



Is Federal “Insourcing” Killing Minority Entrepreneurs?

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December 19, 2011

In what Republicans have described as an attempt to bribe the unemployment rate and appease a base voting bloc, the Administration’s 2009 decision to increase “insourcing” as a means to control costs and eliminate waste may now be contributing to the slow economy.

Under the cover of the clichéd political phrases “waste elimination” and “cost-cutting,” the Obama Administration kicked off its first term by implementing the now controversial policy. It maintains private contracts in-house instead of outsourcing them to the private sector, essentially moving many private jobs under a public roof.

Occupiers may celebrate with a rhythmic encore on their hand drums at the news that profits were kept out of the hands of “greedy” businesses. But, Ron Paulites may have to change their underpants after learning that “big brother” just got bigger.

The benefits to insourcing seemed prevalent and the political ramifications expedient at the time when the Executive branch attempted to rein in costs. Eliminating contracts for services that were “inherently governmental” was appealing to their Democratic stronghold of many unionized federal employees. Since then, the policy has created near full employment within the federal government.

The results were expected to make one hell of a Democratic campaign ad in 2012, with mass appeal to both its base and outsiders alike.

With costs for management support services quadrupling between 2000 and 2010, from \$10 billion to \$40 billion, combined with the fact that federal agencies have become so large that they are not able to work together on even the most common-sense cost-saving initiatives (such as purchasing products in discounted bulk that are used across agencies) the level of government waste and inefficiency has made even Solyndra executives blush.

Analysts have also pointed out that functions deemed inherently governmental are too often contracted out, including, ironically, the power to award contracts.

But many are now arguing that it has not quite worked out the way they imagined. As the new policies have provided the incentive for agencies to support the wide-scale elimination of contracts with small, private businesses, those same businesses have been forced to cut back and lay off thousands of employees.

"I've been in this business for 30 years, and I don't remember an initiative that has had such a negative impact on small businesses," said Robert Burton, a successful federal procurement attorney and previous deputy administrator at the Office of Federal Procurement Policy.

According to the Business Coalition for Fair Competition (BCFC), thousands of small businesses agree, sending accounts of their business losses and forced layoffs to the White House and Congress asking for a change in policy.

Competition was also drastically reduced by unchecked insourcing, losing much of the cost savings that were originally expected. The Department of Defense, whose savings were expected to be the greatest, drastically reduced its insourcing activities over the last year, citing a lack of savings or even increases in costs.

"The Government should at least be a smart shopper, but they refuse to even look," said John Palatiello of the BCFC while explaining how current policies dictate that only proposals for outsourcing currently receive scrutiny. According to information released by the Bush Administration and validated by the Heritage Foundation, when the government does compare outsourcing a project to keeping it "in house," the resulting savings average between 30-40% for the taxpayer.

With a yearly federal budget over \$1 trillion, the savings could be in the billions.

As an added bonus for Republicans, who are fiending for an increase in minority followership, many of the businesses who had to drastically reduce their payrolls were founded, owned, and run by minority entrepreneurs whose communities already have the highest unemployment rates in the country.

Successful, minority-run federal contractors have become prevalent since the inception of contracting incentives such as the SBA's 8(a) certification program. Nevertheless, opportunities to continue growth within this historically disadvantaged segment have become limited under the practices of insourcing.

Combined, the results are not quite the 2012 campaign ad many Democrats expected, but may have instead provided an exclamation point to the next Republican "shrink the Federal government" harangue.

Republicans and Democrats have agreed that there are important functions that should remain "inherently governmental," but still find it difficult to come to agreement on a solution.

How do the feds decide whether they should keep a function in-house or leave it to the small business sector, where 99.7% of all employer firms remain? Throw a dart in the air while Congress is in session and you will hit someone with an idea.

For decades Congress has kicked around ideas ranging from complete government abstention to the more common sense Yellow Pages Test approach, which says that any firm you can find in the Yellow Pages should be allowed to compete with the government in order to save money.

Who can argue with an idea that will actually save the taxpayer money? Well, in an election year, whichever party comes up with the idea will find plenty of spin right across the aisle.

