



Small Businesses Are Starting to Organize Against Federal "Insourcing" of Contractor Jobs

By Matthew Potter | May 12, 2010

The Obama administration's effort to "insource" defense-related jobs — in effect, reversing two decades of outsourcing to contractors and handing off work to civil servants — is finally starting to raise the hackles of private industry.

Initially, defense contractors had no real complaints about a plan announced by Defense Secretary Robert Gates to create 17,000 new government positions that would handle jobs then performed by private contractors. At the time, the rationale was that these jobs were "inherently governmental," in that they involved decisions that affected the conduct of government policy. Contractors aren't supposed to do this type of work thanks to conflicts of interest that could benefit their private employer.

The idea, as stated, wasn't specifically to save money by reducing contractors — or so many companies believed. And so industry stifled its concerns about lost revenue and jobs. Unfortunately, after the first year of insourcing, industry groups and unions now argue that the government is simply eliminating positions to meet some sort of cost savings "goal." In the eyes of many, "goal" translates to "quota," and that's not how insourcing should be carried out.

The government denies that there are any such quotas, and argues that insourcing isn't so much a cost-saving exercise as a re-balancing of the workforce. The Professional Services Council, which represents service companies primarily involved in defense acquisition, disputes this, pointing to government emails that provide total dollar amounts for cost savings that need to be met by military organizations. The group, together with the International Association of Machinists and Aerospace Workers, also dispute the government's projected cost of using a contractor versus a civil servant, arguing that there's no publicly available model for making that calculation.

A number of small businesses have also joined together to form a group that will lobby and represent them. This Small Business Coalition for Fair Contracting will engage the government on policies that might have a negative effect on small contractors. Many of these company's contracts primarily provide services to government offices. They are being heavily impacted by insourcing and the loss of one contract or several personnel can wipe them out.

These companies are concerned because they provide people, not products. Each lost position means a loss of revenue and profit, and the more insourcing there is, the more positions are lost. Some also complain that the government is hiring away the best talent the companies have, costing them their investment in those workers. For now, though, the Pentagon seems committed to reducing its reliance on contractors and doing more work with their own workforce.

The argument for insourcing often rests on costs, particularly given tales of contractor gouging and waste — think Halliburton (HAL) and its subsidiaries in Iraq, for instance — not to mention other tales of contractor abuse (here think Xe Services, the military-security contractor formerly known as Blackwater Worldwide). Until recently, prevailing opinion held that contractors were cheaper than civil servants and that they offered more flexibility in pay and terms — including the fact that they could be let go at any time unlike a unionized government worker. That was the theory, at least.

The long term question about all of this will be whether the government actually saves any money or gets its work done more effectively. It will also be several years before the economic fallout in lost revenue, jobs and even corporations will be determined.

© 2010 CBS Interactive Inc. All rights reserved.