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# Pentagon's Claim Of Cost Savings From Insourcing Continues To Erode

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One way that the Department of Defense (DoD) is attempting to reduce the costs of overhead and support activities is by bringing into the government work done by private contractors. Over the past two years, the military services have repeatedly cancelled well-performing contracts with private companies and turned all or much of the work over to the public defense industrial base – largely government-owned and operated depots and logistics centers. Often the claim is made that the public sector can do the work cheaper than the private sector. Such claims go against several decades of history and established DoD policy which had been to emphasize performance-based logistics over the traditional fee-for-service approach.

How credible is the claim that the public sector is more efficient than the private sector? Unfortunately, the services have not made public the analyses they say demonstrate the advantage of public sector work over that done by the private sector. However, one recent analysis raised serious questions regarding the validity of the services' assertions. According to *USA Today*, "Federal civil servants earned average pay and benefits of \$123,049 in 2009 while private workers made \$61,051 in total compensation, according to the Bureau of Economic Analysis. The federal compensation advantage has grown from \$30,415 in 2000 to \$61,998 last year."

Public sector unions have replied that this statistic is misleading because it reflects the high skill level of government employees and the tendency to outsource low-skilled support functions (once called "coffee and donuts")

jobs). However, much of the cost disadvantage of the federal workforce comes from a huge disparity in pensions and benefits costs compared with the private sector. Such a cost burden negates any alleged advantage the public sector might hold when it comes to technical skills. Additionally, when it comes to maintenance, repair and overhaul of major weapons systems, no one can credibly make the argument that the public sector has more skills than the private sector.

More recently, *USA Today* reported that the number of federal workers earning top wages has skyrocketed over the past decade. “The number of federal workers earning \$150,000 or more a year has soared tenfold in the past five years and doubled since President Obama took office.” Even if these extravagant wages are earned by management and not line workers, they still must be carried as part of the overall cost for work performed. Over the past two years, as private companies struggled to overcome the effects of the recession, one way they reduced costs was by slashing the number of white collar managers. Major defense contractors have instituted buy-out programs to shrink their management cadres and make themselves more cost competitive in an era of tightening defense budgets. The federal government, in the same period, has gone in exactly the opposite direction. As a result, unlike the private sector, almost by definition its cost structure must have worsened.

Moreover, without the profit motive as a goad to reduce costs, what incentive is there for the public sector to contain costs, regardless of its current competitive position vis-à-vis the private sector? As the *USA Today* analysis demonstrates, when resources are available, the government simply sucks in everything, hiring extravagantly and raising wage rates. But unlike the private sector, the public sector cannot reduce its labor bills when resources are tight. What it can do is simply cut available resources and, necessarily, perform less work. Some DoD entities have taken the outrageous step of claiming that the difference between resources needed

**and those made available constitute a price advantage to the public sector.  
This is simply ridiculous.**

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