



Government Insourcing: Hurting the Economy and Wasting Taxpayers' Dollars

By Camilo Rodriguez

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Since the beginning of the Obama administration, the federal government has steadily increased the number of jobs transferred from private contractors to the civil service. Insourcing was supposed to save money, but the results tell a different story.

The effort stems from a March 4, 2009, administration memorandum on government contracting. President Obama described this initiative as, "...reforms in how government does business, which will save the American people up to \$40 billion each year."

But would it really save money to increase the number of federal government employees at the expense of private sector contractors?

According to a report by Heritage's James Sherk, the disparity between the pay of public and private employees is so great that if they were compensated at the same rate, taxpayers would save an estimated \$47 billion. Sherk's study found that federal employees earn total compensation 30 percent to 40 percent greater than comparable private sector workers.

The federal government already has a payroll of about 1.9 million federal employees not including men and women serving in the military and the U.S. Post Office, which is a federal corporation. An estimated 850,000 are in jobs that are commercial in nature.

Many of these jobs could be contracted out to the private sector. If an activity the federal government does could be found in the yellow pages, then should be subjected to competition or evaluation to determine if the government should be involved doing it.

The Heritage Foundation's Ronald Utt, who was the director of the office of privatization under President Reagan, estimated that if this test was applied to federal activities that are commercial in nature, taxpayers could save \$27 billion.

For example, Defense Secretary Robert Gates began insourcing in 2009, but by August of this year revealed to reporters that, "As we were reducing contractors, we weren't seeing the savings we had hoped from insourcing."

Similarly, the House Homeland Security Committee held a hearing in April about insourcing the guard work at federal buildings currently run by the Federal Protective Service. According to the Government Accountability Office, FPS provides security at about 9,000 buildings in the D.C. area and across the country for more than 1 million federal employees.

The Business Coalition for Fair Competition, an alliance of associations, firms, think tanks, and organizations, opposes insourcing and believes the federal government should rely on the private sector, not engage in unfair competition with it. In a letter to the acting director of the Office of Monetary Budgeting in response to Gates' comments and the current economic affairs of the nation coalition, President John Palatiello wrote:

Given Secretary Gates' recent acknowledgement that insourcing does not save money, and given the current state of the nation's economy, BCFC respectfully urges OMB to issue a revision to the insourcing agenda calling for an immediate halt to all insourcing efforts throughout the federal government.

The coalition argues that a moratorium on insourcing is necessary for the federal government to determine if insourcing actually saves money or if utilizing the private sector would be a wiser way to spend taxpayers' dollars.