

Federal Computer Week

Industry Skeptical of Proposed Contractor Cuts

By Alice Lipowicz, Doug Beizer
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President Barack Obama's plan to insource tens of thousands of defense contract jobs by converting them to federal employee positions has sparked an intense but quiet debate around the capital.

Much of the talk is in private. Although many executives dislike the proposal, they do not want to risk antagonizing their government customers. "Criticism will be muted," said Loren Thompson, a defense analyst at the Lexington Institute. "The industry will accept it and knuckle under."

Lawmakers are likely to support the president's proposal because of longstanding frustrations with contracting scandals related to the Iraq war and the government's response to Hurricane Katrina, Thompson said. In addition, the plan will add to federal employee ranks, and Democrats have historically enjoyed support from federal unions, he added.

Many defense contractors recognize those trends and will not openly confront their biggest customer, Thompson said. But in private, some are frustrated and even hurt, he said. Contractors "feel they are being criticized. They are taking it personally."

The White House published a budget document May 7 that proposes converting 33,000 defense contract jobs to federal jobs by 2015, including 20,000 acquisition-related jobs. The shift would save \$900 million in fiscal 2010, according to the Terminations, Reductions and Savings budget document. Defense Secretary Robert Gates outlined similar goals a month before.

The May 7 budget document did not specify in detail the reasons for the transfer of jobs into the government, nor did it explain exactly how the savings would occur. Pentagon officials have said their goals include boosting the federal acquisition workforce and ensuring that only government employees perform inherently governmental work.

Defense Department officials insist that they need a larger, more qualified, better trained and active acquisition workforce to overcome the problem of wasteful procurements. Vacancies in management positions, an over-reliance on contractors, and an inability to properly use government employees contribute to cost overruns and schedule delays, said William Lynn, DOD's chief management officer, speaking before the House Armed Services Committee May 6.

"We will also be making significant increases in training and retention programs in order to bolster the capability and size of the acquisition workforce," Lynn said. "This unprecedented five-year planned workforce initiative will result in a properly sized, well-trained, capable and ethical workforce."

For several years, federal unions have encouraged defense agencies to regularly review service contracts and identify work that might have been outsourced inappropriately or that could be done effectively by in-house staff.

"Contractors cost more because they have to make a significant profit to stay in business," said John Threlkeld, legislative representative at the American Federation of Government Employees.

But observers say increasing the federal acquisition workforce might not solve the problems. There was no shortage of Pentagon acquisition workers in the 1980s, but scandals still occurred, said Winslow Wheeler, director of the Straus Military Reform Project at the Center for Defense Information.

"Just adding worker bees to the acquisition process will change absolutely nothing," Wheeler said.

In practical terms, skeptics say, the prospect of hiring tens of thousands of federal employees and ensuring that they have the right skills now and in the future might be difficult and costly. Some contract employees might be willing to become federal employees, but in other cases, there will be gaps while the government searches for people with the proper skills.

"In our view, we ought not to be swapping jobs or transitioning jobs from contractor to government simply for the sake of numbers," said Alan Chvotkin, executive vice president and counsel at the Professional Services Council, which represents industry services firms. "There ought to be a strategic reason for it."

Many industry executives and analysts are doubtful that the insourcing of jobs will result in cost savings or lasting benefits for DOD.

"It is not going to save money," said James Jay Carafano, senior research fellow for defense and homeland security at the Heritage Foundation. "In government, you hire an employee for 30 years and you pay their retirement benefits. When you hire a contractor, you just pay for a service."

"Government contractor employees are not nodes," Carafano said. "Talking numbers like this is ridiculous. You cannot grow capabilities overnight."