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Insourcing/Outsourcing Debate Worth Watching

By D. Dowd Muska July 12, 2010

It's tempting to conclude that the only accomplishments of George W. Bush's administration were John Roberts, Samuel Alito, and a smattering of mild — if temporary — tax cuts.

But one item should be added to the list. As part of the "President's Management Agenda," Bush made competitive contracting a priority. With the notable exception of space transportation, the present occupant of the White House is doing nearly everything he can to reverse course.

Shifting public services to the lowest competent bidder was not a nefarious plot by the 43rd president to reward his corporate cronies. It's been official policy since the Eisenhower administration.

In 1955, the Bureau of the Budget, the precursor to the Office of Management and Budget, issued Bulletin 55-4. The document's language is unambiguous: "[I]t is the policy of the Government of the United States to rely on commercial sources to supply the products and services the government needs. The Government shall not start or carry on any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source."

Not surprisingly, Ike's directive received scant attention for the next half-century. Republican and Democrat presidents alike, with congressional acquiescence, did not risk combat with federal employees' political muscle.

To its credit, the Bush White House had the guts to take the policy seriously. In 2002, it concluded, "Nearly half of all federal employees perform tasks that are readily available in the commercial marketplace — tasks like data collection, administrative support, and payroll services."

Unlike "privatization," the word public-employees employ to confuse taxpayers, competitive contracting, or contestability, seeks to obtain the best taxpayer value by procuring the cheapest, most capable service-delivery system — be it a government agency, business, or nonprofit. Under Bush, contracting roughly doubled, hitting $540 billion in 2008.

As monopolizers of labor, unions aren't in the competition business. Government unions, long pampered by lock-tight job security, are horrified by the possibility that others might be capable of doing “their” work capably, and at a lower price. Strangling contestability has long been job one for Big Labor’s public-sector contingent.

Which brings us the community-organizer-in-chief. Six weeks after taking office, Obama declared that “the line between inherently governmental activities that should not be outsourced and commercial activities that may be subject to private sector competition has been blurred and inadequately defined.” With congressional approval, he has launched an initiative to “insource” — i.e., bring back much of the work once bid out to nongovernment employees.

Stan Soloway, of the Professional Services Council, isn’t a fan of the plan. In his assessment, the calculations behind claims that nixing contracting out will cut costs are “fuzzy math at best.” Soloway offers an instructive example: “If an Air Force organization insources a support services contract, it might look like such action generates savings for the organization’s budget. But this tells little about the total costs that are paid out of other budgets to cover expenses such as construction and infrastructure, pay and personnel systems and offices, travel systems, training and development, and cell phones and laptops. Those expenses are essentially invisible and perceived as free to the unit commander.”

Obama wants to gut competitive contracting in Washington, but cash-strapped states aren’t following his lead — they’re doing the opposite.

Louisiana Gov. Bobby Jindal wants to outsource in big (state-employee healthcare) and small (lab work for the Department of Environmental Quality) ways. In March, New Jersey’s governor signed an executive order that created a task force charged with developing “recommendations for a comprehensive approach to converting certain areas of government operations to privately-run operations in an effort to cut the size and cost of state government.” Cape May County has plans to contract out its revenue-draining Home Health Agency to a newly formed nonprofit. Kansas is seeking alternate management for veterans’ homes. Florida is examining how to allow for-profits to oversee Medicaid patients. North Carolina is looking to outsource portions of its mental-health and probation programs.

With strict accountability and complete transparency, competitive contracting is a no-brainer. It provides public-sector administrators the flexibility they need, and reduces the expense of government.

But instead of fixing the glitches that certainly do exist in the federal government’s contestability system, the White House wants to scrap it. Fitting for an administration that thinks more