



May 7, 2012

**POGO's Response to PSC Letters to Senators Brown and Hildibrand,
Congressman Hinchey, and Co-Signatories**

Dear Honorable U. S. Senators and Honorable U.S. Representatives:

Senators and Representatives recently received a letter from the Professional Services Council (PSC) responding to their letters to Secretary of Defense Leon Panetta, in they criticized the Department of Defense's (DoD) efficiency initiative, which aims to reduce costs by scaling back the civilian workforce to 2010 levels rather than compliance with mandates to reduce reliance upon contractors. We would like to offer some perspective on a number of points raised in the PSC letter.

1. The PSC letter states, "Between fiscal year 2010 and fiscal year 2011, overall government spending on services contracts decreased by \$20 billion, which equates to tens of thousands of private sector job losses."

Response: PSC conveniently mixes apples and oranges. The \$20 billion differential cited actually reflects DoD's budgeted obligations for services *and supplies*. DoD actually *increased* its expenditures on service contracts during the first 10 years of this century from \$104 billion to roughly \$250 billion, while expenditures on DoD civilian employees only increased roughly \$25 billion, from \$47 billion to \$72 billion.

To better understand DoD service contract expenditures, it is important to appreciate that a significant proportion of expenditures are on Overseas Contingency Operations (OCO). When budget requests for non-OCO service expenditures are compared, DoD's requests *increased* from \$63 billion in FY2010 to \$70.5 billion in FY2012.

But even where DoD does reduce its expenditures on service contracts by insourcing services provided by private contractors, in fifty (50) percent of the time it does so to save the government money. PSC's assertion that this equates to private sector job losses is not the issue, as the government must pay for the services whether performed in the public or private sector. The issue is which sector provides the taxpayer the best bang for its buck.

2. The PSC letter goes on to state, "Since 2009, the department's expenditures on services, as a percentage of total DoD outlays, has dropped almost 10 percent."

Response: While it may be true that service expenditures have dropped "as a percentage of total DoD outlays," that is not tantamount to service expenditures actually dropping; indeed, services expenditures by the Navy and Air Force have increased significantly over the past five years.

3. PSC argues that, “the current budget pressures serve to heighten competition for work in an already highly competitive market, thereby further driving down wages and other contractor costs.”

Response: This is a self-serving argument for which no PSC cites no evidence. Even if private sector wages are being driven down, that does not necessarily translate into concluding the government necessarily saves money by outsourcing its service functions to contractors; indeed, when POGO empirically tested that assertion, we found that the government wastes billions of dollars by doing business with service contractors.

4. PSC goes on to assert that, “it may well be necessary to increase contractor support for the mission-critical, high-end skills that the government does not compete well for in the broader human capital marketplace. In these cases, the companies provide the critical conduit to those skills.”

Response: While it is true that the government may not have sufficient numbers of employees with mission-critical, high-end skills, that is less a function of its ability to compete with the private sector and more a function of Congress’ failure to authorize the positions and funding necessary to acquire personnel with those skills...a point POGO makes in its *Bad Business* report.

5. PSC’s most egregious and misleading assertion is contained in this statement:

Unfortunately, some lawmakers are making the broad and unsubstantiated assertion that the federal workforce costs less than contractors. The fact is that there is little evidence beyond a few analytically weak, self-serving, reports to support such claims and many other more objective reports—from the CBO, GAO, and others—that document the opposite, particularly when the full range of life cycle costs are considered.

Response: First, the House and Senate letters’ assertion that the federal workforce costs less than contractors *has been* empirically substantiated. (See POGO’s [Bad Business report](#).) What remains to be substantiated is the scope and extent of waste (or savings) service contracts generate.

PSC’s reference to a “few analytically weak, self-serving, reports” is in all likelihood a reference to the POGO report, as we are aware of no other independent study that seeks to compare the costs incurred by the government for providing *domestic* services with the costs incurred when private contractors provide those services. I goes without saying that because POGO is a non-profit, non-partisan organization committed to good governance, the only “self-serving” is the public interest. In contrast, PSC is a trade association that is lobbying on behalf of its members whose profits are made at taxpayer expense.

PSC’s claim that the CBO and GAO reports “document the opposite” is misleading at best. The most important point to recognize is that both these studies were small scale comparisons of Overseas Contingency Operations that do not reflect the realities of domestic service contracts. The CBO examined contract expenditures in Iraq between 2003 and 2007, and it found that “the costs of a private security contract are comparable with those of a U.S. *military* unit performing similar functions.” [Emphasis added.]

GAO studied four distinct task orders under the Worldwide Personal Protective Services II contract valued at \$566 million annually. GAO found that had government employees performed the services, the government would *save* the taxpayers \$53.6 annually.

Please contact me if you have any questions. We'd be more than happy to discuss this issue and current efforts we are pursuing to help DoD and Congress get a better handle on the extent of waste being generated through service contracts.

Sincerely,

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