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Commentary: The Myths and Downsides of Government Insourcing

By John M. Palatiello
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Area firms, ranging from large to small, veteran- and minority-owned businesses, are facing a new threat. The federal government, long considered a source of business for the region's firms, is now seen as a competitor. That is why 36 national and local organizations, including the Fairfax Chamber of Commerce and the Northern Virginia Technology Council, recently wrote President Obama asking for an immediate moratorium on insourcing.

"Insourcing," the conversion of work performed by private sector contractor firms to federal employees, is a solution in search of a problem. Such conversions expand an already bloated government, increase costs and exacerbate the anemic private sector job creation.

The government is taking market share and poaching employees from contracting firms. Government agencies are scaling back tasks in contracts or canceling them outright. With the loss of key members of their workforce, firms will find it difficult to market the talent of their staff and will see their revenues decline. Some small businesses in Northern Virginia are now in jeopardy because of insourcing.

The rationale for insourcing is based on three myths. Proponents, primarily government employee labor unions, claim that George W. Bush-era privatization shifted to contractors numerous functions that are "inherently governmental" and should not have been taken from federal employees in the first place. Recent insourcing has affected firms and private sector workers in mapping, food service, libraries and motor vehicle operation -- hardly non-commercial activities only government employees should perform.

It is also purported that the federal workforce was the victim of wholesale privatization over the past eight years. In fact, the federal payroll increased by some 200,000 from 2001 to 2009, including the nation's 50,000 airport baggage screeners who were added to the civil service by the Bush administration after 9/11.

Cost savings from insourcing is also a myth. Not only is there no cost analysis to support this claim, but evidence to the contrary abounds. On Aug. 9, Defense Secretary Robert M. Gates said, "As we were reducing contractors, we weren't seeing the savings we had hoped from insourcing."

Insourcing would adversely impact the region's economy, including technology centers in Montgomery and Fairfax counties. As federal contract dollars filter into the local economy, office buildings gain tenants, new homes are built and there is demand for meals at local restaurants. Local jurisdictions in Virginia, such as Fairfax County, earn tax revenue from a gross receipts tax that government contractors, but not Uncle Sam, pay to Old Dominion coffers. Insourcing would cause a domino effect throughout the commonwealth.

With a $14 trillion national debt, $1.4 trillion federal budget deficit and 9.6 percent national unemployment rate, insourcing is the last thing Uncle Sam can afford. Nor is it favorable to private sector workers, business owners, and state and local government in the national capital region.

John M. Palatiello is president of the Business Coalition for Fair Competition, a national coalition of businesses, associations, taxpayer organizations and think tanks that are committed to reducing all forms of unfair government-created competition with the private sector.