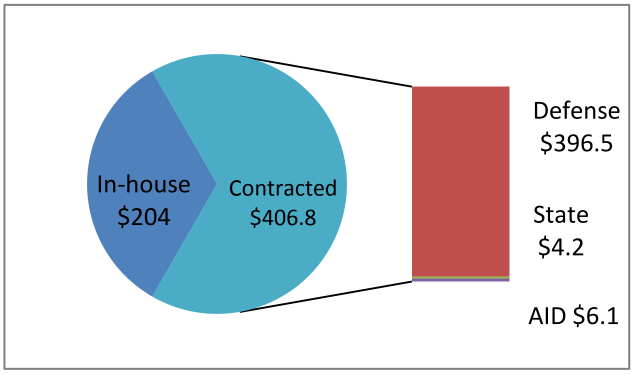
No. 18: Addressing Concerns About US Foreign Policy Outsourcing (12/02/09)

In the past weeks, the criticism about America's foreign policy being outsourced to the private sector has resurfaced with a vengeance. This is an important issue to raise: not only do the Defense Department, State Department, and Agency for International Development (AID) represent US interests overseas, they also account for some 70 percent of all US government contracts. However, much of the recent analysis has painted these contracts with a broad brush, instead of examining them in the necessary detail.

According to the Federal Procurement Data System (FPDS), Defense in 2008 spent $396.5 billion – 68 percent of its $583 billion budget – on all contracts, while the State Department spent $4.2 billion (34 percent of its budget) and USAID $6.1 billion (40 percent of its budget) (see Figure 1). Compared to the year 2000, these represent threefold increases in the amounts spent on contracts for Defense and State and a whopping twelve-fold increase for AID.

Figure 1: The US foreign policy budget: in-house vs. contractor spending (2008) (in US$ billions)



Source: FPDS, CSIS analysis

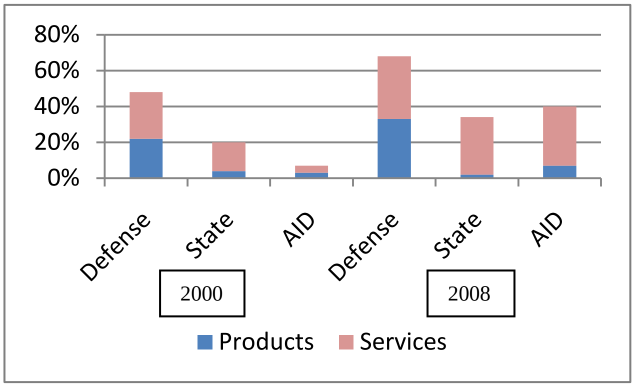
However, an increase in spending is not in and of itself a cause for alarm, especially in light of more interventionist policies in recent years.

The first thing to keep in mind is that the overall contracting dollars are used for the acquisition of both products and services (split about evenly between the two categories for the past two decades) So unless the idea is for the US government to take over the global industrial base that supports its activities, it should be perfectly acceptable for Defense, State and AID to spend significant portions of their budget on things like military equipment, IT systems and prescription drugs for developing countries.

When we focus on government contracting for services, the picture becomes even less alarming. In 2008, each of the above-mentioned agencies spent about one-third of its budget on services provided by the private sector (see Figure 2 on next page). It is true that, nine years ago, they spent much less on services: Defense spent 25 percent, the State Department 16 percent, and AID a mere 4 percent. And yes, given that the acquisition workforce in these three organizations has been reduced, there are now fewer contract officers managing a much larger portfolio than in 2000.

But even today, the lion's share of the budget in all three organizations is spent where it should be: on paying their employees' salaries and purchasing the best possible equipment for them to use.

Figure 2: Contract share of overall Defense, State and AID budgets (2000, 2008)



Source: FPDS, CSIS analysis

Next, let's examine how the money is spent. In 2000, 63 percent of Defense contracts were awarded after either full or partial competition, meaning there were at least two bidders on each. For the State Department and AID, the numbers were 69 and 90 percent, respectively. In 2008, despite a threefold increase in the total value of contracts awarded by these organizations, the numbers were similar: 64 percent of Defense contracts, 61 percent of State contracts and 87 percent of AID contracts were either fully or partially competed, reflecting a trend similar to the rest of the government.

Lastly, let's examine whether this spending is a good use of taxpayer dollars. Since 2000, the highest growth rates have been in equipment-related services (157 percent) and management support services (211 percent), both driven primarily by operations in Iraq and Afghanistan. And according to a recent CSIS analysis, the majority of service contracting in the Iraqi and Afghan theaters (65-70 percent) is for logistics: feeding the troops, doing their laundry, and constructing and maintaining the bases in which they live. This is a good thing, because it means that our diplomats, soldiers and development officials have more time for frontline operations and for much-needed R&R. It also puts the lie to the argument that we are able to fight in those countries with so few allies only because we've "hired the help," unless we expect our allies to cook our meals and fix our broken equipment.

In light of these data, much of the criticism of government contracting appears superficial. Sure, government needs to be better at managing contractors. Sure, it needs to bring certain skill sets (such as prisoner interrogation and contract oversight) back into government. And sure, we could always use even more transparency on government spending. Yet in government contracting, as in any other policy area, the devil is in the details, and details on how to implement change are something the critics of government contracting avoid. Who, for example, should decide which tasks are inherently governmental and should never be contracted out? How can contract vehicles be used better and improved upon? And how can a byzantine government human resources apparatus attract and retain the talent necessary for the work that is inherently governmental?

More importantly, the critics of government contracting have yet to present an analysis showing how the costs of contracting outweigh the benefits. They warn of contracting run amok and the privatization of foreign policy but seemingly forget that in times of war, meeting the warfighters' needs in a timely manner is a primary task of the government, even if this costs more than we would like it to. And while it may be that critics fear the very ability to go to war quickly, they should also recognize that having a private sector that can surge in support of expeditionary operations increases the nation's ability to project power and the credibility of its deterrence.

— Guy Ben-Ari

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