

In-sourcing a Threat to Small Business

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The can-do attitude of small entrepreneurs — and the economic stimulus their companies bring to local communities — have made small businesses the “backbone of the American economy.” But a recent Obama administration initiative radically cutting down on the use of small businesses in outside contracting, coupled with the recent announcement of drastic cuts in the Pentagon’s use of contractors, begs the question: Does the federal government really care about giving small businesses a fair opportunity to compete for contracts?

For more than 50 years, federal agencies have been encouraged to meet broad set-aside goals and to provide contracting opportunities for small businesses. Additionally, large contractors are required to subcontract work to small companies.

These policies have been mutually beneficial to both the federal government and the small business contracting community. In light of the government’s decades-long commitment to this community, it is especially difficult to understand why Congress and the executive branch are now pursuing a new policy, called “in-sourcing” or rebalancing the workforce.

In a nutshell, the in-sourcing initiative is focused on moving work from private contractors to government employees. It has nothing to do with cost savings. In fact, recent studies show that government employees cost more than contractor employees. Thus, the in-sourcing initiative could result in increased government spending in both the short and long term.

Additionally, small businesses will suffer the most under the Gates proposal. If large defense contractors have to make cuts, they will undoubtedly first reduce their use of small business subcontractors. The impact will be devastating to these communities.

An examination of recent developments shows why small businesses will be disproportionately hit by these proposed cuts.

The in-sourcing initiative is described as correcting possible imbalances between the federal and contractor workforces. However, instead of carefully identifying only those functions that should be performed by government employees, the initiative has swept up scores of commercial functions, including basic work such as maintenance, logistics and IT professionals.

In practice, what has happened is that a government agency cancels or declines to renew a contract. Then, the agency hires a critical mass of the contractor’s employees to perform the exact same function, leaving the company less capable of servicing any remaining contracts.

Even though the president established an Interagency Task Force to increase small business contracting opportunities, in-sourcing has continued to escalate, in direct contradiction to the administration’s stated priorities. In the April memorandum announcing the task force, the president stated that “small business contracting should always be a high priority in the procurement process” and “where small businesses have the capacity to do more, [the government] should strive to exceed the statutory goals [for small business contracting].”

Agencies need to follow the president’s stated vision for small businesses, instead of aggressively pursuing an initiative that both removes work and employees from small businesses and increases costs.

The administration should instruct agencies to delay all in-sourcing initiatives until the impact can be fully assessed.

At a minimum, agencies must routinely consider the impact of in-sourcing on small businesses — and determine whether a function is truly governmental — before in-sourcing the work, and incorporate safeguards against unfair recruiting of contractor employees. Currently, small businesses are not even afforded an opportunity to respond to proposed in-sourcing actions.

Only by implementing these basic safeguards can agencies — and politicians from both sides of the aisle — claim they are committed to the nation's small business community.