



Harsh Budget Picture Shouldn't Mean Insourcing

As DOD focuses on budget cuts, total lifecycle costs must be part of the equation

By Stan Soloway

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Defense Secretary Robert Gates has issued a harsh yet realistic assessment of the Defense Department's fiscal condition. He predicts strained defense budgets for years ahead that demand reductions in the Pentagon's "bloat" and mandate attacking sometimes sacred cows. His stated goal of saving \$15 billion—a proverbial drop in DOD's \$570 billion budget bucket—is eminently achievable, but faces enormous obstacles.

Although some have focused on Gates's mention of cutting contractors and the assumption that replacing contractors with government civilians will save money, no objective analysis supports such a claim. However, Gates did identify some other related, important and unsustainable trends. For example, military personnel costs have nearly doubled since 2001, even though military end strength has only grown by 11 percent. Likewise, DOD civilian personnel costs have risen by almost 50 percent, even though the civilian workforce has grown only 8 percent. Those trends place enormous strain on the defense budget and should weigh heavily in DOD insourcing and workforce shaping efforts.

If certain positions must be performed by government employees, the costs associated with those positions are simply something we have to bear. But if there are options for who performs the work, total lifecycle costs—no matter what budget pays them—must be a significant factor in the sourcing decision. Indeed, the evidence strongly suggests that the savings DOD is assuming through insourcing are largely illusory. They do not account for the total lifecycle costs to DOD of internal performance or the largely ignored, taxpayer-shouldered burdens that will be placed on the Office of Personnel Management, which has the responsibility for post-retirement support of government employees.

In the case of military personnel costs, the sacrifices made by our troops make reductions in benefits difficult to justify. But it is precisely because those costs are so high that we should be extremely judicious about replacing contractors with military personnel in the performance of support activities. Unfortunately, we are seeing that happen more and more. In short, we should recognize that the tooth-to-tail personnel costs were among the reasons for the shift from military performance to contractors in the first place.

Finally, Gates has declared his intention to take on the bureaucracy itself. This requires that he and his top leaders embark on renewed, re-energized and relentless pursuit of serious change to DOD's business processes, largely through the use of technology. Reform or transformation has been on every recent secretary's agenda, and some success has resulted. But the hoped for, long-term impacts have proven elusive, often because the system fought back and won, the initiatives lacked a real strategy for change and/or suffered from only periodic leadership attention.

Nonetheless, the possibilities are there. For example, DOD is spending more than \$50 billion this year on health care. Even if the secretary's initiative achieves only a 5 percent cost reduction there, that would equal almost 20 percent of his total goal. The same is true with scores of other DOD business processes and systems, where redundancies, burdensome requirements, and entrenched bureaucracies remain. In each case, it's not just the process or system changes that will make a difference; the ripple effects across the department's business operations could multiply the immediate benefits several times over.

This is obviously much easier said than done. And Gates's success will ultimately be determined by his ability to overcome daunting obstacles in a relatively short time. But the country cannot afford for him to not try. And despite two wars, he has declared his willingness to take it on. That's a commitment we should all cheer.

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