



**Opening Statement
Chairman Mick Mulvaney
Committee on Small Business
Subcommittee on Contracting and Workforce
“Insourcing Gone Awry: Outsourcing Small Business Jobs”**

June 23, 2011

Good morning. I call this hearing to order.

I'd like to thank all of our witnesses for being here today. We look forward to your testimony.

In 1987, President Ronald Reagan brought attention to the need for the federal government to procure commercial goods and services for the best possible value whether from government employees or private contractors. He recognized that inherently governmental work should be performed by government employees, BUT THAT, at the same time, inherently non-government functions could, and should be performed by the private sector, including small businesses. Such an out-sourcing of non-governmental functions would encourage private sector growth, help small business, and save the taxpayer money.

Toward that end, we support the continued in-sourcing of inherently governmental work. This hearing is not about outsourcing military operations, then. This hearing is about the recent push to insource inherently non-government work for alleged cost savings.

Over the past five years – primarily at the Department of Defense – there have been concerted efforts to take commercial functions performed by the private sector and make it a permanent government function.

In the 2006 National Defense Authorization Act, the Secretary of Defense was instructed to ensure that consideration is given to using Federal Government employees for any work done by federal employees since 1980, and any work that is inherently governmental, was not competitively awarded, or was poorly performed due to excessive costs or inferior quality.

In the 2008 National Defense Authorization Act, that guidance was expanded and codified to ensure that DoD civilian employees are used “on a regular basis” to perform activities that are currently performed by contractors but could be performed by federal employees.

In 2009, insourcing was expanded even further to include agencies outside of DoD, and agencies were directed to produce specific guidance on insourcing. We are still waiting on any insourcing guidance from the civilian agencies. However, this lack of guidance has not stopped these

agencies from insourcing but has merely meant that the insourcing is being done without any transparency or regular process. Even at DoD, where there is detailed guidance on insourcing, the cost comparisons used to justify insourcing commercial work previously performed by small businesses has not held up to scrutiny, yet there is no process for the small business to challenge these decisions.

Insourcing was initially sold as a way to save DoD as much as 40%. President Obama claimed that it would save as much as \$40 billion each year. However, after years of implementing this policy, the Defense Department has admitted that they have not achieved significant savings. In fact, in February, the Army froze all insourcing efforts without direct approval of the Secretary due to cost increases.

Our national debt stands at \$14.3 trillion. Our federal deficit is higher now than at any point since World War II. The federal budget comes in at \$3.7 trillion – a quarter of our entire GDP. And the federal workforce has expanded to over 2.1 million employees. We need to find ways to both reduce spending and keep it low. Continuing the policy of insourcing commercial functions without demonstrable cost savings increases the size and cost of the federal government, and it moves us in exactly the wrong direction.

When the government chooses to consider insourcing, the burden should fall on government agencies to prove that the full, long-term cost (including pay, benefits, and support) of hiring and training new federal employees is less than a temporary government contract. Recent reports reveal that it is not.

I want to thank the small businesses that have come forward to testify today about the lack of transparency in the insourcing process and the need to reform the process to ensure that taxpayer dollars are being used to maximize productivity and not to maximize union membership. I would also like to thank the work of outside groups including the Business Coalition for Fair Competition for documenting the many instances in which the government has sought to compete directly with small business to provide commercial items to the federal government.

I look forward to hearing from the small businesses that will testify today about how insourcing has affected them, and, again, I want to thank everyone for their participation.

I now yield to the Ranking Member for her opening statement.