



Insourcing vs. Outsourcing in the Defense Sector

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The insourcing versus outsourcing debate continues. It's hotter than ever at the Defense Department as it tries to figure out the right balance between contracting and in-house employees to meet its missions.

There are two kinds of related issues at play, according to David Berteau, director of the Defense-Industrial Initiatives Group at the Center for Strategic and International Studies. The first is which costs more - insourcing a contractor or outsourcing the work? The other is more basic.

"The government should know what persons cost at the time they make decisions to add or move them around," Berteau said. "There really needs to be sort of 'truth in budgeting.'"

Agencies need to have a methodology for figuring out those costs. In an assessment of the DoD's workforce costs, CSIS found that the Pentagon's methodology was "reasonably" good in analyzing direct costs but was short in analyzing the larger costs to the federal government. That is, it was able to analyze simple costs that it is directly responsible for, such as salary, but larger costs such as retirement, benefits and overhead costs were not as articulated in the methodology.

The fear is, Berteau said, that the Defense Department might be making decisions based on short-sighted and incomplete views of what the costs are of insourcing staff.

"You can train people more rapidly but you can't accumulate experience except by spending a year doing a year's worth of work," Berteau said. "You can't squeeze nine months by working nine times as hard into one month."