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## Pentagon Can Learn a Useful Lesson about Insourcing from the Post Office

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The Department of Defense is on a crusade to reduce its costs and shift resources from overhead to procurement. Two weeks ago, Secretary of Defense Gates announced some \$158 billion in savings of which some \$78 billion was being reinvested. Much of this savings came from closing unnecessary, duplicative and poorly-functioning activities. It also came from reducing the Pentagon's workforce, both uniformed and civilian.

Complicating the Secretary's efforts was a misguided policy of insourcing. This is taking work performed by the private sector and giving it to government workers in the public sector under the assumption that the latter can perform the work cheaper than the former. As I have written elsewhere, data provided by the Bureau of Labor Statistics clearly shows that public sector workers are much more expensive than their private sector counterparts. In addition, much of the private sector work that was insourced was being done under performance-based contracts. These contracts committed the private contractor to providing a specified level of service to the government regardless of costs. It was in the companies' interest to reduce costs in order to make a profit. The public sector lacks a similar incentive to be profitable and, hence, to reduce costs. As senior DoD officials now admit, their expectations of savings due to insourcing have not been met.

Perhaps the Pentagon could take a leaf from the Post Office's new playbook. According to today's *Wall Street Journal*, the Post Office is seeking to stem the tide of red ink that threatens to overwhelm it by reducing costs and focusing on profitability. In a startling move for a government agency, the Post Office wants to close offices that fail to cover their costs.

One of the perennial problems besetting the Post Office -- like the DoD -- is labor costs. According to this same article, post office workers pay much less for their health care and other benefits than other government workers and these workers, on average, pay less than their private sector counterparts. In addition, the Post Office tends to have excess personnel and pay their workforce more than their private sector counterparts. The Post Office knows a fact that DoD should have known: insourcing costs money.

One of the Post Office's "dirty little secrets" is that it increasingly has relied on help from the private sector as a way of reducing costs. Private carriers and logistics providers such as UPS, FedEx and C.H. Robinson all are under contract to the Post Office, as well as competing with it in such areas as package delivery. High tech companies like Northrop Grumman have done incredible work to automate Post Office operations. Without such help, the Post Office's cost problems would be far worse.

The idea of using profitability as a metric for government activities should come as no surprise to anyone. That is how every private sector company measures its performance. If a company is not profitable it is unsuccessful and likely to go out of business. The Pentagon would be wise to apply to its maintenance and sustainment activities a standard similar to that being suggested by the Post Office. One way of applying a profitability standard easily is by expanded reliance on contracts with the private sector based on the principles of Performance-Based Logistics. Of course, this would also necessitate a reversal of DoD's current policy of insourcing.