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Pentagon Insourcing Undercuts Search for Savings

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Issue Brief

Secretary of Defense Robert M. Gates has delivered a series of speeches this year stressing the need to eliminate unnecessary military spending. Gates claims to have slashed future weapons spending by \$330 billion since the Obama Administration began, cutting back or terminating programs such as the F-22 fighter, Zumwalt-class destroyer and presidential helicopter. Now he is seeking savings beyond the Pentagon's weapons accounts in areas such as logistics and healthcare.

The search for savings is necessitated by a growing realization that military spending will have to fall in future years as the government attempts to pare its huge budget deficits. With three months remaining in the federal fiscal year, the 2010 deficit has already reached a trillion dollars and continues to grow at a rate of about \$4 billion per day. If the Pentagon's share of cuts required to bring government outlays into alignment with tax receipts were proportional to its claim on the federal budget, the military would need to reduce spending by nearly \$300 billion annually.

Nobody currently expects such draconian decreases, but Gates grasps that his department cannot escape big cuts in the years ahead unless it takes the initiative to eliminate waste. His latest measure calls for the military departments and agencies to find \$100 billion in "overhead, support and non-mission" efficiencies during the period between 2012 and 2016 -- efficiencies that can free up money to cover core warfighting needs. The plan is to ramp up these savings gradually, but by 2016 each military department will need to be generating \$10 billion annually from support functions for other purposes.

Some observers think the Gates initiative doesn't matter because he may soon depart public service. However, whoever follows him as the Pentagon's chief executive will likely be under even greater pressure to pare spending, and getting out of Iraq will be just the beginning. Unless the military can greatly reduce the cost of functions like administration, maintenance, medical services and supply, it will have to cut warfighting capabilities to live within likely budgets.

Against this backdrop, it seems obvious that the Obama Administration will have to revisit plans announced last year to "insource" tens of thousands of defense jobs previously contracted out to the private sector. The administration argued that civil servants could carry out many of the contracted tasks more cost-effectively and that the capabilities of the civil service needed to be bolstered, especially for roles deemed to be "inherently governmental." However, undertaking such conversions requires the government to make long-term financial commitments to federal workers in place of short-term contracts with companies -- commitments that may extend several decades into the future.

A case in point is the plan to expand the Pentagon acquisition corps by adding 10,000 new government workers and converting an additional 10,000 contractor positions to civil-service jobs. It is hard to see why such a move is necessary when policymakers are cutting weapons programs left and right, and the joint force is preparing to reduce the pace of overseas contingency operations. This plan will greatly increase the fixed overhead costs of the defense department at a time when Secretary Gates says those costs need to come down. Relying on contractors has advantages and disadvantages, but at least when their services are no longer needed it is easy to get rid of them and save some money.

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