

TESTIMONY**TESTIMONY****of****Stan Z. Soloway**

President

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Mr. Chairman, members of the committee. My name is Stan Soloway, president of the Professional Services Council, and I am honored to appear before you today. PSC is the nation's principal trade association of government professional and technical services providers and represents the full range of information technology, research and development, engineering, high-end consulting, operations and maintenance and other companies supporting the government's many missions in virtually every agency.

This hearing comes at a most important time in our history. Even before the horrific events of September 11, the need for a robust and growing partnership between the government and the competitive private sector was evident to all. In the aftermath of September 11, as priorities and missions have been altered forever, that need is greater than ever. As the private sector speeds ahead with almost daily advances in information technology and security, bio-technologies, business process re-engineering, e-commerce and e-business solutions, integrated facilities management solutions, and more, the government has struggled to keep pace. As the government faces its daunting human resource problems, ever-growing competition for talent with the private sector and continuing financial constraints, the need for that vital partnership grows. It should be embraced enthusiastically with the full recognition of the benefit such a partnership can have for the taxpayers and for the government's many customers.

That is why, Mr. Chairman, PSC so strongly opposes the TRAC Act. And that is why we are joined in opposition to the legislation by a cross-section of business organizations, including those representing small, minority owned and women owned businesses; labor unions; national security organizations; taxpayer groups; and more. We are convinced that the TRAC Act would, if passed in whole or in part, lay waste to that partnership and result in diminished government services to the public.

Everyone testifying today has his own views on the TRAC Act. Each has vested, parochial interests. But sound policy must be focused on meeting the public's interests and enabling federal agencies to achieve their missions in a manner that optimizes both performance and costs. That also means that sound public policy must be underpinned by sound facts and a clear picture of the environment in which it will be executed.

Today, the bulk of technology development is performed in the private sector...an almost complete reversal of the balance that existed just 25 years ago, when the government was still the principal developer, and owner, of most technology. Indeed, by most estimates, in this calendar year, the private sector will spend more than \$250 billion in research and development, compared with the government's investment of roughly one fifth that amount. In the information technology arena alone, studies

suggest that a relatively small number of companies—perhaps 80 or 90 of the top information technology firms—will spend more on research and development this year than the entire Department of Defense research and development budget. And it remains a fact that in the high technology arena especially, far too many firms remain inaccessible to the government during the critical research and development phases of product and capability development.

Thus, while the government's renewed focus on and commitment to research and development is important and welcome, the gap is so wide that it likely never will be closed. Thus, the government must continue to reach out to, tap, and adapt to the proven best practices of the commercial sector if it hopes to access the range of solutions, for everything from business processes to weapons systems that are today available. Moreover, it must recognize that the term "low technology" is rapidly becoming obsolete and that the solutions emerging today from the competitive private sector cover the entire spectrum of operations, including many of those functions previously considered "low tech".

Unfortunately, the current debate on outsourcing and privatization not only fails to focus on the critical issues, but is being conducted largely in an environment beset by false premises and perceptions. As so often happens when issues such as this arise, fear and mythology take hold and tend to overwhelm fact. Today, I would like to spend a few minutes dispelling some of the mythology and talking about the real world of government contracting for services.

First, many in this room - indeed, many in industry itself - accept at face value the suggestion, made popular by Paul Light of the Brookings Institution, that there is an enormous contractor workforce, operating somewhere in the dark, doing the bulk of the government's business. The so-called "shadow workforce," we are told repeatedly, is much larger than the government workforce and far less accountable for its actions. Moreover, the mythology holds that over the last decade the government has dramatically increased its outsourcing, or services contracting, at the expense of federal employees, whose numbers have been significantly cut as outsourcing has grown.

Let's start with the issue of the "shadow workforce" itself. This term must be differentiated from the term "shadow government," as defined and written about in Dan Gutman's book of the same title. It also is the term used in recent news stories about the administration's precautionary rotation of senior government officials to secure facilities. In Mr. Gutman's congressional staff reviews in the 1980s and in his book of a number of years ago, the focus was on the business of governance; that is, the occasional involvement of contractors in the policymaking of government. Since then, the rules dictating which functions are inherently government - and thus not appropriate or available for outsourcing - have been refined. On the other hand, the topic of today's hearing is the processes and policies surrounding functions that are defined to be commercial in nature and thus could be performed by the private sector.

In the final analysis, the actual number of contractor employees performing work for the government is not terribly important or meaningful - arbitrary head counting of direct or indirect employees rarely is. In fact, the true and most important measures of government's size lie in its overall mission, performance and budget, regardless of who is performing the work.

Nonetheless, we are routinely treated to varying estimates as to the size of the shadow

workforce, with the most prominent and widely accepted being Paul Light's estimate of 5.6 million, roughly three times the size of the federal workforce. But despite popular perception, Light's numbers have little to do with the contractor workforce. Rather, they were arrived at using the Commerce Department's Regional Input/Output Modeling System, or RIMS, which measures the total economic impact of things like plant relocations. Under RIMS, the government and others are able to determine not only the direct employment that would result from the relocation of the plant, but also the overall impact, including grocery store clerks, teachers, gas station attendants and more. Thus, Light's figures offer little or no insight into the size or scope of the federal contractor workforce or the work they are or should be doing.

Moreover, it is for this same reason that other analyses, including the work the Army did last year on the subject, and DoD's own studies, suggest that the actual number of contractor employees supporting the government is only a fraction, maybe 20 percent, of Light's numbers.

As I noted earlier, I do not believe that the time and effort necessary to count the number of contractor and subcontractor employees supporting the government would be worth the result, since the real issue for work contracted out or performed in house is overall performance and cost. But the key point here is that the so-called "shadow workforce" casts a far smaller shadow than is often believed.

Second, the perception that the government, over the last decade or so, has radically increased its outsourcing or service contracting at the expense of incumbent federal employees is also belied by the data. Some 60 percent of the growth in service contracting over the last 10 years has been in the civilian agencies, yet 90 percent of the workforce reductions have come at DoD. In the civilian agencies, service contracting has grown by some 33 percent over the last 10 years. During that same time, the civilian workforce has been reduced by only 3 percent, according to the latest Congressional Budget Office and Office of Personnel Management data. At DoD, service contracting has actually increased, in dollars and percentages, at a slower rate...only 14 percent over 10 years, while the workforce reductions, many of them driven by base closures, have been close to 32 percent. In short, if there were a correlation between increases in service contracting and workforce reductions, the data would at least suggest it...but it doesn't.

Moreover, where the government workforce reductions have been greatest—particularly in blue collar and administrative work—there have been similar reductions in service contracting. Likewise, in those areas where the government is most aggressively hiring, or trying to hire, especially in the professional fields, service contracting has also grown. In other words, federal workforce levels and service contracting trends have tended to follow similar paths based on the changing missions and needs of government. And as the data suggest, the relationship between outsourcing and workforce levels have actually tended to be complementary, not mutually exclusive.

As the GAO and others have reported, it would be entirely wrong to suggest that government employees face vastly diminished pay and benefits when work they are performing is outsourced. If that is the case, why has there been such a debate over "pay parity", a debate in which the focus has been on raising federal wage levels to equal those of equivalent private sector positions? The assertion also fails to acknowledge that for many positions included in government service contracts, the

government, not the contractor, sets the acceptable wage and benefits requirements through the Service Contract Act.

And what of the accountability of contractors? How does it match up against internal government management and controls? Quite well, actually.

No one doubts that the government has challenges in the contract management arena, that training of the acquisition workforce has lagged or that shifting the government's thinking into the contemporary era of value- and performance-based business relationships is difficult. That is why the Professional Services Council has been a strong and consistent advocate of more training and developmental opportunities for the acquisition workforce. At the same time, however, it would be disingenuous to suggest that similar - or worse - problems do not exist internally.

Contractors, for instance, are subject to a range of checks and balances, including continual competitive pressures. In fact, some 75 percent of all services contracting actions, and more than 90 percent of all information technology services contracting actions, are competitively awarded and most are routinely recompeted. Contractor costs are subject to a range of government-directed accounting standards and audit provisions—too many such provisions in fact. Contractors are continually rated on their performance and previous performance is now typically a significant evaluation criterion when they compete for new work. Since virtually every contractor invoice must be validated before being approved—often more than once—the costs of contractor activity are immediately and fully visible, at least at the buying level.

The GAO has reported several times that the government does not know, in the aggregate, how much money is being saved or how much cost is being avoided through outsourcing. But that is an internal systems issue; it does not diminish the reality when the bills are paid, there is total cost visibility. Nor does it change the opinion of GAO or others that contracting out saves money. The only issue is how much.

And what of government activities? To quote the GAO in a report on A-76 public-private competitions, “the government does not know the cost of the activities it competes.” An independent study by the Center for Naval Analyses, which sought to assess the relative long-term savings of outsourced work and work retained in house after an A-76 competition, reached a similar conclusion. While they concluded that outsourced work achieved, over the long term, the savings originally projected, they could reach no such conclusions with regard to internal performance. CNA reported that they had originally intended to do such an assessment, but could not because “the data does not exist”. Moreover, government activities are not continually rated on performance, or for that matter, incentivized adequately for high performance, in any meaningful way. Competition remains all too scarce. And real commitments to workforce development and training, now considered among the highest priorities in the high performing private sector, remain afterthoughts that rarely survive the agency battles over resources.

My point is simple. Accountability cuts both ways, can be a challenge both ways and needs attention both ways. Any suggestion that contracted work is somehow less accountable than internal government costs or performance is simply incorrect.

This leads me back to S1152, the Truthfulness, Responsibility, Accountability in Contracting Act, or TRAC. The TRAC Act almost certainly would result in a

moratorium on service contracting and would, in the long run, require that every service contract, recompetition, task order, option or other action be subjected to the widely discredited, time consuming, expensive A-76 process. The bill does not, as many believe, deal only with work currently being performed by federal employees, work for which employees already can and do compete; rather, it deals with almost the entire universe of work being performed in support of the government. It is a thinly veiled attempt to stop all outsourcing and mandate the in-sourcing of all work, regardless of whether an incumbent federal workforce is currently performing that work.

Procurements that today can be completed in a fully competitive environment, in a matter of weeks or months, would take years. High performing commercial companies, many of whom have only entered the government market in recent years, would beat a hasty retreat rather than subject themselves to the distorted, inaccurate and suspect A-76 process. Nor would high performing, competitive companies be inclined to engage in so-called “competitions” which favor those who bid lowest and tend to discount the key discriminators that drive true performance, such as quality, technical sophistication, long term performance, and more. The e-government, e-commerce, and other technology initiatives of both political parties would suffer potentially fatal blows. The new post-September 11 missions of many agencies would suffer as well. And in the end, the government, and the taxpayer, will pay the bill.

Today, A-76 is utilized in less than 2 percent of all service contracting because only that small amount of service contracting involves work currently being performed by more than 10 federal employees. It is a process that industry, the federal unions and many others have testified does not work, is not fair, and does not deliver the results the government needs and deserves.

For those reasons, PSC and the rest of the industrial base that supports the government oppose the TRAC Act. It is also opposed by labor unions, taxpayer organizations, national security organizations, and small businesses—many of which would literally be driven out of business were it to pass. In fact, as devastating as the TRAC Act would be for larger businesses in the government marketplace, it would be even worse for small businesses, which already face enormous challenges and obstacles as they seek to grow. Some 50 years ago, the House Committee on Government Operations observed that “a strange contradiction exists when the government gives lip service to small business and then enters into unfair competition with it.” That observation remains as true today as it was then.

Similarly, the Department of Defense, in letters from both Secretary Rumsfeld and Undersecretary Aldridge, has made known to Congress its strong opposition to the TRAC Act. A group of 12 retired, senior military officers, including former Joint Chiefs Chairmen Adm. William Crowe and Gen. John Shalikashvili and several former service chiefs, wrote Congress last year to warn of the bill’s potentially “devastating impact on national security.”

Last year, the Congress directed the comptroller general to establish a diverse panel of experts to review the overall issue of outsourcing, including A-76, and report back to Congress this May with recommendations for policy changes. The comptroller general chose to chair the panel and ensured that it was indeed diverse. The membership includes Mr. Harnage and Ms. Kelley, me, and another private sector representative, senior DoD, OMB and OPM officials, and other experts. Given Congress’s mandate to

the comptroller general and the panel, it would seem precipitous to take any action now, before the panel has completed its work and submitted its recommendations to Congress.

With all due respect, Mr. Chairman, the TRAC Act is ill-conceived, is based on faulty premises driven in large part by a mythological environment, and would strangle the agencies and small business. Moreover, the passage of the bill or any parts of it could well destroy the delicate but vital partnership between the public and private sectors. The opposition to the legislation is broad and deep, crossing all economic and political lines.

Mr. Chairman, I want to thank you and the committee again for the honor of appearing here today. I would be happy to answer any questions you have.

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