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GOVERNMENT COMPETITION WITH INDUSTRY

Introduction

An issue which may come before the 95th Congress is the problem of government competition with industry. In many instances, the government is actually producing goods and services which could easily be produced in the private sector at a lower cost. Therefore, there is no overwhelming reason for the government to be in the business of competing with private enterprise.

One of the major criticisms of government competition with industry is that it is frequently far more expensive for the government to produce a good or service than it is for the private sector to do so. This is basically because government-run production facilities are experiencing far higher labor costs than private facilities. Estimates indicate that the average annual cost of compensation for private-sector employees supplying the government is \$10,546. For the same goods and services produced by the government, the average cost of compensation would be \$14,267. In other words, compensation costs at government facilities for the production of goods and services are 35% higher than the equivalent private-sector facilities. These figures also correspond with ones indicative of relative productivity of government and private-sector workers.

Productivity

According to the National Commission on Productivity and Work Quality, the private sector continued to be 20% more productive than the public sector through 1975. It estimated that productivity in the private sector grew at a rate 20.7% higher than the public sector for the years 1967 - 1973. This maintains previous public-private productivity relationships. According to the Commission, part of the reason for the disparity between private and public-sector productivity lies in the disparity between incentive for efficiency and resource maximization.

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There is little doubt that the evidence points toward an increasing dependence by the federal government on the public production of goods and services. In 1973, 60.5% of the \$90.6 billion worth of federal goods and services were produced in the private sector; in 1973, only 50.4% of the 106.5 billion dollars worth of federal goods and services were privately produced.

Wasteful Competition

Actually, in many instances there is no observable reason for the federal government to produce the goods it needs. One example of how the federal government unnecessarily competes with private industry is found in the Technology Transfer Consortium. This office was organized out of some thirty Department of Defense research laboratories. Its specific purpose is the sale of research services to state and local governments which could otherwise be provided by private concerns. In 1972 alone it reported sales in the aggregate of \$10 million. Projections for 1973 exceeded \$15 million.

Another example lies in the Office of Coal Research. This office is under the Department of the Interior. It recently signed a contract with the Air Force to research a more efficient method of generating electrical power from coal. The contract was in the amount of \$3.45 million. This research closely parallels other research currently under way in industry-sponsored research organizations and will certainly lead, if it is successful, to direct competition with these groups for business in the commercial market.

Another more direct instance of unnecessary competition by the government with the private sector lies in the National Oceanographic Instrumentation Center. This agency is part of the National Oceanographic and Atmospheric Administration of the Department of Commerce. It is in direct competition with commercial firms in the area of instrumental calibration. It has been actively seeking contracts and has made an extensive capital investment in a number of regional centers. Private firms have reported a substantial loss of business to the centers. In large degree, this is because all NOAA activities must use the NOIC services, and all grantees should use them under NOAA directives. There is obviously no agency which requires the use of its facilities. This, it should be noted, is without any stipulation as to cost or convenience.

Moreover, the U. S. Air Force has begun competing with private enterprise in a big way. It transferred the overhaul of C-141 aircraft from contract to a government depot, even though there was no indication that any saving was involved. This work entailed approximately 800,000 manhours. It solicited proposals for work with the stipulation that certain test (thermal-vacuum testing) be performed at the USAF Engineering Development Center without consideration of whether or not the bidders were capable of performing the tests themselves. The result was an estimated \$300,000 increase in the cost of the contract. After soliciting proposals from five contractors for modifying the C-130B aircraft, the Air Force wound up doing the work itself. It has also cut down on numerous positions at various facilities which were previously filled by civilian contractors.

The Army also has competed with industry. For example, after having a civilian firm initiate certain data-processing programs, the Army Material Command established an in-house data-processing unit to complete the work.

Some of the worst examples of wasteful competition are the ones which wind up costing the taxpayer more in order to keep manpower levels up in the armed services. For example, the Navy terminated a contract under which UH-1 helicopters were inspected and repaired by a civilian company and transferred the work to the Navy depot at Pensacola, Florida. The private firm did the work at an average of \$7.25 per hour; the Naval cost of the work was \$13.30 per hour. Furthermore, the average for the civilian firm was 2,100 man-hours per aircraft. The Naval average was 2,400 man-hours per aircraft. The Air Force phased out contracts with private firms for the performance of IRAN on B-52's. The work was transferred to the San Antonio Air Material area. The reason for performing the work there was to maintain AMA manning levels.

These are just selected examples. They are intended to illustrate the fact that in all too many instances work which could be performed easily, and frequently less expensively, by the private sector currently is being performed by the federal government. Aside from the cost in tax dollars for higher government compensation, other costs are involved. Most serious of these is the intangible cost of the misdirection of capital.

Capital Shortage

We know from numerous economic studies and projections that our country is suffering from a severe capital shortage. Studies by Chase Econometrics, The New York Stock Exchange, and Westinghouse, to name a few, indicate that we are experiencing an annual capital shortfall on the order of \$50 billion. This shortfall means that jobs which would help relieve our unemployment situation are not being created. It means that needed capital improvements which would allow our industries to compete effectively with foreign competitors are not being made. It means that tax dollars on additional revenues are not materializing. It means that our rate of productivity will continue to lag behind the other industrialized nations in terms of growth.

In short, it means that our economy will be hampered in reaching its full potential. To have our government contributing to this situation is without apparent justification.

There may be some goods and services which only the government can produce; but, if there are, they are few in number. In addition, there is no indication that any useful purpose is served by the government competing with the private sector.

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