even in the face of partisan opposition. The presence of partisan conflict may, therefore, drive the president to grow the agency’s capacity in a less visible way (i.e., contractors). In short, the argument suggests that when bringing on new labor during periods of partisan conflict, the executive will favor contractor growth over bureaucratic growth.

This hypothesis has a corollary for independent agencies; because independent agencies are not subject to the same level of presidential oversight, they do not provide the same fodder for the executive’s personnel machinations. Independent agencies are structured to have less interference from the president and this design effectively buffers

¹¹More cynically, these conditions may also motivate the executive to use contractors to skirt statutory legal protections enacted by Congress (Michaels, 2010, 734-739). Relative to bureaucrats, contractors face fewer legal constraints with respect to sunshine and ethics restrictions (Dooling and Potter, 2022). For instance, contractors are largely excluded from Freedom of Information Act laws and are used in some contexts to bypass accountability and anti-corruption laws (Rich, 2022).

the ability of presidents to steer agency policy choices (Arel-Bundock, Atkinson and Potter, 2015). For example, the Merit Systems Protection Board does not submit its budget to the president’s Office of Management and Budget for approval, but instead submits its budget directly to Congress. This takes away a key lever by which the president maneuvers spending over agency policy choices (Pasachoff, 2015). Similarly, the Federal Communications Commission is authorized to assess and collect fees for the purpose of covering a substantial portion of the cost of operating expenses incurred by the agency. The ability to generate its own revenue reduces the ability of the president—and Congress for that matter—to interfere in how the agency allocates its funding.

The relative autonomy granted to independent agencies should free them from interbranch battles over personnel levels. And, given their freedom when it comes to budgeting, hiring, and labor decisions, they should be less likely to rely on contractors in the first instance; instead, their independence allows them to staff up to levels appropriate to the work they conduct. This is not to suggest that contractors are never used in independent agencies, rather that their presence is more ad hoc.

Personnel Privatization & the Career Bureaucracy

The expectations outlined above are agnostic with respect to two different scenarios: one where contractors are hired to *supplement* bureaucratic labor and another where contractors are hired to *supplant* it. In the former role, contractors augment existing staff work¹² or provide “surge capacity” to an agency facing a short-term increase in workload (Dooling and Potter, 2022), smoothing what might otherwise be a discontinuity in the agency’s capacity. In the latter role, contractors are hired to replace bureaucratic labor, rather than support it.

Conceived of as “obsequious” and “‘yes’ men and women” (Michaels, 2018, 129),

¹²There are legal restrictions on hiring contractors as pseudo-employees, although in practice this prohibition is a “dead letter” (Swan, 2011).

contractors can be deployed as a tool to supplant—or work around—an agency’s career staff. Execution of political imperatives necessarily rests on the ability—and willingness—of agency bureaucrats to implement directives as leaders intend. But bureaucrats are not always willing to carry out political directives. Indeed, bureaucrats have a host of tactics that can disrupt initiatives with which they disagree, including leaking information to the press, slow-rolling agency policies (Feinstein and Wood, 2021; Potter, 2019), and even outright disobedience (Nou, 2019). Merit protection further insulates recalcitrant bureaucrats from retribution. It follows that a president (or her agent, a political appointee) facing a bureaucratic apparatus that is perceived as being out of ideological lockstep might reasonably look to contractors instead.

President Trump’s relationship with the Environmental Protection Agency (EPA) provides a clear illustration of the conditions that give rise to this type of bureaucratic workaround. Trump notoriously butted heads with EPA staff; he campaigned on a platform to dismantle the agency (Davenport, 2016) and appointed Scott Pruitt, an avowed critic of the agency, to its top post. Bureaucrats in the agency responded in kind; protesting Pruitt (and Trump) on their lunch breaks (Volcovici, 2017) and engaging in covert acts of sabotage like “embedd[ing] statistics and data in regulatory documents that [made the EPA’s] rules vulnerable to legal challenges” (Davenport, 2020). Amid these tensions, reporting by *Politico* suggested that Administrator Pruitt was considering deploying an ideologically sympathetic law firm to rewrite the Waters of the United States (WOTUS) rule, a rule that had been issued under the Obama administration and whose repeal Trump had flagged as a key agenda item (Snider, 2017). The wholesale outsourcing of a major rulemaking project was unprecedented and the firm was never hired.

Nevertheless, this example suggests that Trump and Pruitt saw the private sector as a potential avenue to bypass hostile EPA staff. It also underscores how, in the presence of ideological disagreement with staff, agency leaders can be motivated to use contractor workarounds.¹³ These arguments lead to the expectation that the executive will prefer

¹³Michaels (2010, 746-747) refers to this kind of a bypass as a “intra principal workaround” and suggests that

contractors when agencies are ideologically misaligned with the president and when those same agencies have been prioritized by the administration.

Measuring Personnel Privatization

Testing these hypotheses requires a measure of the extent to which an agency allocated resources to services performed by contractors in a given year versus hiring bureaucrats (career civil servants or political appointees) to do the same work. An obvious way to do this would be to count the number bureaucrats and compare that to the number of federal contractors. Data on federal employees is readily available, either as a count of the total number of persons or on a FTE basis. However, there is not comparable data on contractors, nor is there a standardized, agreed upon way to calculate the number of persons or person-hours devoted to federal contract work.¹⁴

Given these data limitations, I compare dollars to dollars: agency spending on service contractors to agency spending on personnel salary.¹⁵ To begin, I collect data on

it should manifest under similar conditions to those identified here.

¹⁴There have been a handful of attempts to deduce the number of contractors employed in the federal service. By statute (U.S.C. §2330a(c)), the Department of Defense publishes an annual “Inventory of Contracted Services,” which catalogs certain of the agency’s contractor-provided services. Historically, the ICS has provided an estimate of contractor person-hours (i.e., an estimate of contractor FTEs). However, the estimates rely on contractor self-reports and do not follow a standardized methodology for calculating labor hours. As a result, the ICS—and other similar attempts—have been roundly criticized for their accuracy, thoroughness, and reliability (see, e.g., GAO, 2017; Moore et al., 2017). Light (2018) has also developed estimates of the numbers of federal contractors. His estimates compare federal FTEs to the “induced employment” of contractors (i.e., using contract spending data to estimate the number of contractor FTEs). While this approach has considerable merits, his estimates and the assumptions underlying them are not publicly available.

¹⁵Throughout the paper, all dollar amounts are adjusted to reflect real 2020 dollars. Some previous work has studied contractor reliance by studying the proportion of total procurement spending over total agency spending allocated. While perhaps appropriate in some contexts, these measures often do not distinguish between procurement spending for services versus products, nor do they distinguish between agency spending for personnel versus spending allocated to all manner of other activities (grants, capital assets,

contract spending for services from the Federal Procurement Data System-Next Generation (FPDS). The FPDS is the front end of the federal government's procurement database; contracting officers input data into the back end of this system each time a new contract is initiated or an existing contract is amended. To distinguish procurement purchases for products from procurement purchases for services I rely on the "Product and Service Code" for each entry; for each contracting action this code denotes whether the contract was for a product, research and development, or a service. There are hundreds of codes to classify the various types of purchases; for example, code "Z2FB" indicates "Repair or Alteration of Recreational Buildings" (service), whereas code "8340" indicates the purchase of "Tents and Tarpaulins" (product). After disaggregating spending to services and products, I then sum service spending entries for every agency in every year.

I pair this with data on personnel salary. These are individual salary data from the Office of Personnel Management's Central Personnel Data File (CPDF), which I aggregate to the agency-year level. These salary data cover the vast majority of personnel in the executive branch, but exclude entries from the DoD. As a result, DoD is omitted from the analyses that follow; this is a departure from prior work that focuses primarily on that agency, but it allows for insight into how outsourcing functions across the broader administrative state. Additionally, because contract spending includes spending for employee benefits, I also estimate benefit spending for each agency in each year.¹⁶

Putting these elements together yields an agency-year measure of personnel privatization, as specified in Equation 1:

interest payments, etc). Additionally, since federal budget data is not readily disaggregated to the agency (i.e. bureau) level, such measures necessarily sit at a high level of aggregation.

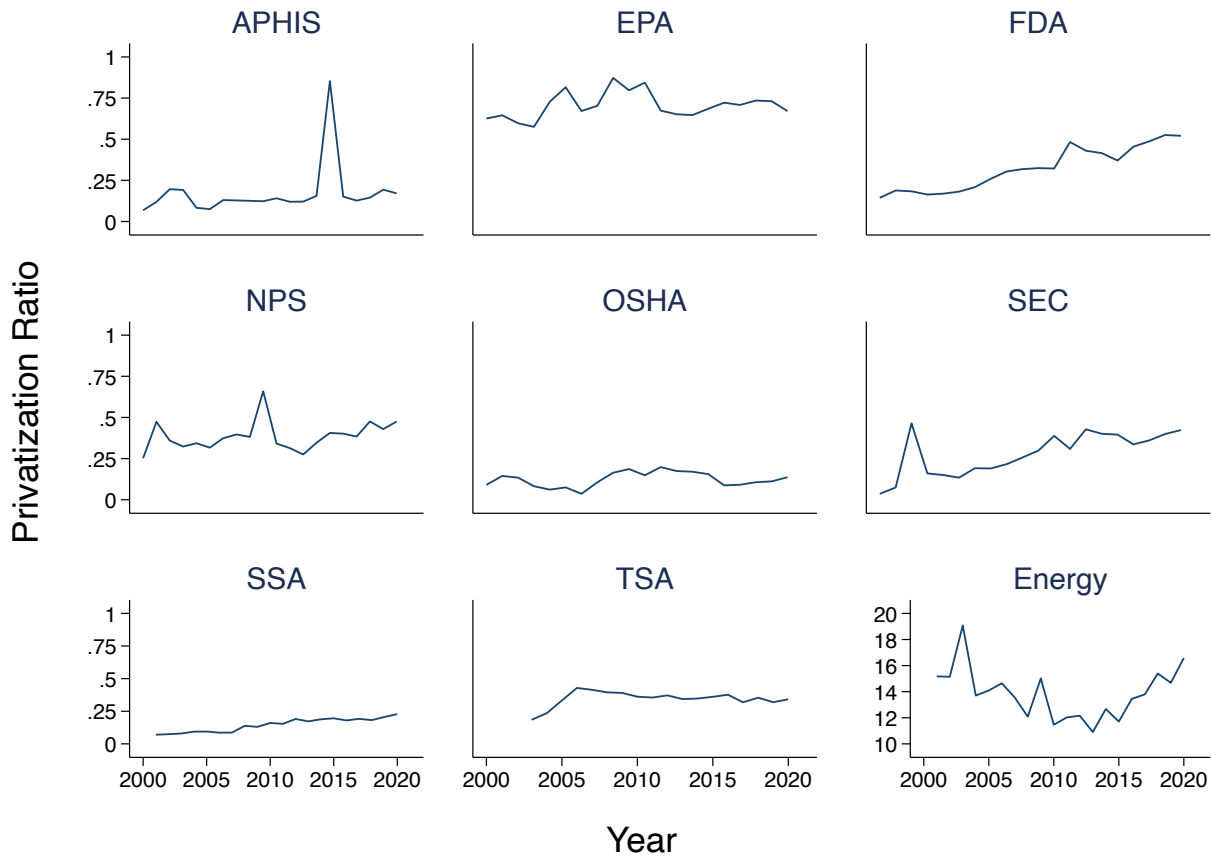
¹⁶Specifically, I determine the percent of dollars spent on employee benefits relative to dollars spent on agency salary according to budget object classifications included in the president's annual budget request. Because these are reported only at the department level, I calculate a department rate (or for independent agencies, an independent agency rate) and apply that rate to the agency for the year in question.

$$Privatization\ Ratio_{it} = \frac{\text{Contractor service spending}_{it}}{\text{Agency personnel spending}_{it} + \text{Agency benefit spending}_{it}} \quad (1)$$

where i indicates the agency and t indicates the year. I focus on the bureau (or the agency) level, rather than the department level because hiring and program management decisions are often made at this lower level. To be clear, this means that the unit is, for example, the Food and Drug Administration, rather than the Department of Health and Human Services. However, several departments (e.g., the Department of Energy, the Department of State, the Department of Veterans Affairs) do not disaggregate their procurement (and sometimes also their salary) data to the bureau level; these units are reported at the department level. *Privatization Ratio* ranges from 0 to 29.8, with a mean value of 1.05 (std dev = 1.54); larger values indicate that the marginal personnel dollar is spent on contractors, rather than bureaucrats.

Figure 2 shows *Privatization Ratio* over time for a select set of agencies. Some agencies like the Occupational Safety and Health Administration (OSHA) and the Social Security Administration (SSA) maintained a relatively low level of personnel privatization over the time period under study (OSHA mean = 0.12; SSA mean = 0.15). Meanwhile, other agencies have higher privatization ratios. For example, Verkuil (2017, 52) identifies both the Department of Energy and the U.S. Agency for International Development as “contractor-driven agencies” and both have high privatization ratios (DOE mean = 9.32; USAID mean = 9.05).

Figure 2: Privatization Ratio for Select Agencies



Note: Figure shows values of *Privatization Ratio* for select agencies over time; larger (smaller) values indicate a bias towards contractors (bureaucrats). Agencies were selected for illustrative value and include: the Animal Plant Health and Inspection Service (APHIS) in the Department of Agriculture; the Environmental Protection Agency (EPA); the Food and Drug Administration (FDA) in the Department of Health and Human Services; the National Park Service (NPS) in the Department of the Interior; the Occupational Safety and Health Administration (OSHA) in the Department of Labor; the Securities and Exchange Commission (SEC); the Social Security Administration (SSA); the Transportation Security Administration (TSA) at the Department of Homeland Security; and the Department of Energy. Note the different y-axis scaling for the Department of Energy.

The *Privatization Ratio* time series spans 20 years (2001–2020). The measure captures the essential tradeoff between contractor and bureaucrat labor. However, like all quantitative measures of complex concepts, it is not without limitations. Notably, funds that go to service contractors can be directed to items beyond personnel salary, such as a firm’s overhead or profit. Thus, contract spending is inflated, while the agency salary

measure underreports spending on personnel, since it excludes funds allocated to unquantified personnel benefits like overtime and hazard pay. Despite these imperfections, both agency salary and service contract spending are highly correlated with the “true” value of this concept, were it possible to perfectly observe.

To evaluate how personnel staffing responds to the political environment, I code instances of divided government. The variable *Divided* is an indicator that represents partisan conflict between the executive branch and Congress. Because the effect of partisan strife on personnel choices is contingent on whether or not the agency is a priority, I create two measures of whether an agency has been prioritized by the president.

The first measure, *Growth*, captures whether or not an agency’s personnel capacity is in expansion mode. Specifically, I look at the extent to which personnel spending is increasing in an agency in a particular year, compared to prior years and relative to other agencies. Following recent research that uses changes in agency budget levels to measure an administration’s desire to expand an agency’s capacity (Kinane, 2021), this measure is calculated by comparing an agency’s total personnel budget in year t (i.e., *Agency personnel spending* $_{it}$ + *Contractor service spending* $_{it}$) to the average of the previous two years.¹⁷ The *Growth* measure is coded as a one if the agency’s growth in spending—relative’s to the last two years—is high relative to other agencies’ growth (i.e., if it is in the upper quartile of agencies) and zero otherwise. *Growth* therefore has a mean value of 0.25 (std dev = 0.44).

As a second measure of agency prioritization, I look at where political appointees are deployed, as staffing an agency with political appointees is a way for president’s to prioritize an agency’s work (Moe, 1985; Lewis, 2010). Indeed, recent work by Dahlström, Fazekas and Lewis (2021) argues that political appointee leadership can affect the procurement apparatus and procurement outcomes. Verkuil (2017, 14) further explains that because political appointees operate on a short-timeline, contractors are a “Hobson’s

¹⁷Because of the two year lookback component of this variable, the regression analyses that follow begin in 2003.

choice” for them; appointees can “pursue new government employees, whom [they] have difficulty hiring, or engage contractors who are readily available (and come with security clearances). Not only is hiring easier, but firing is also, since contractors are replaceable if they don’t work out.” To operationalize this insight, I use the *Political Appointee Ratio*, the number of an agency’s managers who are politically appointed over the number of career managers in the agency in a particular year (see Dahlström, Fazekas and Lewis, 2021). These data are taken from OPM’s CPDF data; larger values of *Political Appointee Ratio* indicate a more politicized—and higher priority—agency.

Next, I code whether or not an agency is considered independent. Agency independence rests on many factors, and scholars have conceptualized it in many ways (e.g., Arel-Bundock, Atkinson and Potter, 2015; Selin, 2015). For simplicity, I rely on Selin’s (2015) measures of agency independence; using 50 agency traits, she uses a Bayesian latent variable model to identify two dimensions of agency independence: decision-maker independence and policy independence, which range from just below zero (more dependent) to almost four (more independent). I code an agency as independent if it scores a value of one on both dimensions; this is an arbitrary cutoff, but the results are robust to the use of different thresholds. Descriptive statistics for all model variables are included in Table SI-1.

Evaluating the Partisan Hypothesis

To analyze these data, I rely on ordinary least squares (OLS) models. In most models I include agency fixed effects to account for unobserved agency traits that may influence a predisposition to prefer (or, alternatively, avoid) the use of contractors. I address time-specific factors by including cubic time polynomials, a flexible way to account for temporal variation and secular growth in outsourcing levels over time.¹⁸ All standard errors are

¹⁸The preferred specifications rely on time polynomials rather than year fixed effects due to potential collinearity with the divided government variable. Nonetheless, the results are substantively similar when year fixed effects are employed; see Table SI-4 for results.

clustered on the agency level.

Table 1 displays the results evaluating the partisan hypothesis. I begin in Model 1 by evaluating the corollary expectation about independent agencies; the dependent variable is the *Privatization Ratio*. As expected, the sign for *Independent* is negative and statistically significant, suggesting that independent agencies are less contractor-reliant than their executive counterparts with the marginal personnel dollar more likely to go to a bureaucrat than a contractor at those agencies. In Model 2, I further explore the relationship between independent agencies and the hypothesized relationship between divided government and periods of growth. Specifically, I subset the analysis to look only at the set of independent agencies and interact *Divided* with *Growth*. If independent agencies are strategically responding to the political environment, we would expect this interactive relationship to be positive and statistically significant. Although the coefficient is positive, its magnitude is small and it is not statistically significant. While lack of statistical significance is not dispositive evidence, it is consistent with the idea that independent agencies are relatively insulated from the political environment.

Table 1: Models of Political Environment on Personnel Privatization

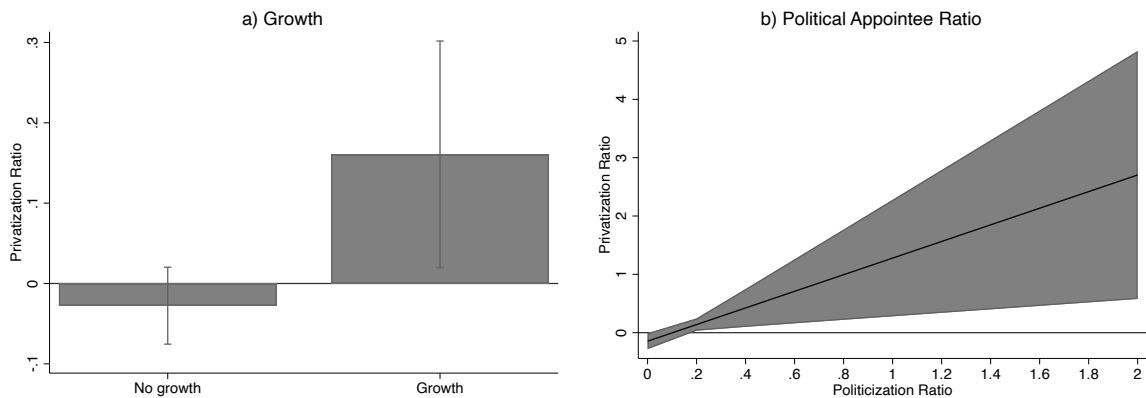
	(1)	(2)	(3)	(4)	(5)	(6)
	Privatization Ratio <i>All</i>	Privatization Ratio <i>Independent</i>	Privatization Ratio <i>Executive</i>	Privatization Ratio <i>Executive</i>	Product Ratio <i>Executive</i>	Product Ratio <i>Executive</i>
Independent	-0.781*** (0.159)					
Divided Govt		0.001 (0.011)	-0.028 (0.029)	-0.146 (0.083)	-0.175 (0.207)	-0.141 (0.187)
Growth		0.063* (0.024)	0.296* (0.115)		-0.074 (0.144)	
Political Appointee Ratio				0.411 (0.337)		-0.025 (0.212)
Divided × Growth		0.022 (0.034)	0.188* (0.090)		0.055 (0.090)	
Divided × Appointee Ratio				1.828* (0.685)		-0.157* (0.767)
Observations	3,047	219	2,381	2,381	2,381	2,381
R-squared	0.011	0.484	0.024	0.041	0.003	0.003
Agency FE	NO	YES	YES	YES	YES	YES
Time Trends	YES	YES	YES	YES	YES	YES
Number of Agencies	186	14	164	171	164	164

Note: Table entries are OLS coefficients. The dependent variable in Models 1-4 is *Privatization Ratio*, where larger (smaller) values indicate a greater reliance on contractors (bureaucrats). The dependent variable in Models 5-6 is the *Product Ratio*. Robust standard errors clustered at the agency level are in parentheses. Two-tailed tests: * $p < 0.05$, † $p < 0.10$. FE = fixed effect.

Next, in Models 3 and 4 I focus on the subset of executive agencies. The results show that when agencies are prioritized by the president during periods of divided government, they spend the marginal personnel dollar on contractors rather than bureaucrats. In Model 3, the interactive relationship between *Divided* and *Growth* is positive and the coefficient is statistically significant, as expected. Panel a) in Figure 3 further unpacks these results. It shows the marginal effects of divided government on agencies that are and are not experiencing personnel growth. Under divided government, growth agencies experience on average a shift of 0.18 in the *Privatization Ratio*, about a one standard deviation increase in the tendency to use contractor labor. The effect of divided government on non-growth agencies is indistinguishable from zero. These results are consistent with the hypothesized relationship between presidents, contractors, and the political environment. Turning

to Model 4, a similar effect emerges; predicted values of *Privatization Ratio* are highest among among highly politicized agencies (i.e., those with lots of political appointees) under divided government. This relationship is depicted graphically in panel b) of Figure 3, which plots the marginal effect of divided government across values of the political appointee variable.

Figure 3: Marginal Effects of Divided Government and Agency Priority Measures



Note: Panel a) shows the marginal effects of *Divided* on *Growth* from Model 3 in Table 1. Bars indicate 90% confidence intervals. Panel b) shows the marginal effects of *Divided* on the *Political Appointee Ratio* from Model 4 in Table 1. Shaded area indicates 90% confidence intervals.

Stepping back, these results suggest that political factors guide personnel decisions about how to manage labor in executive agencies. However, procurement spending might plausibly move in tandem with political factors for reasons that are orthogonal to the arguments made above. In order to increase confidence in the proffered mechanism, I apply further scrutiny to the argument by considering an alternate argument about procurement spending patterns.

One potential explanation is that political factors move *all* procurement spending, making the effect on spending on contractor services epiphenomenal. Adopting the logic outlined above, where contracted labor helps political actors pursue policy objectives and avoid the appearance of “growing big government,” the same effects should *not* manifest

among purchases of products, which do not offer the same returns. To evaluate this, I conduct a placebo population test, or “a test that replicates the core analysis in a different population” Eggers, Tuñón and Dafoe (2021, 4). Specifically, I calculate the *Product Ratio*, an agency’s annual procurement spending on products—that is, the toilet paper, tents and tarpaulins, and tankers that are obtained for the government from the private sector—compared to agency personnel spending.¹⁹

I then reestimate Models 3 and 4 in Table 1, substituting the *Product Ratio* for the *Privatization Ratio*. If procurement product spending is politically driven in the same ways as spending for service contracts, then the *Growth* and *Political Appointee Ratio* interactions should both have positive and statistically significant effects. However, as the results in Model 5 and 6 of Table 1 show, the magnitude of both the *Growth* and *Political Appointee Ratio* interaction coefficients are small and in the latter case, it is not statistically significant. While the interaction with *Growth* is statistically significant, it is incorrectly signed. The overall takeaway then from this analysis is, thus, that the political effects outlined above do not apply to all types of government or procurement spending, but rather speak directly to service spending.

Evaluating the Workaround Hypothesis

Evaluating the workaround hypothesis requires a different empirical tack. Because attempts to circumvent bureaucrats center on ideological conflicts, they necessarily are about policy. This means that certain types of policy-relevant work will be implicated, and other types of non-policy work will not. Specifically, this means that we might reasonably expect the workaround hypothesis to manifest in white collar services that

¹⁹To be clear, this is estimated as:

$$Product\ Ratio_{it} = \frac{Procurement\ product\ spending_{it}}{Agency\ personnel\ spending_{it} + Agency\ benefit\ spending_{it}} \quad (2)$$

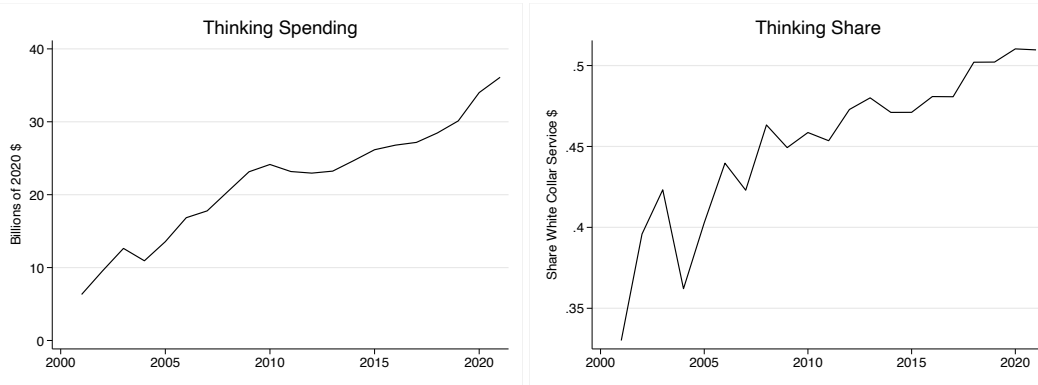
Similar null results are obtained using logged spending on product procurement as the dependent variable.

invoke *thinking work*—that is, tasks where workers have influence over policy decisions and policy implementation and where ideological conflicts may lead agency bureaucrats to be more resistant to directives from political leadership. In contrast, services that do not have direct policy applications (i.e., other white collar services and blue collar services) should not invoke the political strategy suggested by the workaround hypothesis.

To isolate services that implicate thinking work, I return to the FPDS product and service codes. I focus on two service codes that most directly link to *thinking work*: “Professional Support Services” (R4) and “Management Support Services” (R7). These two codes denote service contracts that relate to policy review and development, program management and support, and financial management, among other services.²⁰ These codes account for the type of thinking work done by many consulting firms. For example, of the \$80 million that McKinsey & Company received from the federal government in procurement funds in FY2021, 98.3% of it was awarded for contracts classified as R4 services. Other consulting firms followed similar patterns (Deloitte: \$2.3 billion, 88% classified as R4 and R7; KPMG: \$414 million, 100% classified as R4 and R7; Boston Consulting Group: \$228 million, 100% classified as R4 and R7; and ICF International: \$670 million, 89% classified as R4). As shown in Figure 4, spending on thinking services has steadily increased, both in terms of inflation-adjusted dollars (left panel) and as a share of total spending on white collar services (right panel).

²⁰See Table SI-3 in the SI for a full list of services associated with these two codes. I use logged spending rather than a ratio in this analysis, since the denominator for a ratio (bureaucratic personnel associated with producing thinking work) is not cleanly determined.

Figure 4: Government Spending on Thinking Services Over Time



Notes: Figure shows total procurement spending on thinking services (solid line) for the agencies in the dataset. The dashed line indicates the share of spending on white collar service spending occupied by thinking services. All dollar values reflect real 2020 dollars.

To evaluate the workaround hypothesis, I generate both of these measures—*Thinking Spending* (logged) and *Thinking Share*, the share of thinking spending as a proportion of total white collar service spending—for each agency and each year. To gauge ideological conflict, I rely on Richardson, Clinton and Lewis’s (2018) survey-based measures of agency ideology. While there are several available estimates of agency ideology, their measure is ideal in that it is based on peer bureaucrats’ evaluations of an agency’s perceived ideological leanings and it is available at the bureau or agency (not the departmental) level. The explanatory variable *Misaligned Agency* is coded as a one if Richardson, Clinton and Lewis (2018) estimate the agency to be conservative (liberal) and the current administration is Democratic (Republican) and zero otherwise. To test the workaround hypothesis, I interact *Misaligned Agency* with the *Growth* measure introduced earlier, since only agencies that are of particular relevance to the administration should invite this political strategy. I also include a control for blue collar personnel spending (logged), since agencies that perform more blue collar work may have missions that make them less likely to focus on thinking services.

The results are shown in Table 2. Model 1 is an OLS model with *Thinking Spending*

(*ln*) as the dependent variable; Model 2 is a fractional logit model with *Thinking Share* as the dependent variable.²¹ Both models include agency and year fixed effects and clustered standard errors at the agency level. Consistent with the workaround hypothesis, these results demonstrate that when a misaligned agency has been prioritized—as proxied by the *Growth* variable—spending on thinking services increases in terms of total spending (Model 1) and in terms of the share of total white collar service spending (Model 2).

Table 2: Models of Ideological Workarounds on Thinking Service Spending

	(1) Thinking Spending (ln)	(2) Thinking Share
Misaligned Agency	-0.118 (0.097)	-0.084 (0.062)
Growth	0.223** (0.082)	-0.056 (0.076)
Misaligned Agency × Growth	0.328* (0.165)	0.225* (0.111)
Blue Collar Personnel Spending (ln)	0.226* (0.097)	-0.003 (0.063)
Observations	1,178	1,178
R-squared/ Pseudo R-squared	0.169	0.101
Number of Agencies	72	72
Agency FE	YES	YES
Year FE	YES	YES

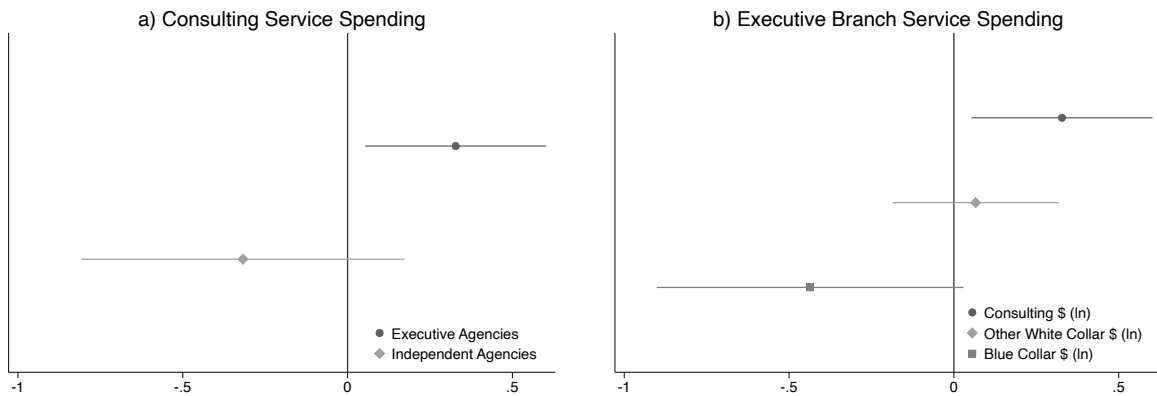
Notes: Table entries are OLS coefficients (Model 1) and coefficients from a fractional logit model (Model 2). Analysis focuses on executive agencies only. The unit is the agency-year. Robust standard errors clustered at the agency level are in parentheses. Two-tailed tests: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$. FE = fixed effect.

To further unpack these results, in Figure 5 I compare spending on thinking services to other types of spending. First, in the left panel, I compare this spending in executive agencies (the focus in Table 2) to spending on thinking services by independent agencies.

²¹A fractional logit model is appropriate for dependent variables that are proportions with values between zero and one (Papke and Wooldridge, 1996). The results are substantively similar using an OLS approach.

Ideological workarounds manifest in executive agencies, but not independent ones, a result that underscores how differences in agency design structure outcomes. Second, in the right panel, I compare executive agency service spending to those agencies' spending on other white collar services and to blue collar service spending. Again, the workaround effect appears to be concentrated in thinking services, rather than other services which do not implicate policy decisions in the same manner. Stepping back, these results suggest that, when it comes to matters of policy import, the executive can use the procurement process to sidestep bureaucrats who are out of ideological lockstep.

Figure 5: Thinking Service Spending Compared to Other Service Spending



Notes: Left panel compares thinking service spending in executive and independent agencies. Right panel compares executive agency spending on thinking services to those agencies' spending on other white collar services and blue collar services. Bars indicate 90% confidence intervals. See Table SI-5 in the SI for full model results.

Conclusion

The decision to outsource government services is often construed as a matter of cost savings or efficiency gains—even though contractors are not necessarily a more efficient supplier of services, in terms of cost or speed. This emphasis on efficiency and administration obscures the political roots of many decisions involving contract labor. Far from a rounding error or an administrative detail, contractors are central to the con-

temporary bureaucracy. The current equilibrium of the federal workforce consists of a mix of bureaucrats and contractors, a setup that affords the president an opportunity to grow the executive branch in different ways. Bureaucrats are long-term additions that are highly visible, while contractors are relatively quick-adds that are not readily observable or countable. Because of this, presidents can deploy the workforce in strategic ways that enhance executive power.

Using a novel measure of the extent to which agencies are staffed by contractors rather than bureaucrats—the privatization ratio—I show that the different features associated with bureaucrats and contractors have at least two political implications for the executive. First, the tendency to use contractor labor over bureaucratic labor is exacerbated during divided government—but only for agencies that are prioritized by the president. I show that these same effects do not manifest for independent agencies, suggesting that contractors are part of a broader strategic interaction between the Article I and Article II branches. I bolster these findings by considering whether these same political effects manifest in another type of procurement spending: spending on products. They do not, suggesting that the political effects I pinpoint are about services and their impact on the administrative state. Second, I demonstrate that contractors are used to perform policy-related work when an agency is politically valuable and the bureaucrats that staff it are ideologically misaligned with the current administration.

There are major implications to managing a government workforce in these ways. Most directly, the *total* federal workforce is much larger—and stealthier—than most observers realize. The size of the federal workforce the president oversees is much larger than the number of career civil servants that appear on paper. This means that the implementation capabilities of the executive are much greater than they seem, which is potentially troubling amid larger concerns about the aggrandizement of executive power. Notably, the analyses in this paper excludes the Department of Defense, the agency which receives the most attention in conversations about outsourcing, suggesting a much larger pattern

of influence for contractors. Further, in an age of extreme partisan polarization, some scholars have argued that bureaucrats serve as an effective bulwark against the partisan and politicizing forces of the presidency (Moynihan, 2022; Roberts, 2021). Contractors throw a wrench into this logic—because they serve in an “at will” capacity, they are eager to please the current leadership. Additionally, contractor turnover is high under new administrations suggesting there may be a trend towards “partisan procurement” (Dahlström, Fazekas and Lewis, 2021). Put simply, contractors may allow presidents to avoid the democratic protections imposed by a merit-based bureaucracy.

There are consequences for the labor market too. Although private sector contractors are often assumed to be higher paid than career bureaucrats, this is not always the case. Private sector workers have less job security than career civil servants. For example, during government shutdowns, contractors are the first to be furloughed (Sherman, 2019). The result then is that contractors face more uncertainty than bureaucrats, a feature which, in turn, drives some of the differences in workplace incentives between the two types of labor discussed earlier. These repercussions span beyond the federal labor workforce, as outsourcing is an issue that extends to state and local governments (Potter, 2022).

Finally, extensive reliance on contractors invites more money to the political table. Entire literatures are devoted to understanding the implications of money in American politics, but this work is largely focused on campaign finance and lobbying and is centered on Congress. Having contractors do the work of bureaucrats opens the door to other types of influence, as the introductory example about McKinsey’s self-dealing in terms of the FDA and the opioid market highlighted. Scholars should consider the inroads for political influence that service contractors have carved within the executive—and how such pathways might diverge from more traditional (and more observable) avenues for influence.

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Supporting Information

to accompany

Privatizing Personnel: Bureaucratic Outsourcing & the Administrative Presidency

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A. Data Summary

Table SI-1: Descriptives Statistics for Model Variables

Variable	Mean	Std Dev	Min	Max
Privatization Ratio	1.049	2.182	0	29.860
Product Ratio	0.417	3.302	0	144.681
Thinking Spending (ln)	17.662	2.639	0	22.403
Thinking Share	0.409	0.223	0	1
Divided	0.587	0.492	0	1
Growth	0.233	0.425	0	1
Political Appointee Ratio	0.090	0.240	0	4
Independent	0.0817	0.274	0	1
Misaligned Agency	0.509	0.500	0	1
Blue Collar Personnel Spending (ln)	17.514	2.893	6.942	24.368

B. Approach to Data Collection and Cleaning

B1. Interview Protocol

Throughout this paper, I quote from interviews conducted with 45 agency officials, contractors, and experts, all of whom were familiar with agency budgeting or agency contractor use for high-level services. These interviews were conducted from June 2021–January 2022 as part of a project on “Contractors in Rulemaking” commissioned by the Administrative Conference of the United States (ACUS) and approved by the University of Virginia’s Institutional Review Board (UVA IRB-SBS #4467). Interviews were conducted jointly with a collaborator (Bridget Dooling, George Washington University) via Zoom or phone and

were approximately one hour long. To protect interview subjects' anonymity and to be consistent with the protocols established with IRB, I use gender neutral pronouns and do not identify the agency with which respondents are affiliated. I follow the standardized interview numbering protocol established in Dooling and Potter (2022).

B2. Coding Personnel Data

Personnel salary data were obtained from the Office of Personnel Management's (OPM) Central Personnel Data File (CPDF). To gauge bureaucratic salary spending, I aggregate salaries across all employees for each agency and each year. However, OPM redacts salary data for select personnel in sensitive or national security positions. While all agencies have redactions, some sensitive agencies (e.g., the Federal Bureau of Investigation) have proportionally more. To overcome this limitation, I impute the salary for redacted employees, supplanting the missing information with the mean salary for the individual's position and grade or, if those values are also redacted, the mean salary for employees in that agency. As noted in the text, the Department of Defense is excluded from the OPM salary data.

B3. Coding Procurement Spending Data

The data on procurement spending were obtained from the Federal Procurement Data System–Next Generation (FPDS, available online at www.usaspending.gov). The FPDS is the front end of the federal government's procurement database; contracting officers input data into the back end of this system each time a new contract is initiated or an existing contract is amended. This means that a new entry is created in the FPDS every time a contracting action occurs—from a vendor's change of address to the initiation of a multi-million dollar contract. The FPDS data begin in 2001;¹ although there was an antecedent version of the FPDS that existed dating back to 1979, that version was less detailed and

¹Note that the data in the paper cover 2003 onward; this owes to the two-year lookback associated with the *Growth* measure.

prone to errors.

To distinguish products from services I rely on the “Product and Service” code for each entry; this variable is inputted for each contract award and denotes whether the contract was for a product, research and development, or a service. There are hundreds of codes for each type of action; for example, code “Z2FB” indicates “Repair or Alteration of Recreational Buildings” (service), whereas code “8340” indicates the purchase of “tents and tarpaulins” (product). After disaggregating spending to services and products, I then sum service spending entries for every agency in every year. I exclude deobligated funds from the totals, since the intent of the measure is to capture positive decisions about where to allocate monies.

To differentiate white collar services from blue collar services, I code services according to the which of the 23 categories they belong to (see Table SI-2 below); this is indicated by the first letter of the Product or Service Code. These decisions required exercising discretion, with the coding designed to align with how OPM separates white collar and blue collar occupations.

Table SI-2: FPDS Service Categories and Codes

PSC	Service Category Description	Labor Type
B	Special Studies/Analysis, Not R&D	W
C	Architect and Engineering Services	W
D	Information Technology and Telecommunications	W
E	Purchase of Structures/Facilities	B
F	Natural Resources Management	B
G	Social	W
H	Quality Control, Testing, and Inspection	B
J	Maintenance, Repair, and Rebuilding of Equipment	B
K	Modification of Equipment	B
L	Technical Representative	B
M	Operation of Structures/Facilities	B
N	Installation of Equipment	B
P	Salvage	B
Q	Medical	W
R	Support (Professional/ Administrative/Management)	W
S	Utilities and Housekeeping	B
T	Photo/Map/Print/Publication	B
U	Education/Training	W
V	Transportation/Travel/Relocation	B
W	Lease/Rental of Equipment	B
X	Lease/Rental of Structures/Facilities	B
Y	Construction of Structures/Facilities	B
Z	Maintenance, Repair, Alteration of Structures/Facilities	B

Notes: PSC = Product or Service Code; the column shows the first letter of the four character code that specifies the type of service being procured. For example, PSC "Q525" is for "Medical- Urology." The type of labor is either white collar (W) or blue collar (B), according to the author's coding.

Table SI-3: "Thinking" Service Codes

<p>Professional Support Services (R4)</p>	<p>Personal Care (Non-Medical Includes: Barber and Beauty Shop, Shoe Repairs, Tailoring); Real Estate Brokerage; Land Surveys-Cadastral (Non-Construction); Operations Research/Quantitative Analysis; Policy Review/Development; Program Management/Support (includes situations where the contractor is solely responsible for program management as well as situations where the contractor provides program management support to a government program manager; Program Evaluation/Review/Development; Real Property Appraisals; Simulation; Veterinary/Animal Care; Legal (includes attorney services, such as testimony preparation, adjudication, arbitration, mediation); Certifications and Accreditations; Market Research/Public Opinion (includes telephone and field interviews, focus testing, and surveys); Intelligence; Expert Witness; Engineering/Technical (includes systems engineering, technical assistance, and other services used to support the program office during the acquisition cycle); Communications; Weather Reporting/Observation; Industrial Hygienics; Emergency Response, Disaster Planning, and Preparedness Support; Physical Security and Badging; Human Resources; Personal Services Contracts; Patent and Trademark; Other</p>
<p>Management Support Services (R7)</p>	<p>Advertising; Data Collection; Accounting; Auditing; Debt Collection; Logistics Support; Contract/Procurement/Acquisition Support; Public Relations (includes writing services, event planning and management, media relations, radio and television analysis, press services); Financial (includes credit card services); Banking (includes accepting and cashing government checks and other payment instruments, accepting direct deposits, accepting payments to the government from the public); Coin Minting; Banknote Printing; Other</p>

Table SI-4: Partisan Hypothesis Tests with Year Fixed Effects

	(1)	(2)	(3)	(4)	(5)	(6)
	Privatization Ratio <i>All</i>	Privatization Ratio <i>Independent</i>	Privatization Ratio <i>Executive</i>	Privatization Ratio <i>Executive</i>	Product Ratio <i>Executive</i>	Product Ratio <i>Executive</i>
Independent	-0.783*** (0.159)					
Divided Govt		0.167** (0.046)	0.023 (0.211)	0.259 (0.182)	0.323* (0.150)	0.413* (0.209)
Growth		0.054* (0.023)	0.273* (0.120)		-0.210 (0.263)	
Politicization Ratio				0.413 (0.335)		-0.176 (0.166)
Divided × Growth		0.029 (0.030)	0.217* (0.093)		0.187 (0.192)	
Divided × Appointee Ratio				1.417* (0.687)		-0.110 (0.100)
Observations	3,047	219	2,381	2,381	2,381	2,381
R-squared	0.012	0.503	0.028	0.045	0.009	0.008
Agency FE	NO	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Number of Agencies	186	14	164	171	164	164

Notes: Robust standard errors clustered at the agency level are in parentheses. Two-tailed tests: *** p<0.001, ** p<0.01, * p<0.05. FE = fixed effect.

Table SI-5: Thinking Service Spending Compared to Other Service Spending

	(1) Consulting \$ (ln) <i>Executive</i>	(2) Consulting \$ (ln) <i>Independent</i>	(3) Other White Collar Services \$ (ln) <i>Executive</i>	(4) Blue Collar Services \$ (ln) <i>Executive</i>
Misaligned Agency	-0.118 (0.097)	-0.250 (0.198)	0.051 (0.052)	0.104 (0.144)
Growth	0.223** (0.082)	0.669* (0.220)	0.223* (0.101)	0.754* (0.291)
Misaligned Agency × Growth	0.328* (0.165)	-0.317 (0.270)	0.066 (0.151)	-0.436 (0.279)
Blue Collar Personnel Spending (ln)	0.226* (0.097)	0.080 (0.108)	0.268 (0.189)	
White Collar Personnel Spending (ln)				0.792 (0.688)
Observations	1,178	179	1,178	1,206
R-squared	0.169	0.401	0.072	0.057
Number of Agencies	72	11	72	74
Agency FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Notes: Robust standard errors clustered at the agency level are in parentheses. Two-tailed tests: *** p<0.001, ** p<0.01, * p<0.05. FE = fixed effect.