



Insourcing: How Bringing Back Essential Federal Jobs Can Save Taxpayer Dollars and Improve Services

Insourcing not only saves money by eliminating the need to pay for the additional layer of corporate bureaucracy that comes with the hiring of a contractor, but it can also improve services to the taxpayer if done wisely.

By Pratap Chatterjee | March 28, 2012

At a time when deficit reduction is a national priority bordering on obsession, there is a relatively painless way for the federal government to save millions of dollars while at the same time ensuring contractors do not perform inherently governmental functions—simply bring specific key jobs back into the public domain.

In recent years a practice known as “insourcing”—where government agencies move work back in-house—has been gaining traction. Insourcing has been successfully embraced by a number of federal agencies, including the Department of Homeland Security, the Internal Revenue Service, and the U.S. Army, reversing a longstanding trend that saw more and more federal work going to private contractors. Why is federal insourcing a good thing? Here are three reasons why we believe returning certain government jobs to the public domain makes sense:

- **Insourcing saves money.** The information technology division of U.S. Customs and Border Protection at the Department of Homeland Security estimated that it saved \$27 million in 2010 out of a budget of \$400 million by taking 200 private contractors and giving those same individuals government jobs. Likewise, approximately half of the 17,000 jobs that the Department of Defense brought back in-house in 2010 were done simply because the Pentagon was able to save money. In a similar move the Internal Revenue Service abandoned experiments with outsourcing debt collection after the agency calculated that contractors brought in less revenue than federal employees.
- **Contractors should not perform some jobs.** Contractors are sometimes hired to do work that the government considers an inherent public duty such as making decisions on federal matters. Such jobs should be returned to the public sector. Tax collection is one task that has been ruled inherently governmental because of the potential conflicts of interest, but the task has occasionally been outsourced. Another task with a potential conflict of interest is contractor oversight of other contractors. This often occurs in unexpected and extraordinary situations such as the response in the wake of Hurricane Katrina and the reconstruction effort in Iraq, but it also occurs when there is a freeze in federal hiring. Encouraging federal agencies to hire in-house staff to conduct such key governmental tasks will improve the quality of such work.
- **Agencies can lose vital in-house skills through outsourcing.** When the Bush administration decided to hire contract interrogators during the Iraq war, it spurred trained personnel to quit the military in order to benefit from the higher pay and

flexible lifestyles afforded contractor employees. The same was true in other government sectors such as intelligence and foreign policy. Experts are understandably concerned about the long-term impact of this trend. Mark Lowenthal, a former CIA assistant director, told Congress during a 2011 hearing that his agency was now relying on staff with less than five years experience— “It’s the least experienced analytical staff since 1947, and this demographic trend will play out in years to come.” Ensuring the right balance of contractors and government personnel in the federal workforce must remain a key federal goal.

To be sure, the idea of expanding government and hiring more bureaucrats at a time when budgets are tight may seem wasteful, but it is more practical and simple than one might expect. Insourcing often results in the individual contractor being hired to do the same work in the very same office under a more direct chain of command. Eliminating the need to pay for the additional layer of corporate bureaucracy that comes with the hiring of a contractor not only saves money, but it can also improve services to the taxpayer if done wisely.

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