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Commentary: Defense Department's Approach to In-sourcing has Unintended Consequences

By Stan Soloway
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The debate over the degree to which federal agencies have hired contractors for work more appropriately performed within the government has become increasingly prominent. It has been further fueled by statutory requirements that agencies consider in-sourcing almost anything they have ever outsourced.

To its credit, the Obama administration's guidance for implementing these statutes has properly focused on determining the smartest strategies for managing the people and the work rather than quotas. Nonetheless, two different pictures of in-sourcing are emerging.

Thus far, the civilian agencies have moved to comply with the new requirement by identifying the critical skills they need to carry out their missions. But the picture is far more puzzling at the Defense Department.

In 2009, Defense Secretary Robert Gates launched an important initiative to enhance the department's high-skill workforce in which more than 35,000 personnel with relevant expertise will be hired over several years, about half of which will come from in-sourcing currently contracted work. Yet, about two-thirds of the positions identified to date for in-sourcing at the Defense Department fall outside of the skills Gates identified. Furthermore, the department has taken aggressive budget actions tied to in-sourcing that are based on dubious assumptions about the associated savings. As a result, both inside and outside of the department, there is growing recognition that a well-intended workforce initiative is devolving into a quota-driven numbers game.

The Office of Management and Budget has also directed agencies to conduct meaningful cost analyses before insourcing positions that do not have to be performed by government employees. However, internal documents suggest that the Defense Department is often significantly underestimating the costs of performing work with federal employees because their analyses are limited primarily to immediate wages and benefits, plus a small amount of overhead expense, rather than the entire set of identifiable costs being assumed by the taxpayer.

The undisciplined perpetuation of this trend at the Defense Department is resulting not only in lost contracts, lost jobs and increased market uncertainty, but also in reduced local and regional tax and other revenue bases at a time when those bases are already under tremendous strain. The impacts are particularly acute for smaller businesses, which are key sources of regional economic growth. Unfortunately, despite the efforts of two U.S. representatives from Virginia congressmen, Democrats Gerry Connolly and Jim Moran, Congress has not demanded that the department demonstrate the cost realism of its decision making.

Both the administration and the Defense Department make clear that they have no interest in radically reducing contractor support to the government, and a range of factors suggest that doing so would be impossible even if that were their intent. Nonetheless, unchecked, the current trend could have broad, unintended consequences.

Consistent with the administration's commitment to transparency and accountability, one step toward instituting discipline into the process would be openly sharing the cost and other analyses underpinning each decision. The light of day has a way of driving more analytically rigorous decision making.

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