

**STRATEGY
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**OUTSOURCING AND PRIVATIZATION:
PROCEED WITH CAUTION**

BY

COMMANDER EDWARD TULENKO
United States Navy

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Outsourcing and Privatization: Proceed with Caution

by

COMMANDER EDWARD TULENKO
United States Navy, Supply Corps

Captain David W. Willmann, USN
Project Advisor

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U.S. Army War College
CARLISLE BARRACKS, PENNSYLVANIA 17013

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ABSTRACT

AUTHOR: Edward NMN Tulenko

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The Department of Defense expects significant savings from its current and planned outsourcing and privatization efforts as private contractors proclaim their ability to produce goods more economically. However, critics have questioned whether outsourcing and privatization actually produce the expected savings. Opponents have also voiced concern that other negative ramifications on the workforce will result if not addressed prior to placing blind faith in these potential cost saving tools.

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OUTSOURCING AND PRIVATIZATION: PROCEED WITH CAUTION

During the Reagan administration, executive policy favoring privatization of government functions was shaped by the President's "visceral assessment that the domestic side of government is too big and too encompassing." That ideology finds voice in Office of Management and Budget (OMB) Circular A-76.

In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of economic strength. In recognition of this principle, it has been and continues to be the general policy of the government to rely on commercial sources to supply the products and services the Government needs.

The Contracting Officer's Regulation Manual (CORM) echoed this perspective....

We recommend that the government in general, and the Department of Defense in particular, return to the basic principle that the government should not compete with its citizens. To this end, essentially all DoD "commercial activities" should be outsourced, and all new needs should be channeled to the private sector from the beginning.¹

Today, the Department of Defense (DoD) is facing unprecedented change, with initiatives underway to improve performance, quality, and efficiency of DoD operations. These changes are largely due to the evolving world political situation. Threats to United State's interests have changed defense strategy from preparing for a global war to preparing for smaller regional conflicts in various regions of the world. Furthermore, funding to support the DoD for all missions, including these regional conflicts has been reduced as well. The defense budget has been shrinking in real terms since the mid-1980s—from \$403.5 billion in 1986 to 289 billion in 1995 (in constant fiscal 97 dollars), a reduction of over 28 percent. Similarly, the Fiscal 2001 budget follows this decreasing trend in terms of real dollars with a \$305 billion bottom line.² In spite of these reductions, the requirements to support critical national interests in various regions of the world remain. In response, some have called for the DoD to adopt management practices of successful American businesses. U.S. companies have taken many steps to remain competitive including downsizing, rightsizing, or reengineering their organizations. The ongoing global revolution in commercial business practices is encouraging organizations to outsource much of what they used to do in-house.³

Leadership must be careful not to place blind faith in long-standing policies such as the OMB Circular and the CORM. Outsourcing and privatization can be effective cost savings tools, but the savings must be examined carefully as they may not always yield projected results.

DEFINITIONS AND DISCUSSION

The concepts of outsourcing, privatization and associated terminology are often confusing. They are forced upon managers as if they are universally understood. The fact is, the already time constrained managers must educate themselves with sometimes complex definitions and concepts and then have to turn around and explain them to the workforce as an instant subject matter expert. Formal training rarely occurs to the depth required. Managers' translation to an already concerned, confused workforce exacerbates the issue. With this in mind, the following terms are defined as a common basis of understanding and illustrate some definitions that are straightforward and some that are not.⁴ They originate from Federal Policy listed in the Office and Management and Budget (OMB) Circular A-76.

Commercial Activities - The term commercial activity is used in the governmental context to identify those activities that the government performs with its employees or resources but could obtain from private-sector sources. Commercial activities are in contrast to "inherently governmental" activities.

Competition - The confusion begins with this cumbersome book definition resembling a legal document. Competition occurs when two or more parties independently attempt to secure the business of a customer by offering the most favorable terms or highest quality service or product. Competition in relation to government activities is usually categorized in three ways: (1) public versus private, in which public-sector organizations compete with the private sector to conduct public-sector business; (2) public versus public, in which public-sector organizations compete among themselves to conduct public-sector business; and (3) private versus private, in which private-sector organizations compete among themselves to conduct public-sector business.

Contracting Out - Contracting out is the hiring of private-sector firms or nonprofit organizations to provide goods or services for the government. Under this approach, the government remains the financier and has management and policy control over the type and quality of goods or services to be provided. Thus, the government can replace contractors that do not perform well.

Inherently Governmental Activities - An inherently governmental activity is one that is so intimately related to the public interest that it must be done by federal employees. These functions include those activities that require either the exercise of discretion in applying government authority or the making of value judgments in making decisions for the government. Governmental functions normally fall into two categories: (1) the act of governing, i.e., the discretionary exercise of government authority, and (2) monetary transactions and entitlements.

Office of Management and Budget (OMB) CIRCULAR A-76 – A useful tool for the manager is the OMB Circular A-76. It sets forth federal policy for determining whether commercial activities associated with conducting the government's business will be performed by federal employees or private contractors. Recent revisions to the A-76 Supplemental Handbook were designed to enhance federal performance through competition and choice, seek the most cost-effective means of obtaining commercial products and support services, and provide new administrative flexibility in agency decisions to convert to or from in-house, contract, or interservice support agreement (ISSA) performance.

Outsourcing - Under outsourcing, a government entity remains fully responsible for the provision of affected services and maintains control over management decisions, while another entity operates the function or performs the service. This approach includes contracting out, the granting of franchises to private firms, and the use of volunteers to deliver public services.

Privatization - The term privatization has generally been defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector.

Public-Private Partnership – This is another example of a confusing concept. Under a public-private partnership, sometimes referred to as a joint venture, a contractual arrangement is formed between public- and private-sector partners that can include a variety of activities that involve the private sector in the development, financing, ownership, and operation of a public facility or service. It typically includes infrastructure projects and/or facilities. In such a partnership, public and private resources are pooled and responsibilities divided so that the partners' efforts complement one another. Typically, each partner shares in income resulting from the partnership in direct proportion to the partner's investment. Such a venture, while a contractual arrangement, differs from typical service contracting in that the private-sector partner usually makes a substantial cash, at-risk, equity investment in the project, and the public sector gains access to new revenue or service delivery capacity without having to pay the private-sector partner. Leasing arrangements can be used to facilitate public-private partnerships.

PROPONENTS OF OUTSOURCING AND PRIVATIZATION

The era of big government is said to be over. But is an era of big government contracting about to begin? The Bush administration believes that many tasks now performed by federal employees can be achieved more efficiently by outsourcing them to private firms.⁵

During his campaign for the presidency, George W. Bush promised to "Open federal positions involving commercial activities to competition from the private sector wherever possible." Once in office, President Bush made good on his commitment by requiring each of the federal departments to fulfill ambitious competitive contracting goals. As has been demonstrated throughout the world, and at all levels of government in America, competitive contracting allows the public sector to lower costs and improve services.

In competitive contracting, government solicits bids from "qualified" private-sector businesses to perform a specific service currently being performed by the employees of a government department. If any of the bids received are lower in cost than what the government is currently paying, money can be saved by shifting the performance of the particular service from public employees to private business operating under contract to government.⁶

Under the provisions of the Federal Activities and Inventory Reform (FAIR) Act, federal agencies are required to provide Office of Management and Budget (OMB) with an inventory of all of the commercial positions within their department. In early 2001, federal agencies estimated that as many as 850,000 of their employees were performing commercial-like functions commonly available from the private sector.

Although neither the FAIR Act nor the Clinton Administration's implementation of it required agencies to do anything more than compile an inventory, the Bush Administration intends to require federal departments and agencies to compete these jobs with private-sector providers. In March 2001, OMB announced that agencies will be required to develop a more accurate list of all commercial activities and subject no less than 5 percent of the commercial positions on the list to competitive contracting.⁷

Based upon savings estimates derived from DOD's performance, if OMB can get all the agencies combined to raise their FAIR Act inventories to 1,000,000 employees from the FY 2000 estimate of 850,000, and apply the A-76 process or equivalent to the 5 percent target, the federal government could achieve annual savings of between \$1 billion and \$1.4 billion for every 5 percent of the list subject to competition. These savings will accumulate year after year. If 50 percent of FAIR Act list positions are competed within five years, as some recommend, annual savings will amount to between \$10 billion and \$14 billion. No other spending restraint option now under consideration offers Congress or the Administration a level of budgetary savings of this magnitude with no reduction in the level or availability of government services.⁸

It should be noted that the DOD has used competitive contracting very aggressively over several decades, and its long record of activity provides an extensive measure of performance. In March, 1996, the DOD reported to Congress that competitive contracting had resulted in an

annual savings of \$1.5 billion and that more than 600,000 civilian and uniformed positions could be subject to competitive contracting in the near future in order to free additional resources to bolster defense capabilities.

In a detailed review of DOD's contracting history, the CNA Corporation, a private, nonprofit research organization, conducted a study of 2,138 separate A-76 contracts completed by the DOD between 1978 and 1994. The CNA found that these contracts, covering a total of 98,348 jobs, provided savings that averaged 31 percent over costs incurred before the A-76 review. Significantly, nearly half (48 percent) of the competitions were won by the in-house staff, which submitted the winning bid in competition with private companies. Contracts won by restructured in-house operations averaged savings of 20 percent, while contracts won by private firms averaged savings of 38 percent.⁹

The favorable contracting experience at the federal level has been matched by similar activities in many state and local governments. Over the past several decades, communities around the country have achieved cost savings and service improvements by contracting out such functions as wastewater treatment, water supply, school bus fleet operations, trash collection, recycling programs, janitorial services, highway maintenance, operation of prisons and jails, welfare caseload oversight, school maintenance and food service, oversight of child support payments, data processing and information technology, airport management, special education instruction, nursing home operations, public school building, grounds keeping and park maintenance, management of public housing, parking meter coin collection, and operation of public transit programs. For the most part, savings appear to be on the order of those achieved at the federal level: between 25 percent to 30 percent.¹⁰

The Bush administration's priorities in procurement policy involve competitive sourcing, which is based on public-private competitions. The White House also seeks to improve the level of government performance and to return the government to the principles of competition. Competition helps to attract viable, responsive, innovative and cost-effective public and private competitors to the federal sector. When a commercial function performed by the public sector undergoes competition, that competition results in significant economic savings to the taxpayer. The use of public-private competition consistently reduces the cost of public performance by more than 30 percent.¹¹

It is clear and evident that the Bush administration firmly supports outsourcing and privatization. Outsourcing and privatization proponents cite significant cost savings as the deciding factor in using these business methods. However, critics do exist.

OPPONENTS OF OUTSOURCING AND PRIVATIZATION

The twin silver bullets of outsourcing and privatization are purported to be the saviors of future defense budgets, as private contractors tout their ability to produce goods that retain quality while cutting costs. But this ammunition should be examined carefully before use, for its effects are likely to be devastating to DoD civilian labor force, and estimated savings may evaporate once large segments of the industry are turned over to the private sector.

...Pharaoh commanded the same day the taskmasters of the people, and their officers, saying, Ye shall no more give the people straw to make brick...Go ye, get you straw where you can find it: yet not ought of your work shall be diminished. Exodus 5:6-7, 11¹²

While outsourcing and privatization are useful and key tools in downsizing and achieving potential cost savings, caution is in order as pitfalls and repercussions abound. Touted cost savings are often overstated and subsequent cost adjustments are frequently made. Caution must be exercised in not placing sole emphasis on the privatization and contracting decision due to potential savings. Other numerous shortcomings have been identified as the privatization and contracting processes mature.

SHORTCOMING #1 - TECHNOLOGY TRANSFER LOSS

One of the main advantages of outsourcing is to capitalize on private industry's ability to incorporate state of the art technology. An economic downturn such as the one created by the September 11 twin towers terrorist act may drastically reduce private firm's ability or willingness to invest in technology. Technology investment could fall as much as 5 percent in the United States given current economic conditions, and up to 11 percent if the recession deepens. Whether or not the economy rebounds, the revival will not come soon enough to prevent overall investment in information technology from falling for the first time in memory.

The projected spending decline for 2002 is slight -- 2 percent in the United States, to \$798 billion, from an estimated \$811.7 billion in 2001 year. But this is a turnaround inconceivable to many industry executives as recently as the late 1990's, when overall spending on new hardware, software and technology services routinely pushed ahead by 20 percent or more each year.¹³

Problems can be devastating when an agency that depends on sophisticated technology moves from a technical focus to a contractual and administrative focus—which appears to be happening at DoD

- ValuJet lost technical control of its fleet and was grounded after one of its jets crashed in the Florida Everglades in 1996. The company had contracted out all maintenance and lost the ability to recognize its technical troubles. Further, there are reports that the government inspector who monitored ValuJet was not technically qualified.
- NASA decided to go through with the doomed Challenger launch in 1986, despite technical advice to delay it because of cold weather's effects on the space shuttle's O-rings. The decision was managerial, not technical. It was reported that the contractor's regional manager suggested to the engineer who provided the technical advice that the company not appear uncooperative, since the contract was coming up for rebid.

Historical evidence proves there are serious consequences when technical capability is lost or technical advice ignored: The Defense Department must be careful not to risk losing control of its technical destiny by jumping too quickly at the politically attractive option of contracting out. Alternative airlines are available to the public, but an alternative Defense Department is not.¹⁴

SHORTCOMING #2 - SECURITY LAPSES

Outsourcing has often led to lapses in proper security checks of contractor personnel as illustrated in a case at Logan International Airport. Six weeks before the Sept. 11 terrorist attacks, authorities found five checkpoint screeners at Logan International Airport who had unrestricted security access for months, even though their security firm never checked their employment histories as required by federal law, according to court documents. The audit by the Federal Aviation Administration reported that Argenbright Holdings Ltd. hired some of the workers without submitting them to fingerprint criminal history checks, as a new federal law then required. In 2001, Argenbright paid \$1 million in fines and was placed on three years' probation for falsifying employee records, failing to conduct criminal background checks, and lying to federal investigators in the Philadelphia International Airport case.

Logan Airport was cited as one of 13 large airports nationwide where the company allegedly broke federal laws in the past year regarding the hiring of screeners, who are paid close to minimum wage, and receive little training.¹⁵

In another incident, the uproar over security lapses at the Energy Department's Los Alamos National Laboratory offers a textbook example of how politicians pick and choose their scapegoats when management responsibilities are delegated to outside contractors.

The Los Alamos lab has been the subject of heated wrangling on Capitol Hill when allegations of espionage were lodged against a longtime scientist at the facility, who eventually was fired and faces criminal charges of mishandling classified materials but not of spying.

The battle intensified between republicans and democrats when it was revealed that two computer hard drives containing critical nuclear weapons secrets were missing from a storage vault at the lab but then mysteriously reappeared behind a nearby copying machine.

To congressional Republicans, the failures to adequately protect nuclear weapons data at Los Alamos clearly demonstrated the managerial incompetence of Energy Secretary Bill Richardson. The chairman of the Senate Select Committee on Intelligence, Richard C. Shelby R-Ala., called for Richardson's resignation. "You've lost all credibility" he told the embattled Cabinet official at a hearing. "It's time for you to go." ¹⁶

Not so fast, say Democratic lawmakers. The fall should be taken instead by the contractor hired to manage the Los Alamos facility. "Because of the University of California's total inability to carry out its security obligations under its contract, we request that you terminate the department's contract with the university as soon as possible," said ranking minority member of the House Commerce Committee, John D. Dingell, D-Mich., and five Democratic colleagues in a letter to Richardson.

This was a clear example of a democrat versus republican mad dash to assign blame in the most politically convenient manner. It obscures efforts to grapple constructively with the problem of effectively managing a government that increasingly farms out its work and delegates key responsibilities to independent firms or institutions. ¹⁷

SHORTCOMING #3 - COST SAVINGS SHORTFALL - REALITY OR MYTH?

House lawmakers expressed reservations about DoD's estimate that the public-private competitions will save the Pentagon \$11.2 billion through 2006. The cost savings benefits from the current outsourcing and privatization effort are, at best, debatable. Despite end-strength savings, there is no clear evidence that this effort is reducing the cost of support functions within DoD with high-cost contractors simply replacing government employees.

They also said they were nervous about the Pentagon's growing reliance on contractors as DoD appears to be moving toward a situation in which contractors are overseeing and paying one another with little DoD oversight or supervision. This lack of checks and balances lends itself to potential corruption.

Another source disputes the notion that contracting services out to private producers will lead to cost savings. In fact, it will merely create new groups with a strong interest in seeing

government spending rise. Defense production, construction projects, and health care are three areas that have historically been produced privately for government but at tremendous costs. A greater level of private contracting is likely to change the nature of public-private relationships, as private firms come to depend on government dollars. The public will also require a greater level of accountability from private firms if they are receiving tax dollars, so they will be subjected to more regulation and oversight, making them resemble the public institutions they are replacing.¹⁸

Still, another source indicates that DoD is too confident that outsourcing saves money. Defense depot managers believe contractors low-ball their bids in order to get the work and raise their prices once the competition is eliminated. As a result, managers at 21 Defense depots around the country are protesting an outsourcing initiative aimed at putting 220,000 civilian jobs up for competition with private firms. The services' headquarters told managers to tap more jobs for possible outsourcing this year.¹⁹ They are concerned DoD is jeopardizing its ability to meet its national security mission.

SHORTCOMING #4 - HUMAN ELEMENT

By eliminating positions through processes such as outsourcing and privatization, organizations can achieve substantial savings in salaries, benefits and related overhead costs. However, business world results are mixed. In many cases, business labor force cuts have reduced productivity and failed to achieve forecasted savings. In a 1993 survey by Wyatt Company consultants, 531 companies were asked if they had achieved the expectations intended by personnel cuts. The results were less than expected. Of the companies surveyed:

- 58 percent hoped to achieve higher productivity; only 34 percent did.
- 61 percent wished to improve their company's customer service; only 33 percent did.

If downsizing's end results are increased productivity and high-quality personnel retention, studies show it was ineffective for businesses in more than 50 percent of those surveyed.

As corporate America has identified, a key reason for failing to achieve objectives was that inadequate attention to personal impact created serious emotional fallout among those released, as well as the "survivors retained." In many cases, the fallout compromised the very productivity the organizations hoped to achieve. While receiving fewer resources to achieve expanding company goals, managers are bombarded with greater demands. Continual pressure to produce, in an environment of increasing requirements and decreasing operating budgets, travel allowances and expense accounts, becomes substantially more stressful. UNUM, the largest US private disability insurance policies provider, reported an increase in the

number of claims processed from 7.8 percent in 1989 to 10.2 percent in 1993.²⁰ The fear of increased stress due to like conditions in the DoD equally exists.

SHORTCOMING #5 - THE SURVIVORS

Private studies have found several changes in the employee characteristics of a major downsizing's survivors. After downsizing, 80 percent of managers reported that remaining employee morale dropped significantly. Downsizing is usually not a one-time shot.

In addition to low morale, survivors try to maintain low profiles, show less initiative, become more cautious and take fewer risks. These characteristics can frustrate an already austere operating structure as well as hurt critically important research and development (R&D) efforts.

Often, employees do not want to be associated with cost-generating operations such as R&D programs and tend to shy away from suggesting ideas that may result in additional personnel losses to the organization. Yet, innovative ideas and a healthy R&D program are vitally important to maximizing existing resources and staying technologically competitive. This "zero defects" mentality is clearly counterproductive to any organization's values and objectives.²¹

The message from the private sector is clear: organizations that do not carefully consider the impact of downsizing policies on their people must expect reduced loyalty, a decreased productivity level from survivors, increased recruiting costs, a tarnished public image and increased health-care costs because of stress-related personal problems. These results are causing private sector organizations to reexamine both current and future downsizing plans resulting from outsourcing and privatization.²²

SHORTCOMING #6 - PRIVATIZATION LIMITS

Private markets are not natural creations; rather they are legally and politically structured. Because these public functions are present even in the private sphere, it is not an "either-or" question of public or private, but rather what form of public-private partnership is "best"; a determination not based simply what is the cheapest or most efficient, but one that should include concerns about justice, security, and citizenship.

Ideally, privatization opens up public monopolies to competition from a number of private firms, but often it merely transforms public monopolies into private ones. It is difficult to sustain competition within the private sector, as successful contractors build local knowledge that gives them an advantage over other bidders. Also, many public services are performed by nonprofit

organizations, which are less competitive by nature. However, it is possible to introduce competition into the public sector.

Some exponents of privatization have the ulterior motive of gaining support for wholesale government disengagement from providing many services. These advocates tend to view the economy in zero-sum terms, where more government spending means less economic growth in the private sector. This picture is not accurate, however. Many Western countries that have high government spending have also had high growth rates. In addition, public spending often represents investment in human capital and other intangible capital that is not quantified in any budget. As much as private markets are touted, we still rely on government for economic stability and for intervention when necessary.

While a strong argument for privatization comes in the form of promoting "public choice," this economic theory inappropriately envisions the public arena as a political marketplace in which everyone's goal is to maximize his or her benefit. Privatization advocates claim that support for expansive government spending is based on politicians' collaboration with narrow special-interest groups. Actually, the general public has supported most programs and services that government provides.

Although government services often provide little choice, it is not always true, as privatization advocates claim, that providing more choices through market mechanisms will lead to greater equity. Political participation allows democratic choice, where each person gets one vote, while in the marketplace, those with more money essentially have more say. The political arena creates space for debate, not just the impersonal registering of preferences. Through privatization, decisions are moved from one realm to another, where there are different rules, less disclosure, and very likely less access than in the public sphere. In some areas, such as the provision of public TV and radio, government actually expands choice.²³

SHORTCOMING #7 - TOP HEAVY TREND

At the Pentagon, one notices that those above the rank of colonel and GS-14 and political appointees are almost wholly in favor of outsourcing and privatization. For the political appointee with a limited future in government, job security is job anyway, so why worry about the fate of middle and lower income taxpayers working for DOD? For the high grades, there is no danger of them becoming victims of privatization, outsourcing or reinvention. In general, quite the reverse is true. Mike Causey's column in the Washington Post (1997) featured a Dickensian commentary on the haves having and the have-nots having nothing. Causey estimates that between 1989 and March 1995, the number of GS-14s and GS-15s soared

during downsizing. 14s went from 69,000 to 83,000 and more than 7000 new 15s were created. In the same moment, those in grades below GS-7 have found themselves in a free-you're fired zone. Since government reinvention began, GS-1s have been virtually eliminated, GS-2s lost nearly 6000 positions, GS-4s were cut in half, and GS-7s were reduced by 30,000 positions.²⁴

On both the military and civilian side of DoD, we see a pattern with downsizing, the Personnel Centripetal Effect: headquarters staffs swell while the field shrivels. To preserve the upper grades, work done by the lower tier is contracted out and numbers of employees are shown to decline. The problem is that those who can least afford to go, the young, low grades, are forced out, while those who can easily afford departure remain. In a sinister twist, there is now a big push to get people off welfare by putting many of them into the government in the same low-grade categories that were sacrificed on the alter of reinvention.²⁵

ADDITIONAL GENERAL CONCERNS

Up to this point I've addressed what I consider to be core shortcomings, but there are numerous less tangible repercussions which should not be ignored.

Concern #1 Targeted services

Another conservative complaint is that broad (and therefore expensive) government programs benefit many who are not necessarily in need of assistance. Even public education falls into this category for some privatization advocates. Targeting services narrowly to certain groups would be much worse, creating resentment between classes of citizens and stigmatizing poorer groups.²⁶

Concern #2 Workforce resistance

Although the opportunities for using competitive contracting for significant savings and service improvements abound, opposition to the effort will be intense as entrenched interests--largely the existing workforce and managers--defend the status quo and the benefits it provides them.²⁷

Concern #3 Unemployment

The latest call for unbridled outsourcing and privatization to supplant modernization accounts introduces a sinister game of musical chairs that will put many defense workers off, behind, down, and out. It will soon be argued that programs receiving the planned financial infusion will be in a position to employ the tens of thousands of workers to be turned out into the streets under the Quadrennial Defense Review and concomitant Congressional legislation. But

the civilian defense industries are themselves largely saturated and have a general interest only in those with advanced technical skills.²⁸ Leadership must not sell out the left behind average, hard working, loyal employees for the pursuit of immediate short term gains.

Concern #4 Old wine in new bottles

With a sort of weary, dull surprise, many who have overseen some outsourcing and to a lesser degree, privatization projects, are discovering that these "new ways of doing business" amount only to old wine in new bottles. Contractors bid for outsourced work claiming substantial savings, government employees are surplus or reduced in force (RIFed), then (once the indigenous labor source is shuffled off or absorbed) the contractors run up the bill. Uncle Sam then has nowhere else to go, since the in-housers have been benched in the name of savings and efficiencies. It is the charge and duty of the government employee to ensure that taxpayers don't get fleeced, but the contractor's first duty is just to charge. For the latter, it is the stockholder, not the taxpayer, that ultimately controls the purse strings.²⁹

Concern #5 Short term thinkers

A principal problem with the zealous privatizer and outsourcer (a.k.a. "government reformer") is that they are notoriously short-term thinkers. They forget or never bother to calculate the stimulation that government paychecks have in the economy. In the private sector, a firm can hire more workers when demand is high, lay them off during a lull in demand, but that is not so in government.³⁰

Concern #6 Steward of National Legacies

The symbolic effect of privatization is not to be overlooked. The government is the steward of many of our important national legacies, such as parks and monuments, that have meaning to us as a nation. To privatize these things would deny our citizens a common ownership of them.³¹ Our country is steeped in rich tradition embodied in our National Legacies. Let's not risk devaluing these priceless commodities.

Concern #7 Malicious Compliance

One problem is that OMB has been silent on how it determined its numeric targets for outsourcing and privatization candidates. It is not clear what, if any, empirical or historical data were used in arriving at the 5 and 10 percent numbers thrown around by Congress. Applying the same goals rigidly to all agencies and departments regardless of mission, culture, size and past experience with competitive sourcing may not prove realistic.

Rep. Tom Davis, R-Va., chairman of the House Government Reform Subcommittee on Technology and Procurement Policy, stated: "There is nothing that says that to arbitrarily assign federal agencies target figures is the best means to ensure cost savings for the government." Davis' use of the term "arbitrary" captures what is likely to be the reaction of many federal executives and managers faced with helping their agency heads achieve these goals. If managers view the goals as not based on a sound assessment of needs and situational requirements, many will find creative ways to circumvent them and avoid accountability. In other words, a perception of arbitrariness inevitably breeds counter-functional behavior. Some call it "malicious compliance."³²

Concern #8 Guarded Programs

Simply privatizing a function won't lead to greater efficiency if the function was unnecessary or wasteful in the first place. In fact, it could make things worse. Contracting for performance of government activities may make it harder to terminate or reorganize them, because the contractors, through their supporters in Congress, become a force for continuing them. It will take more than public-private competitions to figure out who can perform existing functions most efficiently and effectively. It also will require a thorough review to identify redundant, outdated or unnecessary activities that need to be eliminated. What will be needed most of all is the cooperation of the lawmakers who tend to jealously guard the programs they have created. The task is daunting.³³

IMPROVEMENTS TO THE PROCESS

I've identified a list of shortcomings and concerns that exist with outsourcing and privatization. However, it is not a futile situation. Leadership must note that outsourcing and privatization can be effective cost saving tools, but improvements to the process are needed. The Truthfulness, Responsibility and Accountability in Contracting (TRAC) bill is a step in the right direction in policing contractor performance. It adds an accountability check to a vastly overlooked process.

At the request of the American Federation of Government Employees (AFGE), the TRAC Act (S. 2841) was introduced in the U.S. Senate by Senator Chuck Robb (D-Va.) in July 2000, a lifelong supporter of federal workers. The bill calls for the suspension of all new federal contracts if federal agencies have not made "substantial progress" within 180 days to meet the following requirements:

- Track costs and savings from contracting out;
- Prevent agencies from contracting out work without public-private competition;

- Abolish arbitrary personnel ceilings that prevent agencies from taking on work even when federal employees can perform the job more efficiently; and
- Emphasize contracting in to the same extent as contracting out.

TRAC addresses the critical function of requiring agencies to track costs and savings from contracting out. Right now, agencies are assuming that promised savings from contractors are actually realized. However, as the General Accounting Office (GAO) has reported, costs have a way of increasing over the course of contracts. GAO has also reported that agencies don't have systems in place to track costs. This information could be used to encourage contractors to do better work or bring work back in-house when it could be performed more efficiently by federal employees. Either way, the taxpayers benefit.

"The public has a right to reliable and accountable public services," AFGE National President Bobby L. Harnage stated. "The TRAC Act will help ensure that America's taxpayers get just that." The bill simply holds contractors accountable to the same standards as federal employees.³⁴

Another accountability improvement would be to monitor the contractor's performance. All contracts require some type of monitoring, that is, a process by which the Government can measure a contractor's compliance with terms of the contract. Monitoring can take place in many forms, such as random sampling, customer complaint, 100 percent inspection, or some combination of techniques. If a successful outsourcing project is desired, then costs of monitoring the execution of the function must be taken into account during the planning of the cost study. The importance of this step is twofold and cannot be overlooked. Oversight and administration represent part of the cost of outsourcing and therefore must be accounted for in the cost comparison if it is to be valid. Furthermore, what will be measured and how it will be measured must be included in the solicitation and incorporated into the contract if it is to be enforceable.³⁵

The DoD must be prepared to monitor contractor performance. Though monitoring does necessitate additional costs, these should be offset by the benefits received through monitoring. Efficient monitoring ensures the validation of the level of service the government receives, prevents payment for poor quality or inadequate performance, and detects and recovers inappropriate outlays.³⁶

Based upon DoD's past experience, there is substantial evidence that savings of the magnitude projected may not be achievable. Outsourcing savings are dependent upon or highly influenced by (1) the ability to clearly define the requirement, (2) the continued existence of a competitive commercial market, (3) the ability to monitor and measure the contractor's

performance, and (4) the appropriate terms are included in the contract. The DoD has demonstrated, that in many cases, it is unable to consistently fulfill all of these criteria when it outsources and has failed to achieve the originally expected savings³⁷.

"We haven't figured that out very well," asserts Donald Kettl, a professor of public affairs and political science at the University of Wisconsin (Madison). He argues that "as more of the government's work is contracted out," new kinds of talent must be brought into the government. Rather than simply rearranging organizational charts, Kettl says there must be a new emphasis, in both training and recruitment, on strengthening the capability for overseeing contractors. "We need to find people who have the skills to manage the government we have grown into."³⁸

The DoD seems fully capable of providing oversight and monitoring the contractor's performance. The challenge will be in maintaining this capability in the future, especially on the more complex functions. Once an environment of total outsourcing exists, it will become increasingly difficult to acquire and sustain the technical knowledge necessary to competently monitor the contracts.

CONCLUSION

Money talks. Outsourcing and privatization are business ventures that are here to stay due to their cost savings potential. Short term profits are reaped and their successes touted to an admiring public. However, leadership must be cautious of these short lived victories for the long term effects may erode America's strong industrial base characterized by a loyal, committed DoD civilian workforce.

Many personnel enthusiastically join the ranks of the DoD civilian workforce with visions of service to their country. They anticipate a rewarding career characterized by job security and lifetime employment. This vision has been challenged by outsourcing and privatization. Many feel their government is selling them out to "get rich quick" contractors whose sole goal is the pursuit of the almighty dollar. Managers and workers are becoming stressed with the pressures of yielding to the contracting way of life. They feel resentment as they lose control of their operation to more and more outsiders. This leads to hesitancy in going the extra mile in fear of violating a contract entrenched with legalize. Subsequently, team building and unit cohesion suffers, staples among the long standing DoD service commitment. An "Us versus Them" mentality is fueled that can only stifle an organization's creativity and effectiveness. Outsourcing and privatization can be effective cost savings tools, but leadership must not sell out a loyal, committed workforce for the pursuit of short term financial gains.

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ENDNOTES

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³ Leslie J. Saleck, "Outsourcing: An Historical Review for the Projection of Future Savings," Thesis (Air Force Institute of Technology, September 1998), 18.

⁴ Office of Management and Budget, "Performance of Commercial Activities," Circular No. A-76 (revised 1999); available from <<http://www.whitehouse.gov/omb/circulars/a076/a076.html>>; Internet; accessed 11 March 2002.

⁵ Dick Kirschten, "The Best Deal in Town?" Government Executive 1 August 2001; available from <<http://www.govexec.com/features/0801/0801polworld.htm>>; Internet; accessed 22 November 2001.

⁶ Ronald D. Utt, "Improving Government Performance Through Competitive Contracting," 25 June 2001; available from <<http://www.heritage.org/library/backgrounder/bg1452es.html>>; Internet; accessed 22 November 2001.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Elizabeth G. Book, "Federal Procurement Chief Outlines Priorities," National Defense November 2001; available from <<http://www.nationaldefensemagazine.org/article.cfm?id=623>>; Internet; accessed 22 November 2001.

¹² Michael J. Brower, "Outland: The Vogue of DoD Outsourcing and Privatization," Acquisition Review Quarterly Fall 1997; available from <<http://www.dsmc.dsm.mil/pubs/arq/97arq/browe.pdf>>; Internet; accessed 22 November 2001.

¹³ Barnaby J. Feder, "Less Information Technology Spending Seen," The New York Times 29 October 2001; [database on-line]; available from ProQuest; accessed 23 November 2001.

¹⁴ James Colvard, "Savings Can Have a High Price," Government Executive 1 November 1998; available from <<http://www.govexec.com/features/1198/1198defense.html>>; Internet; accessed 23 November 2001.

¹⁵ Raphael Lewis, "Workers Said to Have Lacked Required Checks," Boston Globe, 13 October 2001; [database on-line]; available from ProQuest; accessed 22 November 2001.

¹⁶ Dick Kirschten, "Choose Your Target," Government Executive 1 August 2000; available from <<http://www.govexec.com/features/0800/0800polworld.htm>>; Internet; accessed 22 November 2001.

¹⁷ Ibid.

¹⁸ Paul Starr, "The Limits of Privatization," 1987; available from <<http://www.cce.cornell.edu/programs/restructuring/privatization/summaries/starr1987.html>>; Internet; accessed 24 November 2001.

¹⁹ Colvard.

²⁰ Christopher A. St. Jean, "Managing the Drawdown's Human Side," Insights 13 February 2002; available from <<http://www-cgsc.army.mil/milrev/english/novdec97/insights.html>>; Internet; accessed 25 February 2002.

²¹ Ibid.

²² Ibid.

²³ Starr.

²⁴ Brower.

²⁵ Ibid.

²⁶ Starr.

²⁷ Utt.

²⁸ Brower.

²⁹ Ibid.

³⁰ Ibid.

³¹ Starr.

³² Robert Agresta, "Arbitrary Outsourcing," Government Executive 1 September 2001; available from <<http://www.governmentexecutive.com/features/0901/0901view2.htm>>; Internet; accessed 22 November 2001.

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³⁴ The American Federation of Government Employees, "TRAC Act Introduced by Senator Robb," 11 July 2000; available from

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³⁶ Ibid.

³⁷ Ibid., 58.

³⁸ Kirschten, Choose Your Target.

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