THE OUTSOURCING OF NATIONAL DEFENSE

By

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This manuscript has been read and accepted for the
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ABSTRACT

THE OUTSOURCING OF NATIONAL DEFENSE

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The outsourcing of military activities and services has grown dramatically in recent decades. My objective is to understand and explain this phenomenon at work in the United States Department of Defense (DoD) using theoretical frameworks of strategic efficiency, political ideology and organizational theory factors. This study seeks to answer the question, why has the DOD outsourced support activities and functions that contribute to larger national security objectives and were traditionally performed by DoD personnel? I'll use a case-study methodology to examine outsourcing in the DoD between 1970 and 2005, to include an in-depth look at the information technology (IT) networks area of the military services.

I've chosen these cases because they combine to represent a broad perspective of outsourcing behavior across each service over time as well as a specific core area relevant to the war-fighting mission of each service. Since the phenomenon is under explored in political science, my study will be valuable in expanding our understanding of the factors influencing the increasing role of market actors in national defense activities. I'll also address issues regarding the distribution of power, authority and public accountability while identifying relevant bureaucratic, ideological and organizational factors affecting the development and implementation of national security.

For my Mom and Dad

Thank you for teaching me to dream and believe

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ABBREVIATIONS AND ACRONYMS

ADP	Automated Data Processing
AEIT	Army Enterprise Infostructure Transformation
ASCP	Army Small Computer Program
BLS	Bureau of Labor Statistics
BMC	Basic Military Compensation
BPI	Basic Pay Index
CAMIS	Commercial Activity Management Information System
CAP	Commercial Activities Panel
CBO	Congressional Budget Office
CCA	Clinger-Cohen Act
CEO	Chief Executive Officer
CIO	Chief Information Officer
CNO	Chief of Naval Operation
CORM	Commission on Roles and Missions of the Armed Forces
CPA	Coalition Provisional Authority
CPI	Consumer Price Index
DECI	Defense Employment Cost Index
DISA	Defense Information Systems Agency
DoD	Department of Defense
DoL	Department of Labor
DoN	Department of the Navy
DRI	Defense Reform Initiative
DSB	Defense Science Board
ECI	Employment Cost Index
EDS	Electronic Data Systems
EO	Executive Order
FAIR	Federal Activities Inventory Reform
FTE	Full Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GDP	Gross Domestic Product
GS	General Schedule
GSA	General Service Administration
HQ	Headquarter
IG	Inspector General
IS	Information Systems
IT	Information Technology
JCS	Joint Chiefs of Staff
KBR	Kellogg, Brown and Root
LOGCAP	Logistics Civil Augmentation Program
MAJCOM	Major Command
MCEN	Marine Corps Enterprise Network
MEO	Most Efficient Organization

ABBREVIATIONS AND ACRONYMS

MOA	Memorandum of Agreement
NETCOM	Army's Network Enterprise Technology Command
NMCI	Naval Marine Corps Intranet
NPR	National Performance Review
O&M	Operations and Maintenance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
PMA	Presidential Management Agenda
PMC	Private Military Company
PMF	Private Military Firm
POM	Program Objective Memorandum
PPBE	Planning, Programming, Budgeting and Execution
QDR	Quadrennial Defense Review
R&D	Research and Development
RFP	Request for Proposal
RMC	Regular Military Compensation
SOP	Standard Operating Procedure
SPAWAR	Space and Naval Warfare Systems Command
TOA	Total Obligation Authority
UAV	Unmanned Aerial Vehicle

CHAPTER ONE

INTRODUCTION

My dissertation focuses on the DoD outsourcing of services, a form of privatization, from 1970-2005. This study seeks to understand the factors driving the DoD outsourcing phenomenon for support services since they have become vital in the process of providing defense and security to the American public. These support services contribute to core activities integral to several DoD operational missions having a direct consequence on national defense. Procurement of support services increased from $63.9 billion to $130.1 billion (constant 2005 dollars) between 1970 and 2005.

While scholars have studied the U.S. military-industrial complex focusing on DoD/government relationships with market actors aimed primarily at weapons manufacturing, research and development, studies addressing the growing onset of outsourcing for many DoD support functions and missions have lagged behind. When running defense operations has become dependent on support contractors that going to war without them, as in Iraq and Afghanistan, becomes impossible, questions arise as to why the DoD has put so much investment into private actors and its affect on core military and democratic principles. No one has made a case for why the U.S. has increased its dependence on the private sector for these activities nor addressed the issue of winners and losers as a result of this phenomenon. This paper will study DoD outsourcing in a variety of support functions through the frameworks of strategic efficiency, political ideology and organization factors in a case-study methodology to gain valuable insights into the variables affecting outsourcing activity in the DoD.

Defense outsourcing has become an essential part of the U.S. war fighting effort and national interest.[1] When the national interest can be viewed as an object of political contestation, some groups may benefit at the expense of others with the advancement of the outsourcing phenomenon. Defense outsourcing is an element of U.S. national interest and has implications for a variety of groups. After examining the usefulness of each theoretical framework in explaining the DoD outsourcing phenomenon, I'll address in the conclusion how outsourcing activity has been reflective of the interests of government and military leaders at the expense of organizational effectiveness, the federal civil service, and the American public, measured through the safeguarding of democratic principles in pursuit of national defense.

Since the end of the Cold War, the national-security realm of government has seen a strong emphasis on privatization unparalleled in the modern state. Privatization is defined as a relationship between the government and a private firm or organization to provide a service for the government (Savas 1982; O'Looney 1998). Privatization actions can take the form of administrative solutions, short-term political benefits or the rearrangement of the institutional assignment of responsibilities, shifting decision processes from the public to private realm (Feigenbaum, Henig, Hamnett 1998).

Outsourcing is a form of privatization in which a government organization is tasked with providing appropriate oversight while the vendor is typically granted extensive flexibility and responsibility regarding the performance of their mission (Defense Science Board 1996). It is a form of privatization that is defined as shifting an activity, either in whole or in part, from the public sector to the private sector in order to achieve a purpose

[1] The national interest can be defined as a state acting in the interest of the entire nation, independent of societal pressures and not representing particular factions within it. The state aggregates preferences as best as possible to maximize its overall utility (Narizny 2007, 1).

more effectively, efficiently and accurately (Butler 1991). It involves the increased reliance on private actors and market forces to take over activities or responsibilities that have come to be regarded as properly within the government sphere (Feigenbaum ed. 1998). It is grounded in the belief that market competition is a more efficient way to provide quality service allowing for greater choice, increased efficiency and reduced costs for service delivery (Savas 1987).

The use of private actors to augment and assume responsibilities for military forces throughout the DoD has grown dramatically in the past few decades. The U.S. Armed Forces have experienced a significant increase in its operations tempo over the past 15–20 years while operating with about one-third fewer forces. Growth in technology has increased exponentially throughout this period and affected how the DoD conducts daily business and fights wars. According to Peter Singer, between 1994 and 2002 the U.S. Department of Defense entered into more than 3,000 contracts with U.S. based private military firms estimated at a contract value of $300 billion (Singer 2003, 15). Contractors are involved in areas critical to the U.S. military's core missions. Some of these functions include providing security and logistics support for base operations, conducting army aviation training, and performing maintenance and administration duties for the F-117 stealth fighter, the B-2 stealth bomber, the U-2 reconnaissance plane, and various naval surface warfare ships (Singer 2003, 15).

Military support services also became targeted as a business opportunity by the private sector tailoring its their expertise and service support towards military activities. The 2001 Quadrennial Defense Review suggested that contracting-out battlefield services would become as common as hiring private firms to build tactical aircraft thereby

suggesting that only activities that must be performed by the DOD be kept by the DOD (Cahlink 2003). The reliance on private actors to accomplish tasks that directly affect the states national security capability has never been greater. It has blurred the distinction between soldier and civilian (Newbold 1998).

The basic partnership trend between the U.S. government and the private sector was set in motion in the 1920s when the decision was made to build military aircraft and advanced technology armaments in the private sector (Hamre 2004, 21). Thirty years later, President Eisenhower's administration began an effort to shift federal "commercial" activities to private enterprise. In 1955, the Eisenhower administration promulgated a formal policy stating that " the Federal government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary business channels" (Bureau of Budget 1955). The policy followed the basic competition prescription, before it had been formulated, that market competition would keep goods and services cheap and of high quality (Kettl 1993, 41). Eisenhower's policy evolved into the Office of Management and Budget (OMB) Circular A-76. These early efforts took place primarily in the context of increased national governmental growth versus a broad scale and deliberate effort to reduce the size and scope of governmental activity (Henig 1990). In this study, I evaluate DoD outsourcing conducted through two primary methods — annual procurement of new or existing private services, and competitive sourcing through the Federal A-76 process.[2]

[2] The Office of Management and Budget Circular A-76 establishes federal policy for the competition of commercial activities. It provides the process by which government employees and private sector entities compete for the opportunity to provide a service on an installation (Keating 1997, 43).

Focus of the Study

My research addresses an important gap in the privatization and defense literature by examining the outsourcing of DoD support activities that ultimately have considerable impact on the national interest and national defense capabilities and objectives. It is significant and makes an important contribution to the literature for several reasons:

1. The nature of outsourcing traditional military activities, their explanatory factors and impact on societal groups has not been adequately studied in political science literature.

2. Bridging the gap between political science and defense policy literatures.

3. Private firms have become a fundamental part of U.S. defense plans and operations.

4. Since defense outsourcing has important implications for national security and ultimately weights into the assessment of the state's military capabilities, it affects the study of international security. The findings can be significant, as the vast majority of research in international security assumes the state is a unitary, autonomous actor with an objective national interest.

5. The study examines the relationship between defense organizations, policymakers and market actors in the conduct of national security. It looks at issues addressing the balance between the public and private provisions of security and responsibilities for national defense, the realm of security as an avenue for political actors to reduce the size of the state and the degree to which rational value-maximizing behavior, political ideology and organizations explain the rise of private actors in the business of national defense. The findings, while examined through case studies of DOD outsourcing activity between 1970–2005, can be further generalized to enhance our overall understanding of the

relationship between market forces, societal groups, national leaders, and the states responsibility for national defense and security throughout the international community.

Objective of the Study

The objective of this research is to understand and explain the political phenomenon of the outsourcing of national security activities in the pre- and post-Cold War era. Why outsourcing and why now? Though relationships between the military and private actors are not uncommon and have existed throughout the history of the state, the outsourcing of activities that are central to the success or failure of national security objectives is a phenomenon moving beyond traditional government-private actor relationships as contractors find themselves at the forefront of conflicts in activities that were previously performed by the state. The study is framed into four parts: Part I — chapters 1-3 (introduction, literature review, research design and data collection, theoretical frameworks overview and defense outsourcing between 1970 and 2005); Part II — chapters 4-8 (main body of study, five case studies—1970–1980, 1981–1988, 1989–1995, 1996–2000, 2001–2005); Part III —chapters 9-10 (Information Technology (IT) case-study); Part IV — chapter 11 (overall findings and conclusion).

The case studies in Part II were selected to examine and test each of the three theoretical frameworks in the study. The timeframes for the cases are based on natural variances in procurement and competitive sourcing activity and are each characterized by a relative change in one of the dependent variables. They provide a large variation on the dependent variable across time, offering a good laboratory for testing each of the three theoretical frameworks. The variance in annual procurement activity is measured using

the percent of Operations and Maintenance (O&M)[3] budget spent on procurement in Figure 1. O&M expenditures highlight the priorities and interests of the DoD. Competitive sourcing variance is measured through the following indicators of activity — annual amount of competitions, amount of positions studied for competition, and amount of competitive sourcing initiatives announced by DoD organizations in Figure 5,6,7,8 and Tables 5,7.

The first case-study is primarily focused on procurement activity, as the federal government until 1978 did not systematically capture competitive sourcing data. It highlights an inconsistent pattern for the annual percent of O&M committed to procurement. The second case-study is marked by a significant increase in the percent of O&M funds for procurement as compared to the first case. Additionally, the case is marked by significant competitive sourcing activity. The third case-study marks a reduction in the percent of O&M funds for procurement and a more significant reduction in competitive sourcing activity. In the fourth case-study, the average percent of O&M budget for procurement activity increased for the period despite a slight decrease in the procurement dollars spent, while competitive sourcing activity grew significantly. The fifth case-study points to a slight decline in the average percent of O&M funds spent on procurement but also the largest increase in the amount of procurement dollars spent when compared to all cases as the O&M budget increased. Competitive sourcing activity began to decline during this period.

[3] Operation and Maintenance (O&M) appropriations traditionally finance those things whose benefits are derived for a limited period of time, i.e., expenses not related to military personnel or RDT&E , rather than investments. Types of expenses funded by O&M appropriations include: DoD civilian salaries, supplies and materials, maintenance of equipment, certain equipment items, real property maintenance, rental of equipment and facilities, food, clothing, and fuel (DAU, 2009).

In Part III, the Information Technology (IT) case-study examines the approach of each military service in the operations and management of their IT network capability from the mid 1990s through 2005. It's a useful case for examining and testing each of the theoretical frameworks because it evaluates the extent to which outsourcing has affected the development of computer network management in each military service, a core support activity penetrating virtually every defense activity in the DoD.

LITERATURE REVIEW

Most of the literature and studies of privatization and outsourcing in the U.S. government have centered on local and state government. Studies of privatization and outsourcing within the DoD have been narrowly focused on DoD organizations to determine efficiency/cost savings at particular locations. Studies addressing a wider range of potential factors shaping the outsourcing behavior of the DoD with politically relevant incentives and ramifications have been missing. No one has made a case for explaining the DoD outsourcing behavior of its support services nor addressed the issue of winners and losers as result of this phenomenon.

The literature on government privatization and outsourcing offers a variety of insights and contributions that can be useful in this study. The literature has addressed the phenomenon through general overviews, as a pragmatic development to provide expertise and capacity not inherent in government, through ideological descriptions rooted in politics and based on the designs of leading politicians and as a means to provide efficiency by reducing costs and improving public management. The literature has also suggested that outsourcing is ineffective in the government due to the differences

in how public and private organizations operate and due to the lack of transparency and accountability in public services.

In general, theorists studying privatization have referred to it as a social movement (Tarrow 1989), a form of new populism (Boggs 1986) and a form of postmodernism that is anti-bureaucratization (Handler 1992). Handler suggests two separate meanings for privatization: reducing the collective domain, or providing the same level of public services but more efficiently through the private sector (Handler 1996, 6). Emanuel S. Savas notes that privatization was first proposed in 1969 as a deliberate public policy to improve government (Savas 1987, 291). He defines privatization conservatively as "the act of reducing the role of the government or increasing the role of the private sector, in an activity or in the ownership of assets."

As a pragmatic development, Donald Kettl notes how the American government has steadily been increasing its reliance on private contractors. "It is a practice which developed in advance of the rhetoric" mainly for pragmatic reasons (Kettl 1993, 199). Kettl points out that "for more than a century before the privatization movement of the 1980s, state and local governments had contracted with companies to provide a range of services" (Kettl 1993, 156). The private sector provided the capacity that government did not possess and could not or did not want to build (Kettl 1993, 199).

Lester Salamon supports Kettl's view and notes how key features of privatization and decentralization were entrenched in American government as a result of U.S. participation in World War II (Salamon and Lund 1989, 3). As the war effort depended on the private sector to produce materials and weapons for war, state and federal agencies maintained a contract relationship with private actors for goods and services in the

postwar period. Salamon views this as part of a transformation in federal governance he calls “third-party government” characterized by

> The pervasive sharing of responsibility for the delivery of publicly financed services and the exercise of governmental authority with a host of ‘third parties’ – states, cities, counties, commercial banks, industrial corporations, savings and loan associations, and many others (Salamon 1995, 5)

Under “third-party governance”, public agencies had the ability to work in partnership with the private sector to ensure public services were delivered and used. The private sector became entwined with the daily affairs of public business (Salamon 1995, 5). Salamon points to the need for competition between the public and private sphere otherwise contracting-out and other forms of privatization would be ineffective (Salamon and Lund 1989, 258).

Smith and Lipsky (1993) also point to this partnership between the public and private sector. The postwar period provided an expansion of government agencies delivering good and services, furthering the interdependence of the public and private sectors. As noted by Kettl, every major policy initiative since World War II has been a public-private partnership. These include Medicare and Medicaid, environmental cleanup and restoration, antipoverty programs, job training, interstate highways, and many more (Kettl 1993, 4).

Daniel Guttman argues that the growth of contracting in government was the product of government reform initiatives and relationships established among leading citizens in the government, non-profit, and corporate network in the first decades of the 20th century, allowing the government to grow to serve the public interest without growing into a centralized big government (Guttman 2000, 89–90,98). The private sector would provide both technical expertise and political support for an increased federal

commitment to national defense and public welfare tasks. Through tacit bipartisan consent imposed through personnel ceilings, contracting to third parties became the norm as agencies or programs were created (Guttman 2000, 103–104).

William T. Gormley also notes that privatization is not a new phenomenon and treats it as a legitimate tool of government. Though it is often justified as an effort to reduce the cost of government or to reduce the size and scope of government, he argues that it must be selectively used (Gormley 1994, 215,231).

The ideological support for privatization/outsourcing was prompted by a drift to widespread disapproval of government operations and its lack of effectiveness in providing public services in the 1960s and 1970s. The environment surrounding public services welcomed alternative methods to improve performance. Savas notes how anti-government sentiment grew more rapidly than anti-business sentiment during these decades (Savas 1987, 8). Anti-government sentiment spurred on by tax uprisings in the 1970s, growing budget deficits at the state and federal level, and inflation sparked demands for privatization (Kettl 1993). Recession in the 1980s, growing concern about the federal government's budget deficit, and the long-term fiscal crisis in large cities led to a weakening fiscal position of the public sector and efforts to restrain the growth of government expenditures and make government operations more cost effective (Seidenstat 1999, 11). The political environment grew more hostile to the expansion of government budgets and increases in tax rates, but the appetite for public services and military force remained constant (Donahue 1989, 3-4). "Popular distaste for government, though never wholly absent from American politics, reached a level in the 1970s and the 1980s that had not been seen for half a century" (Donahue 1989, 3).

John Donahue addresses the rise of privatization in the federal government as a British import, given how the American interest in free enterprise has long imposed a bias for private actors (Donahue 1989, 4). Donahue suggests that conservative intellectuals in the U.S. set out to shrink the domain of government and promote private alternatives by emulating the privatization efforts of the British (Donahue 1989, 3–4). Feigenbaum, Henig and Hamnett (1998) contribute to our understanding of privatization as a political phenomenon. Their central thesis is that privatization is rooted in the motives and designs of leading politicians. They argue that the broader concept of privatization was politicized by the Reagan administration.

Ronald Reagan's election in 1980 was facilitated by a platform to reduce the size of government. The cry was to allow private citizens the opportunity to take care of themselves without the imposition of government restraints and ambitions (Kettl 1993, 3). Joel Handler noted the development of a new optimism in the belief that the public bureaucracy could be reduced and private citizens could be counted on to improve the social fabric of their communities (Handler 1996, 3). Paul Starr argues that however varied the meaning of privatization, it is unambiguously a serious political counter-movement against the growth of big government. It should be viewed as a conservative attempt to reconstitute the major institutional domains of society, to roll back state activities in the name of efficiency, effectiveness, and freedom of choice (Starr 1988, 54).

Privatization matured as a policy theory representing a deliberate political strategy to reshape the economic and political interests in the Reagan administration (Henig 1990, 662–663). Early in his first term, Reagan's administration began to formulate proposals to sell government assets to include federally owned parks and wilderness lands, and rail

services such as Conrail and AMTRAK that reflected the kind of privatization underway in Britain (Henig 1990, 661). Other forms of privatization such as contracting-out service delivery during this period was exemplified in the movement to privatize the administration of prisons (Salamon 1995, 194).

Reagan's 1988 Commission on Privatization concluded its study in favor of structuring privatization initiatives to create new interest groups with direct stakes in accelerating the process of shrinking the size and scope of government (Henig 1990, 663). Henig notes that portraying privatization as a necessary adaptation to fiscal constraints fails to acknowledge the range of alternatives open to government actors, and the partisan tactics and pressure exerted by mobilized interest groups (Henig 1990, 669).

Savas suggests that privatization can produce long-term improvements because it involves institutional change rather than spasmodic exhortation, and causes government agencies to adopt the well-known, good-management techniques because it poses a competitive threat (Savas 1987, 289). While Savas argues that it reduces costs without reducing the quality of government services, issues regarding accountability are not addressed. Savas concedes that privatizing a government function is not an easy task as attitudes have to be changed and privatization is not the best option in every case.

Paul Seidenstat explains the acceleration of privatization in the mid-1980s as a result of understanding the forces for changes and their strength compared to the forces operating to maintain the status quo such that forces for change grew in strength and broke through the resistance to change (Seidenstat 1999, 10). Changes in the political environment regarding the size and role of government in society forced elected officials to consider methods to restrain government spending operations without a matching reduction in

services. As the government agenda focused on the issue of restructuring or rightsizing, privatization became a major policy option as part of a restructuring program (Seidenstat 1999, 11).

Stuart Butler suggests that privatization is more than a method of cutting costs in government. By changing the pattern of demand for services, it may prove to be a potent political strategy to reverse the momentum toward ever-larger government in the United States (Butler 1987, 4). He argues that conditions must be created in which the demand for government spending is diverted into the private sector as compared to adopting strategies to contain spending thru legislation. Instead of having to disappoint constituents and risk electoral damage, politicians can adopt a more palatable approach to cutting spending by fostering private alternatives reducing the demand for federal spending (Butler 1987, 5).

Florencio Lopez de Silanes, Andrei Schleifer and Robert Vishny (1997) look at the political determinants of privatization. They examine the choice in providing a service between in-house government and the private sector by testing efficiency, political patronage and ideology determinants against census data on the most commonly provided public services. While political factors are important, they argue that trade-offs in political costs and benefits help shape privatization decisions (Lopez-de-Silanes, Shleifer, and Vishny 1997, 468).

Robert Mandel notes how the global spread of free-market values legitimized by the growing belief in economic liberalism promoted competitive privatization as optimal in all spheres of human activity, including security (Mandel 2002, 2). The rationale for the spread of privatization is maximizing efficiency, output quality and effectiveness in

services, accentuated by the declining quality and funding of public services (Mandel 2002, 3).

Philip Deavel suggests the roots of privatization/outsourcing in the Defense Department stem from more than an economic argument. The privatization debate resonates with the policy initiatives of the McNamara era and his civilian Whiz Kids (Deavel 1999). Dismissing the unique organizational needs of the DOD mission, civilian leadership was determined to bring private sector business efficiency to the Armed Forces. Deavel suggests that the DOD's orientation towards a rigid command and control production and compensation system rather than decentralized market models is rooted in the ideals of President Roosevelt's New Deal.

The military cultural deficiency that allowed McNamara to dominate the debate over the proper organization of the DOD continues in today's DOD environment. Military leaders who lack executive level, corporate experience are partnered with political appointees guided by advisors with strong roots in the private sector spearheading the drive for privatization (Deavel 1999, 40–41).

Steven Schooner suggests that the momentum to outsource in the DOD is focused on the administration's effort to have a smaller military. Anything that is not associated with fighting is deemed to be something the private sector can provide (Schooner 2005). The current G.W. Bush administration favors outsourcing because, like its Democratic predecessor, it wants to tout the elimination of government employees (Schooner 2003, 11). This is not a dramatic break from prior administrations where personnel ceilings were accompanied by bipartisan silence on the changing nature of the federal workforce (Schooner 2003).

Osborne and Gaebler addressed privatization through an approach called reinventing government wherein privatization was one method among a variety of alternatives to increase efficiency and cost-savings in the public domain. Promoting an entrepreneurial spirit and giving customers a choice among competing service agents was the anticipated method to remedy shortfalls in government performance (Osborne and Gaebler 1992). The reinventing government approach envisioned private actors being accountable for meeting public goals while public agencies retained ultimate authority.

Timothy Taylor suggests that privatization results from firms making "buy" decisions for competencies necessary but not core to the organization. If firms can buy a certain good or service from outside the firm at a lower cost and at the same level of quality, then it should buy; if not, it should make it (Taylor 2005, 369). The make or buy decision can evolve over time as firms respond to price, technology and the degree of quality control they can exercise (Taylor 2005, 369). Taylor supplements this argument with the belief that firms have only a few "core competencies" in which it has distinctive skills and abilities. Firms should hire others firms with their own core competencies to perform non core tasks (Taylor 2005, 369–370).

Elliot Sclar examines the assertion that contractual relationships will give the public sector all the advantages of the market without undermining the level of public service (Sclar 2000, 4). While critically examining the economic reasons for why privatization as a reform strategy in the form of public contracting often bogs down, he notes the problems of accountability and control throughout his study (Sclar 2000, 5,157). Highlighting how transaction costs are often ignored and usually come back in the form of higher costs and fewer alternatives in the original privatization initiative, he suggests that public contracting

is a cumbersome and expensive instrument for the delivery of public services with an ongoing trade-off between the inherent risk of moral hazards[4] and the cost of effective oversight (Sclar 2000, 155,160).

Paul Carrick (1988) examines efficiency in 455 competitions in Navy A-76 programs and suggests that the government can be as efficient as the private sector, especially if better incentives are established for public managers. The Center for Naval Analysis has produced several case studies evaluating competitive sourcing from 1996 to 2001 with studies primarily focusing on assessing the economic and cost-efficiency of outsourcing initiatives in a variety of areas to include training, housing, maintenance and base-operating support (Ackerman, Boning, Clark, Clark and Scafidi, Kleinman, Trunkey, Snyder, and Tighe). The 1998 study (Snyder et al) argues for large cost savings of at least 30 percent. The 2001 study (Clark et al) reviews 16 competitions and suggests that savings are real and sustained over time (Clark et al 2001, 51).

RAND's report on competitive sourcing (Gates, Robbert 2000) examined six A-76 competitions, noting substantial projected cost-savings. Their findings suggest that using fewer people and downgrading positions achieved annual personnel cost savings. Neither contractors nor in-house managers had an inherent advantage when reducing personnel costs (Gates and Robbert 2000, 63). However, they noted that expected savings could be overly optimistic in regards to the process of conducing competitions and savings generated from those completed (Gates and Robbert 2000, 6).

The report by Gansler, Lipitz (2003) addresses the government shift towards market-based management. The report supported the cost saving from competitive sourcing

[4] Moral hazards refer to potential problems of reduced incentives on the part of agent to fulfill the goals of the principal (Sclar 2000, 114).

activities in the CNA and RAND studies. They find that competition can achieve better results at lower costs and stress the importance of post-competition management (Gansler 2003a, 48).

Despite the cost-savings findings in many of these studies, the credibility of A-76 competitive sourcing results appear questionable due to missing data. The studies do not appear to control for the costs of each A-76 study. Documentation of changes to cost, performance and workload were inconsistent because records were not routinely kept (Clark et al 2001, 4). Also, the lack of a central data-collection capability in the DoD federal government that tracks actual costs and performance after the competition is completed prevented the government from understanding the longer-term impact on cost and performance (Clark et al 2001, 8).

Peter Drucker recommended the management of government bureaucracy be changed before initiating efficiency-type actions such as outsourcing. Drucker suggests that government agencies have outgrown its structure, policies and rules of behavior of which many date back to the 1929–1933 period (Drucker 1995, 52,54). He argues that organizations should rethink themselves when seeking to take actions such as outsourcing to improve performance by reevaluating their mission and whether it needs to be changed to produce desired results (Drucker 1995, 54). The process of rethinking can identify many functions in a particular organization than can be eliminated or better provided by a private firm.

James Wilson argues that outsourcing offers limited usefulness in government process. Reinvention and efficiency actions suggested by proponents of privatization are difficult to accomplish in the public sector. Wilson suggests that agencies are likely to

have general, vague, and inconsistent goals about which clarity and agreement can only occasionally be obtained (Wilson 1989, 26). Organizations have a poor sense of mission due to a general lack of consensus about goals and tasks to be performed. Agencies have limited autonomy to define priorities normally determined by the political environment (Wilson 1989, 27).

A significant constraint on government agency leaders is the necessity to negotiate and depend on political leaders for the execution of mission objectives. Unlike private sector organizations, the DoD, for example, cannot borrow money; it must rely on annual Congressional appropriations for funding operations and objectives. Private sector organizations have greater flexibility and autonomy in rewarding good performance and correcting poor performance.

Wilson suggests that government agencies don't quite fit the model for successful forms of privatization. Successful privatization depends on a defined mission, clearly defined performance standards, and accountability through enforcement of performance standards. Government agencies have difficulty in agreeing upon a mission, performance standards are poorly developed and usually influenced by external factors, and many public employees are not affected by whether their performance is acceptable or not. Finally, private sector organizations operate within a market-driven system whereas price and profit-motive disciplines are absent in non-market environments such as the government sector (Wilson 1989, 369).

Peter Feaver views the increase in security privatization as a result of how the government has inefficiently structured itself in relation to private actors. Privatization is the response to the underlying problems of work within the government that creates

incentives for the contractor (Feaver 2004, 14). Feaver and Cindy Williams both note how the U.S. personnel management system and policies are designed to the standards of the 1940s and has been unresponsive to changes in the military environment and shifting needs (Feaver 2004, 17; Williams 2004a, 8-11). Feaver also points to Peter Singer's argument that the government has not effectively set up the mechanisms to manage privatization. The government is bidding against itself while military force structure is being run down due to extensive foreign interventions. Singer points to several examples in which the government has outsourced functions to private contractors who hire displaced military members at two to ten times the rate the government would have paid them on active duty (Singer 2004, 14).

John Donahue also points out that productive efficiency is not the cardinal virtue of a civil service organization (Donahue 1989, 216). While public agencies characteristically are structured to guarantee due process and administrative fairness, the orientation of the private sector is to deliver a product for an agreed-upon price (Donahue 1989, 216). Harnessing private energies to public purposes can be difficult to exercise in contractual architecture (Donahue 1989, 218). Donahue suggests that contractors are the best choice when governments know what they want and are interested in the results as compared to the process. Otherwise, if following guidelines and process is the primary interest of governments with limited flexibility, civil servants are the best choice for this duty.

Critics of privatization have highlighted its lack of transparency that it can make public management more complex, increase costs, allow quality and capability to decay, detract from collective savings, and challenge democratic accountability (P Starr 1987,1991;Markusen 2001). Paul Starr rejects the premises and promises offered by the

privatization framework, such as reducing public spending and the sphere of government action. He argues that the privatization movement gains its most devoted support from ideologically minded conservatives hostile to the purposes of public services (Starr 1991, 25). He suggests the privatization literature is misguided in depicting political decision making as systematically distorted, inefficient and undesirable (Starr 1991, 25–26). Starr notes the danger in contracting out — that governments may become captive to particular contractors as they acquire inside knowledge — and further suggests how privatization conveys a degree of political authority to private firms, where as the separation of politics from administration is not a clean divide (Starr 1991, 31).

Though advocates of privatization have successfully brought attention to serious problems of public expenditure and management, Starr suggests that privatization is not a general solution to resolve the issues. He suggests that advocates of privatization attempt to brand the government as incompetent and to change the aspirations of society towards the market and away from the sphere of common responsibility (Starr 1991, 33).

Smith and Lipsky highlight how government contracts with private enterprise had the effect of masking growth in government activities and spending. Contracting with private enterprise enabled government agencies to increase spending and services without hiring large numbers of new workers and expanding facilities (Smith and Lipsky 1993, 203–205).

Peter Singer's study on the private military industry offers a variety of insights from the outsourcing of military services addressing the pragmatic and ideological nature of the phenomenon. In the post-Cold War era, changes in the market of security, the nature of warfare, and the thinking about how to produce public services led to the growth of private

military firms (Singer 2003, 2005). IT technology became an increasingly important part of warfare, with civilian-based off-the-shelf technologies being integrated into military functions, and with civilian technicians used to maintain and operate these resources.

The developing gap between the supply of military resources in the post-Cold war and the demand for military support services due to increased regional conflicts and humanitarian efforts produced increased contractor involvement. Singer highlights the state's reliance on private actors as a capability for accomplishing its strategic objectives. Similar to private corporations that need expertise in particular areas, any client can access the full range of military skills as long as they have financial resources.

Singer also points to the change over the last 50 years in how we view public versus private, suggesting a philosophical shift that needs to be factored into restoring public services (Singer 2004, 14). Reagan's idea that the best minds have been sucked out into the private sector…the term public schooling having an inherently bad connotation all allude to the ineffective nature of government. The growth in privatization changed the focus of how to provide public services where the military, being the last monopoly of the state, began to see its activities and functions being performed by private sector entities (Singer 2005, 3-4).

Private military actors have been labeled as commodities in the global security market, having significant implications on international institutions, the state and the distribution of power, argues Deborah Avant. Material and social challenges from globalization have been factors in the demand for private security (Avant 2004a, 10). As suggested by Peter Singer, Deborah Avant notes how market pressures, technology and social change in the globalized world are creating multiple demands that national militaries

have difficulty meeting (Avant 2004b, 21). Changes in the nature of conflicts and advances in technology have given private security companies opportunities within the military force structure (Avant 2004c, 154). Avant also suggests that an ideological shift — a growing belief in the superiority of market-based solutions to collective problems has led to the rise of private actors as service providers for new security demands (Avant 2004a, 11).

Allison Stanger points to five primary factors contributing to the rise of privatized military activity. First, in a pragmatic sense, the increasing role of high-technology weaponry in warfare has transformed how the military fights wars; second, the collapse of the Cold War order and the related phenomenon of failed states has provided opportunities for private actors in a variety of global security activities; third, the American obsession with privatization as a means to cut costs and enhance efficiency; fourth, the militarization of American foreign policy where as, noted by Dana Priest, the mission of the armed forces has expanded over the past decade to go beyond merely winning wars; fifth, outsourcing as the path of least political resistance as the tolerance for military casualties remained low while the administration's desire to reshape the security environment was high (Stanger 2004, 3).

The privatization/outsourcing literature review provided a wealth of data and information suggesting its complexity and the challenges that still remain in explaining the DoD phenomenon. The review offers no definitive answers or solutions to the outsourcing of DoD support services. The analysis of competitive sourcing studies was useful in highlighting the cost-savings efforts of DoD organizations. Yet it also exposed weaknesses

that are problematic to its cost-savings efforts and were void of analysis from other theoretical frameworks, such as political ideology and organization factors.

The literature review was useful in suggesting potential causes of and concerns from privatization at different levels of public life. However, the lack of a comprehensive analysis of DoD outsourcing behavior in both procurement and competitive-sourcing activities is pronounced and points to a gap in the literature that requires further investigation.

This study will address that gap and provide a detailed analysis of outsourcing behavior in the DOD from 1970 through 2005. The study covers a wide time frame to capture the extent and variance of outsourcing development in the DoD. To provide a more focused perspective, the study also evaluates outsourcing behavior in the IT network management-services area, a key function essential to the defense mission.

Using the frameworks of strategic efficiency, political ideology, and organization factors, the study offers a unique and unparalleled test of theoretical frameworks to identify the underpinnings of the outsourcing phenomenon. It offers a broader and more enriched contribution to the nature of DoD outsourcing than most studies to-date, as the comparisons across the theoretical frameworks offer perspectives rarely discussed in political science and military studies literature. It provides military leaders, policymakers, government officials and interested scholars greater insight into the factors driving outsourcing relationships. It can be useful in an effort to construct and reshape federal and DoD policy and national defense strategy, and to understand the potential impact of DoD outsourcing on democratic values that our defense/national security mission seeks to protect.

RESEARCH DESIGN AND DATA COLLECTION

The study addresses a number of hypotheses about the cause of DoD outsourcing and its variance within the study period. The hypotheses represent three distinct perspectives on DoD behavior: strategic efficiency, political ideology and organization factors. They each have received interest in the study of national security policy but rarely have been employed in this manner. Each framework summarizes fundamental attributes of their respective theoretical foundations as compared to their larger body of work. For example, organization theory provides a larger and more diverse body of thought than I've discussed in this study. I've only addressed some of the fundamentals of organization theory literature. The use of the term "organization theory" may be misleading so, to indicate clearly the general origins of the hypothesis introduced, I'll use the label "organization factors" for the organization perspective on the causes of DoD outsourcing examined in the study.

The hypotheses introduced in this chapter are empirical statements that can be tested logically and will be evaluated using case studies. My goal is to take three theoretical frameworks that have been employed to evaluate state behavior and compare their explanatory power. The frameworks introduced are among the most likely alternatives to each other. To the extent that hypotheses deduced from one of the frameworks better explain the character of DoD outsourcing and are confirmed by the cases examined later in the study, the theories from which they are deduced gain more credibility.

In the study, a successful outsourcing action will be characterized as any DoD mission-related activity that a private contractor has assumed responsibility. The areas of

study include the DoD environment between 1970 and 2005 and IT network management within the military services. These areas can be studied in each of the military services, they are diverse, important to national defense and the state's war-fighting capability, and have the ability to be compared and evaluated over time. I've chosen this approach because it represents both a broad perspective of outsourcing behavior across each service over time, as well as, a focus on a particular core area of each military service relevant to their war fighting mission. The cases also allow for multiple observations of the values for each variable across time, within a common background, offering data to prove or disprove each hypothesis. In evaluating the hypotheses, I'll use paired observations and process tracing for each case within the studies time frame.

In H1, *outsourcing is a viable DOD strategy due to its cost-effectiveness.* I'll assess the cost-effectiveness of the activities in each case-study using military pay and pay-growth rates, DoD civilian and private-sector employee pay rates and conditional variables including medical spending and non-cash benefits (health care, retirement, etc.). I'll rate cost-effectiveness as either High, Medium, or Low based upon the pay and pay-growth comparison between comparative DoD and private-sector personnel where outsourcing is likely when cost-effectiveness is High.

In H2, DOD outsourcing is a consequence of a politically conservative Congress and President. Actions to reduce the size of the state and increase the role of the private sector in performing public functions will be considered politically conservative. Political

conservatism will be rated on a scale of Low, Medium and High based upon the political party controlling the Presidency, House and Senate.[5]

I'll examine and measure the extent to which Congress and the President support initiatives to outsource public activities and reduce the size of government throughout the time frame. I'll compare the findings on the scale of conservatism for the Congress and the President with the nature of outsourcing activity in each of the case studies. A positive test of the hypothesis will demonstrate a relationship between the scale of conservatism and the extent of outsourcing in the case studies.

In H3, *New activities and those outside the scope of an organization's standard or doctrine-specific activities are likely to be outsourced in periods of budgetary decline.* I'll examine the organization mission tasks and the extent to which outsourced activities are new to the organizational mission or replace preexisting activities. I'll examine the nature of the outsourced activity and the extent to which it is a primary or support activity, and its priority in the organization. The priority of an activity is determined by its relationship to the organization's core mission, the size of its funding and amount of personnel assigned to the activity. Priority increases when the activity is an element of the core mission, with a large budget stream and personnel. A positive test of the hypothesis will be demonstrated by a direct relationship between a declining budget and outsourced activities being either a new or support activity outside the core of the organization mission.

The research study is primarily qualitative in nature, focusing on archival and historical analysis, as well as, personal interviews with government and DOD officials and private business executives. I had access to public information related to this study through

[5] Based on the increased polarization in Congress after 1970 as suggested by Poole and Rosenthal, my assumption is that political conservatism will likely be greater when the Executive and Congress have a Republican majority.

various DOD, military, and outsourcing related Web sites, universities, online journals, newspapers, magazines, periodicals and interviews. The analysis was exploratory and focused on collecting information from a variety of sources incorporating data triangulation. I focused on congressional reports, General Accounting Office reports, Inspector General audits, White House reports and documents, budget studies and reports, legislation, DOD documents, specialty journals and periodicals, Freedom of Information requests, and other public documents that assisted with charting and examining the outsourcing issues discussed in the study. The analysis also involved searching texts, reports, periodicals, briefing documents, handbooks, manuals, magazines, pamphlets, transcripts, newspapers and Internet Web sources for primary and secondary data contributing to the study.

CHAPTER OUTLINE

Part I

1. Introduction and Literature Review. This chapter summarizes the dissertation project and overview of the argument. It discusses pertinent literature on privatization and outsourcing in both the private and military sector. Finally, it reviews the research design and data collection methods and provides an outline of the study.

2. Theoretical Frameworks Overview. This chapter provides an overview of the strategic efficiency, political ideology and organization factors and how they will be used to examine the outsourcing phenomenon in key national defense activities within DOD.

3. Defense Outsourcing and Overview 1970–2005. This chapter discusses the two primary methods used by the DoD to outsource support activities, procurement of services

and competitive sourcing initiatives. It describes variables associated with outsourcing and concludes with a brief overview of outsourcing activity across the defense sector between 1970 and 2005.

Part II

4. Case Study Defense Outsourcing – 1970–1980. This chapter evaluates the significance of each of the three theories (strategic efficiency, political ideology and organization factors) in explaining DoD outsourcing behavior between 1970 and 1980.

5. Case Study Defense Outsourcing – 1981–1988. This chapter evaluates the significance of each of the three theories in explaining DoD outsourcing behavior between 1981 and 1988.

6. Case Study Defense Outsourcing – 1989–1995. This chapter evaluates the significance of each of the three theories in explaining DoD outsourcing behavior between 1989 and 1995.

7. Case Study Defense Outsourcing – 1996–2000. This chapter evaluates the significance of each of the three theories in explaining DoD outsourcing behavior between 1996 and 2000.

8. Case Study Defense Outsourcing – 2001–2005. This chapter evaluates the significance of each of the three theories in explaining DoD outsourcing behavior between 2001 and 2005.

Part III

9. Case Study – Information Technology (IT) Networks and DoD Outsourcing Behavior 1995-2005. This chapter examines the development of IT networks in the

military services from the 1990s through 2005 and the approach of each service towards outsourcing their network functions and management.

10. Analysis of IT Network Management in the Military Services. This chapter evaluates the significance of strategic efficiency, political ideology and organization factors in explaining the use of outsourcing for IT network management in each military service.

Part IV

11. Findings and Conclusion. This chapter will provide a review of the findings from each case-study explaining the relative success and/or failure of the hypotheses and the significance of each theoretical framework in explaining outsourcing behavior. It will also provide an overall assessment of DoD outsourcing and what can be expected for national security.

CHAPTER TWO

THEORETICAL FRAMEWORKS OVERVIEW

National security is a primary objective of the state. The rise of outsourcing within the defense realm is a phenomenon having impact on the security architecture of the state. Outsourcing studies have primarily been focused on government services outside the national security realm with an emphasis on economic efficiency. My study will address the gap in political science and security studies regarding the outsourcing of national defense activities by focusing on the phenomenon through the frameworks of strategic efficiency, political ideology and organization factors.

STRATEGIC EFFICIENCY

The Congress established the Department of Defense in 1947, incorporating and reorganizing elements of the old War Department and Navy Department (Brown 1983, 215). While one goal was to integrate the military policy of the United States with its foreign policy through a single, central civilian management of the armed forces and their activities, the second goal was to address the perceived need for efficiency of operation (Brown 1983, 215). In the years since 1947, there have been many calls for better, more efficient and more effective management of the Department of Defense and their its activities (Brown 1983, 215). Outsourcing has become one of the means to help establish efficiency and cost saving across the federal government.

DoD and government functions at a variety of levels have been criticized for being inflexible due to their bureaucratic nature. They should steer rather than row, set policy

and fund private sector delivery but not produce services directly (Osborne and Gaebler, 1992). William Niskanen (1973) suggests that the superior performance of market institutions as compared to the federal government is based on differences in structure and the incentives of their managers (Niskanen 1973, 54). He suggests that private source of supply can significantly reduce the monopoly power of the bureaucracy, inefficiency and costs with its improved structure and incentive systems (Niskanen 1973, 57). Outsourcing is a means for public organizations to meet responsibilities more efficiently because private managers can deliver at lower costs services similar or superior to those of public managers (Bailey 1985). When it works well, outsourcing can boost efficiency through accelerated innovation, spare public workers from peripheral activities, improve spending decisions and provide for a more sensible scale of operation.

Strategic efficiency is based on the premise that states are rational. They seek to reduce their costs and effectively use resources to accomplish objectives and goals. They will attempt to get the greatest possible return or benefit for the least amount of cost. Efficiency in the government, like the commercial sector, can be defined as the ratio of outputs to inputs (Graves 2001, 49). The case for privatization is built on the assertion that contractual relationships in which private parties deliver public goods will give the public sector all the advantages of the market without undermining the level of public service (Sclar 2000, 4). Economically, competitive contracting sets incentives in place that ensure production of the best possible product for the lowest possible price (Sclar 2000, 12). Within the DoD, efficiency is defined through an economic lens where the amount or level of military compensation should be no higher or lower than necessary to fulfill the basic objective of attracting, retaining, and motivating the kinds and numbers

of service personnel needed for the active and reserve forces of the United States military (DoD 2005, 8).

In this framework we would expect to see organizations utilizing procedures to quantify manpower costs for specific objectives and mechanisms to measure whether objectives are met or not. In general, as noted by Graham Allison, if the cost of accomplishing a given objective through alternative means is greater than the primary means then there is less likelihood of the alternative being chosen. A decrease in the cost of an alternative in comparison to the primary increases the likelihood of the alternative being chosen (Allison 1971, 34). This is the essence of a strategic efficiency approach to outsourcing. It predicts differential privatization/outsourcing based on expected costs or savings of having particular services performed by the private sector.

The DOD has been in the process to reduce cost and improve the performance of its activities in a formal manner since the 1950s. It outsourced functions primarily through two methods — competitive sourcing of internal (in-house) activities and procurement of new services. Implicit in the strategic efficiency framework is that private actors can perform public activities equally good or better than public actors, true and sustained competition is operable, DOD behaves as a private business by providing specific requirements as articulated in proposals (RFPs) and contracts, and the DoD has adequate oversight talent to ensure private contractors deliver the promised goods and services (Markusen 2003). Key variables associated with the DoD's outsourcing actions include infrastructure size, manpower costs, personnel qualifications, technology and new missions.[6]

[6] DOD defines infrastructure as activities that generally operate from fixed locations to support missions to include those carried out by combat forces. Infrastructure includes installation support, central training,

In relation to outsourcing activity, strategic efficiency expects the DOD to seek out the best value through a cost-savings competition between DoD and private sector producers in order to get the best possible product for its activities and services at the most competitive cost. Competition among producers strengthens the bargaining power of the purchaser (Prager 1994, 177). As suggested by Allison, we can expect to see government agencies seeking alternative means to accomplish public functions when the compensation costs of DoD personnel are greater than private sector employees performing similar functions. The theory predicts that government will outsource activities when they can save money and continue to meet mission objectives. The framework implies the DoD will be selective and differentiate the activities that get outsourced based on a cost analysis and getting the most value for its budget.

Outsourcing offers the DOD a mechanism to address cost savings in DOD's mission areas, affecting its operations and support services and potentially saving and redirecting billions of dollars into its top priorities including modernization efforts and new weapon systems. The ability of private actors to provide public goals more efficiently and effectively is especially cogent for public officials in an environment marked by expanding demands and fiscal constraints.[7] E.S Savas suggests that privatization can be a strategic approach to improving productivity and public management of government agencies, and provide the public with more value for its tax investment (Savas 1987). It can be portrayed as an apolitical, nonpartisan vehicle for

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central medical, central logistics, force management, acquisition, central personnel, and central command, control, communications (GAO/T-NSIAD-97-110).

[7] Efficiency refers to the economically appropriate allocation of resources. The most efficient arrangement produces the greatest output per unit of input (Savas, p.122). Effective refers to an output most nearly satisfying the need (Savas, p.122).

helping government balance their budget, or improve the overall performance of their economy (Feigenbaum and Henig 1999).

Coase's theory of the firm, published in 1937, highlights the importance of reduced transaction costs in the functioning of an organization. The desire of the state to provide the public with maximum security value using its inherent assets points to a relationship between the state and Coase's description of the firm.[8] The theory of the firm calls our attention to addressing the factors determining the firm's boundaries and what economic factors relate to its decision to contract out some of its activities rather than perform them (Coase 1988; Fredland 2003). Considering the DoD as a firm, similar questions can be asked regarding its role and boundaries in providing security and defense services, as suggested in the post-Cold War era.

Oliver Williamson expands on Coase's thesis by using a transaction-cost approach to study economic organization and efficiency. Following on from John R. Commons (1932), Williamson maintains that transactions are the basic unit of organizational analysis and include both exchanges and contracts (Alchian and Woodward 1988, 66) . Williamson's approach focuses on contracts in which a promise of future performance is exchanged and investments are made, the value of which becomes dependent on the fulfillment of the party's promises (Alchian and Woodward 1988, 66).

Transactions are marked with the attributes of asset specificity, uncertainty and frequency (Williamson 2005, 6). Williamson notes that the criterion for organizing commercial transactions is assumed to be cost economizing, which includes economizing on production expenses and transaction costs (Williamson 1979, 245). The object of a

[8] The similarity revolves around the desire to reduce transaction costs where the state is in the business of governing and providing public services.

firm, and in this case the DoD, is to economize on the sum of production and transaction costs (Williamson 1979, 245). Whether a service should be outsourced or performed in-house to economize and gain efficiency is thus dependent on the type of transaction and its costs.

Williamson suggests that transaction costs are more than the cost of finding other people, inspecting goods, seeking agreeable terms, and writing exchange agreements, but include the costs incurred in making contracts enforceable by law or by self-enforcement, precautions against potential expropriation of the value of investments relying on contractual performance, and the costs of informing and administering terms of contractual relations (Alchian and Woodward 1988, 66). As noted by Kenneth Arrow, they are the costs of running the economic system, the economic equivalent of friction in physical systems (Williamson 1985, 18).

As suggested by Herbert Simon (1985), the cognitive and self-interested attributes of human actors described as bounded rationality (limited in knowledge, foresight, and skill) and opportunism (self-interest-seeking behavior with a lack of candor or honesty in transactions) are core to the study of economic organization (Williamson 1999, 311). Williamson considers them central to transaction cost analysis. They are unavoidable hazards whose magnitude varies systematically with the attributes of the transaction that include asset specificity and uncertainty (Williamson 1998, 76).

A critical aspect of foreign affairs transactions, to include many defense activities/missions, is probity. It implies a high standard of integrity, abiding respect for mission, reliable responsiveness to senior government leaders, and accurate communication to counterparties (Williamson 1999, 322–323). Hazards to probity include lack of

confidence by senior leaders in the information and assessments provided by the agency/contractor, perceptions of non-compliance, and lack of authority/expertise (Williamson 1999, 323–324).

In this context, economic organization has the purpose of promoting the continuity of relationships between parties to a contract by devising specialized governance structures to manage transactions, rather than permitting relationships to fracture under the hammer of unassisted market contracting (Williamson 1985, 1,3). Williamson argues that the firm is not a stand-alone entity but a governance structure with the attributes of incentive intensity, administrative control and contract law regime in the service of economizing on transactions costs by infusing order to mitigate conflict and realize mutual gain (Williamson 2002, 173,180).

Williamson suggests that joining transactions and governance structures provides for alignment between transactions that differ in their attributes with governance structures that differ in cost and competencies in an economizing way, yielding specific efficiency outcomes that will affect make or buy decisions (Williamson 2002, 191). It offers a lens to apply through the framework of strategic efficiency as to whether transactions being considered for DoD outsourcing are aligned with market governance structures or better suited for remaining within the DoD structure. As suggested by Williamson, transactions that are long-term have a need for loyalty (to the leadership and to the mission) and a high standard of integrity, and are best provided by public agencies that offer an effective governance structure for addressing the hazards of probity (Williamson 1999, 324,338). While it is beyond the scope of this study to examine the make or buy decisions for all DoD transactions, the transaction-cost approach is a useful complement to pay and pay-

growth comparisons between DoD and private sector personnel by examining the type of complexity in DoD transactions and the extent to which the market or DoD, as governance structures, mitigate potential transaction hazards.

From the strategic efficiency lens, some military missions in the post-Cold War era appeared amenable to outsourcing as the U.S. military strategy evolved into a global policing role. During the Cold War, while the military was deployed globally, in relatively fixed locations, it acted primarily as a deterrent force. The DoD was dependent primarily on organic support to fulfill deterrence-related mission requirements. In the post-Cold War environment, military engagements in the deployed area were more aligned with a global policing role. Missions had a lower level of risk as compared to a combat environment. Private contractors appeared to offer the DoD the greatest value for the cost, in this environment, as they were able to provide the capabilities needed to support military activities. As the military transitioned into conflicts in Afghanistan and Iraq, with increased activity and levels of risk, contractor support appeared embedded in the deployed mission, despite increased risk, as overall military personnel strength remained at its lowest levels in decades.

The nature of the relationship between the DOD and private actors performing services for the state raises issues regarding monitoring, as noted in Peter Feaver's study of Civil-Military Relations (Feaver 1997). Similar to Williamson's concerns for opportunism as a transaction-cost hazard, an area of concern in this relationship is whether the expert (agent) serves the best interest of the principal or shirk their responsibilities to exploit their position in pursuit of selfish goals (Feaver 1997).

In my study, I treat private actors as the functional experts (agents) and the DOD/civilian leaders as the principal. Whether private actors serve the best interest of the DOD or will shirk responsibilities and pursue selfish goals, or abandon the mission, is an element of risk and a hazard to transaction efficiency that can be evaluated in part by the extent of an agency's administration, monitoring and oversight activities.

The independent variables to consider for examining the explanatory power of strategic efficiency towards outsourcing behavior are: pay and pay-growth rates for military (officer and enlisted force), DoD civilian and private sector employees, along with conditional variables including medical spending, non-cash benefits (health care, retirement, etc.), monitoring and oversight results. My proposition is that DoD leaders are motivated to maximize mission effectiveness by getting the greatest cost savings possible, from military, DoD civilians, or private contractors.

Military and Private Sector Pay

In general, there are different ways in which civilian and private sector compensation and benefit systems are structured, compared to that of the armed forces. This makes it difficult to validate any across-the-board generalizations about whether there is a gap between military and civilian pay (Goldich 2005, 7).[9] Comparing military to private sector pay has been a contentious issue, since it is very hard to establish comparisons. Determining the true value of non-cash and deferred benefits received by military members is difficult to assess, by lawmakers and policymakers who decide pay levels (Maze 2007, M1).

[9] Gap refers to pay-gap concerns; whether private sector civilians have experienced greater pay raises over time in comparison to DoD (military and civilian) personnel.

The suggestion that non-cash and deferred benefits need to be assessed in military pay comparisons is countered with the argument that non-cash compensation, such as housing and childcare, doesn't necessarily apply to military members who are single or without children. In 2000, 45 percent of the military's 1.4 million active duty members were not married, and 54 percent of active duty members did not have children (Kozaryn 2000). Sixty percent of non-cash compensation is the accrued cost of retirement pensions and other deferred benefits that service members receive after they leave active duty (CBO 2004, 1).[10] Yet, as noted by the DoD (Figure 21) and supported by CBO's 2004 military compensation report, few troops actually remain in the military until retirement. Most people who enter the American armed forces serve for fewer than 10 years (Segal 2004, 16). Only 10–15 percent of the enlisted force serve for a 20 year career while less than half of the officer corp. serve for 20 years and collect a retirement pension (CBO 2004, 1). Noting the decreased amount of military personnel who serve for 20 or more years and become vested for retirement benefits (Figure 21), it appears to inflate the value of military pay when including these non-cash compensation costs, such as retirement pension and retirement health care, in calculations and comparisons that affect the pay of the overall military force.

Notwithstanding the complexities inherent in comparing military and civilian pay, Congress, along with other senior civilian and military leaders, have been attentive to pay contrasts between the military and the private sector over several decades in part as a result of recruitment and retention issues (Asch and Hosek 1999, 1–3). Since the end of the draft in1973, the adequacy of military pay has been an issue for Congress when it

[10] DoD retirement payments and other deferred benefits apply only to members who become vested after 20 years of service (CBO 2004, 5).

appears that either the military is having trouble recruiting enough new personnel or keeping sufficient career personnel of requisite quality. Congress also intercedes if the standard of living of career personnel is perceived to be less fair or equitable than demographically comparable civilians (in terms of age, education, skills and responsibilities), as in 2000 when it increased military pay to meet cost-of-living increases (Goldich 2005, 1).

Policymakers have used the Employment Cost Index (ECI), constructed by the Bureau of Labor Statistics, for the purpose of measuring employment-cost growth in civilian occupations and as a benchmark measure of civilian pay for comparative purposes since the early 1980s (Gilmore 2007, 9; Hosek et al 1994, 3).[11] In 1990, the Federal Employees Pay Comparability Act specified that the ECI for wages and salaries of private-industry workers be used to determine pay increases for federal employees. Since 2004, permanent law has required that basic pay be increased by the annual percentage rise in the ECI (Gilmore 2007, 9). [12] In addition to the ECI, Congress uses commercial pay surveys in setting pay for federal civilians (Musell 2002, 5).

As a measure of strategic efficiency, I compare the Basic Pay Index (BPI) and regular military compensation (RMC) that accounts for over 90 percent of enlisted and officer pay in the active duty force with data from the Bureau of Labor Statistics (BLS) for civilians; evaluate pay-growth using the Federal Employment Cost Index (ECI) data for multiple categories of DoD personnel and pay grades (officer, enlisted, and civilian

[11] The ECI is a fixed-base weight index constructed by the Bureau of Labor Statistics for the purpose of measuring employment-cost growth in civilian occupations. The fixed-base weights hold the mix of workers by industry and occupation constant, and the employment-cost data show how much the cost of a fixed bundle of labor increases over time (Hosek et al. 1994, 3). Cost includes wage and salary costs and employer costs for employee benefits.

[12] Permanent law (37USC 1009) provides that monthly basic pay is to be increased by the annual percentage increase in the Employment Cost Index (ECI).

employees) with comparative private sector personnel based on skill, age group, and education levels; medical costs are also evaluated. DoD has used the RMC as a fundamental measure of military pay since 1962 (Gilmore 2007, 1). [13] I use the ECI index in Figures 11 and 14 to provide a comparison of military and civilian pay without accounting for demographic information.

A second index used to measure wage growth is the Defense Employment Cost Index (DECI). It is an alternative index to the ECI developed by RAND to measure pay comparability for military personnel. It tracks wage growth of private sector workers who are demographically similar based on age, education and occupation to full-time DoD personnel. DECI data is captured in Figures 15 and 16.

The objective is to evaluate whether the DOD is efficient and getting the best value for providing its required services through a cost savings comparison process.[14] The method is not without potential problems. Though data from the BLS and the ECI are used by the federal government to assist in determining annual pay increases for federal employees, contractors can offer bonuses, raises and other perks to private sector personnel for performing DoD activities that are not captured when comparing the cost savings value of DoD and private sector personnel. Despite the possibility of non-comparable variables, RMC provides the best measure of military compensation, BLS provides comparable compensation data for civilian personnel, and ECI data is the government's best measure of private-sector wage growth. Comparing compensation of DoD and private sector personnel offers the closest comparison of cost savings value per person, in a standardized manner across the length of the study period.

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[13] RMC includes basic pay, allowances for subsistence and housing, and the tax advantage due to the allowances not being taxable.

[14] Compensation costs are included in the pay variable.

Relative pay-growth comparisons, as measured from a given base point, are also referred to as pay gap comparisons (Hosek et al 1994, 4). They are useful in measuring the extent of divergence in military and civilian pay over time from a base point or particular year and are good indicators of military/civilian pay trends (Hosek et al 1994, 4,6). [15] Military pay is compared with private sector pay in a composite perspective with several age/education groups.[16]

The initial assumption is that, among DoD and private sector personnel who are equally qualified in comparable functional areas, the DoD will select the personnel offering the lowest cost to perform the activity. For several years, DoD has stated that its aim was to make Regular Military Compensation comparable with the 70th percentile of civilian earnings (Murray 2007, 13). [17] The DoD's objective has been to attract quality personnel with a competitive compensation package that exceeds the pay of seven of ten private sector workers.

In assessing cost efficiency, paying employees less than the 70th percentile may not meet DoD competitive standards for its share of a quality private sector workforce, but it gains cost efficiencies by being able to perform its mission with a workforce for less than its targeted cost. The assumption made in assessing cost efficiency is that pay rates

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[15] The ECI measure has been critiqued (Williams 1995, Asch and Hosek 1999, Kosiak 2005, Murray 2007) regarding its usefulness as a measure to address pay gap issues with the private sector, since its does not measure military and civilian pay levels but instead reflects a comparison of rates of wage growth. It also does not take into account demographics of the military and civilian workforces or does it measure non-pay and deferred cash benefits that comprise a significant amount of DoD compensation packages. Although pay gap comparisons do not encompass all elements of compensation, they do cover a major portion of a member's salary and are useful in combination with periodic assessments of non-pay and deferred benefit levels.

[16] The data source for private sector pay is the Current Population Survey March Supplement and is measured in terms of the earnings for persons who averaged at least thirty-five hours per week and worked at least thirty-five weeks per year.

[17] The 70th percentile exceeds the pay of 70 percent of private sector workers and is less than the pay of 30 percent of the workers.

below the 70th percentile would be considered more cost-effective while those above the 70th percentile less cost-effective for meeting DoD requirements.[18] When the pay gap widens in favor of private sector personnel (private sector pay rising faster than military pay), military personnel become more cost effective if their pay is equal to or below the 70th percentile in the first independent variable. The reverse is true for private sector personnel when the pay gap favors DoD personnel and private sector personnel pay is equal to or below the 70th percentile.

Hypothesis 1 (H1)

Outsourcing is a viable DOD strategy due to its cost-effectiveness.

In (H1), outsourcing of DOD activities in the case studies is the dependent variable and cost-effectiveness is the independent variable. Civilian and DOD leaders are considered rational agents with value-maximizing behavior in the pursuit of security. The decision to outsource is based on the relative cost savings of DOD versus private sector actors in the performance of similar activities. Cost-effectiveness is measured using the following variables: military pay and pay-growth rates for military, and DoD civilian and private sector employee pay rates; conditional variables include medical spending and non-cash benefits (health care, retirement, etc.), contract monitoring and oversight results.

The Strategic Efficiency Table below highlights the expected outsourcing activity based on pay differential and pay-growth. Chapters Four through Eight will test the variables through the strategic efficiency framework to assess their effectiveness in explaining the DoD outsourcing phenomenon.

[18] Assuming personnel are qualified and able to perform required services.

Strategic Efficiency Table		
Case/Time period	Pay Differential	Outsourcing Activity
1 1970–1980	Private > Public (DoD)	Decrease
2 1981–1988	Private > Public (DoD)	Decrease
3 1989–1995	Private > Public (DoD)	Decrease
4 1996–2000	Public (DoD) pay approaching parity with private sector pay for junior level civilian, enlisted and officer grades Private > Public (DoD) for mid-senior level civilian, enlisted and officers pay-growth was mixed; pay-growth > in military for junior level enlisted as compared to comparative private sector personnel ; < in military for middle-to-senior level officer and enlisted positions	Mixed with increase expected in junior level positions (< GS-8 federal civilians; < 6 years experience for enlisted; < 10 years experience of officers)[19]
5 2001–2005	Public sector (DoD) pay relatively equal to Private sector pay for junior level civilian, enlisted and officer grades Private > Public (DoD) for mid-senior level civilian, enlisted and officers Parity in pay-growth between public (DoD) and private sector	Increase in junior level positions (< GS-8 federal civilians; < 6 years experience for enlisted and < 10 years experience for officers); decrease in mid-to-senior positions (GS-9 and above for federal civilians ; 6+ years for enlisted; 10 + years of experience for officers

Assumption – Medical spending is a conditional variable that can impact outsourcing if both pay and pay-growth variables are relatively equal for the private/public sectors.

[19] Based on DOD Instruction 1320.13 where commissioned officers (in any of the services) can expect to be promoted to the rank of Major in the Field Grade Level officer category (assuming they are selected for promotion) and the enlisted E-6 promotion eligibility requirements of the services. GS-7 and below are considered entry-level grades for those with a bachelor degree and below.

POLITICAL IDEOLOGY

Ideology is defined as a belief system where ideas and attitudes are bound together by some form of constraint or functional interdependence (Converse, 1964). This study uses ideology, as applied by Converse, to represent the continuum of positions of legislators. Many of the key themes and intellectual inspirations for outsourcing were influenced by the ideas of Ludvig von Mises, Friedrich von Hayek and Milton Friedman with early roots to Adam Smith (Friedman 1962; Linowes 1988; Henig 1990). They sought a belief and respect for not only individual liberty, but also for free market economics with minimal government intervention.

Economists Milton Friedman, and George Stigler, and public-choice theorists James Buchanan and Gordon Tullock helped to establish the notion that economic behavior and government behavior were not distinct spheres of human behavior but that government activities were a subset of economic processes (Henig 1990). They proposed that behavior of public officials and government agencies could be explained as the result of rational pursuit of individual self-interest. Their ideas provided the groundwork for de-legitimizing the welfare state and highlighted the inefficiencies of interest group politics in the U.S. government (Linowes 1988; Henig 1990). Friedman also proposed three themes that would become relevant to the outsourcing debate: an analogy between government and private monopolies, the characterization of government regulation as being anti-consumer and the distinction between government responsibility and government provision (Friedman 1962; Henig 1990).

These ideas helped to serve as a roadmap for statesmen eager to reduce the size of government and increase the role of the private sector in providing public activities.

Privatization can be considered much more than a set of specific changes in how an activity is performed, but part of a fundamental political and economic reassessment of the roles of government and the private sector in the modern welfare state (Linowes 1988). President Reagan's Commission on Privatization noted how political and economic ideas played a growing role in American government since the 1970s. The greater role in American politics of ideology was an important factor furthering the contemporary privatization movement (Linowes 1988, 237–239).

Events leading up to privatization activities included the deregulation of major industries and tax abatements in the 1970s and 1980s (Noll and Owen, 1983). Evidence that market forces could effectively produce public goods was provided in municipal, state and federal privatization cases (Savas 1987; Osborne and Gaebler 1992; Feigenbaum 1999). The deregulation of major industries includes banking, communications, transportation, oil and gas, and securities was motivated by the idea that markets represent a superior mechanism for allocating resources (Linowes, 1988). The tax reduction movement and Tax Reform Act of 1986 were also designed to diminish the intrusiveness of government in the private sector. Together with the deregulation of major industries these events represented significant shifts away from governmental control over the economy and greater reliance on private market forces (Linowes 1988).

Privatization began to become part of public policy debates in the United States in the 1980s (Henig 1990). The Reagan administration attempted to use privatization as a political strategy to reshape the state's economic and political landscape where it represented a deliberate effort to reduce the size and scope of government activity (Henig 1990). Feigenbaum notes how several elements marked the emergence of privatization in the U.S.

national government agenda during the Reagan administration. The first was an interest in selling state assets, such as federally owned park and wilderness lands, and Conrail and AMTRAK. Second, adopting the unfamiliar term "privatization" and the argument that it represented an adoption of private means to pursue public goals instead of a rejection of the welfare state. It offered a framework where contracting out, vouchers, and divestitures, among other techniques supported the government's efforts to pursue public goals through private providers. Finally, by drawing analogies to the British experience, the Reagan administration could demonstrate that privatization was economically feasible and politically popular (Henig 1990;Feigenbaum 1999).

Privatization efforts carried over into the George H.W. Bush and Clinton administrations maintaining support through a domestic agenda rooted in markets and the entrepreneurial spirit (Feigenbaum 1999). President Bush supported market mechanisms as a vehicle for school reform and named Jack Kemp, a leading advocate for enterprise zones and the sale of public housing to tenants, to his Cabinet (Henig 1990). President Clinton was a proponent of Osborne and Gaebler's ideas for reinventing government where he recommended public officials selectively learn lessons from successful businesses including the benefits of competition, customer satisfaction and leveraging change through the market (Osborne and Gaebler 1992). The George H.W. Bush administration has maintained an interest in outsourcing public activities in his management agenda and the growth of outsourcing activities throughout the government. The effectiveness of his National Security Strategy depended on a variety of actors including the private sector that played a key role in the government's largest reorganization since the Truman

administration created the National Security Council and Department of Defense in1947 (National Security Strategy 2002).

As noted by Hill, Hanna and Shafqat in their study of the liberal-conservative ideologies of U.S. Senators, past research has consistently demonstrated that the ideological orientations of American national legislators are systematically associated with their partisanship where, on average, Democrats are more liberal than Republicans (Hill, Hanna, and Shafqat 1997, 1401). Similarly, in this study I assume that economic orientations of national legislators are associated with their partisanship where Democrats are more aligned with a state interventionist approach to managing the economy, while Republicans favor a market-centric (neoliberal) economic approach.

A brief overview of the role of Congress and the Executive in developing legislation and their leverage in affecting policy change is useful in understanding the extent to which political ideology can factor in the DoD outsourcing phenomenon. Then, I'll discuss the two competing economic strategies of state intervention and neoliberal economics that have been the foundations for the competing ideological strategies of each political party. I'll address how conflicts over economic objectives have affected defense policy and describe the extent of political polarization during this period, due in part to the divide on managing the government. I'll evaluate the actions of Congress and the Executive during the time frame of the study, and examine whether ideology has any explanatory value in understanding the DoD outsourcing actions.

Congress

A brief review of the role of Congress and the Executive in outsourcing is useful in establishing a framework for their actions and the extent to which ideology can become a factor in the shaping of policy. Congress affected DoD outsourcing through its ability to pass laws that shape the nature of the outsourcing process and the appropriation of money.[20] Congress enacted the laws that set forth both the competitive sourcing and acquisition process and provided funding through the annual defense budget to support procurement activities (C.B. Cochrane and Hagan 2005, 3). This included funding for daily operations and maintenance, procurement of equipment, weapons systems and support services, and providing personnel salaries and benefits. The size of the budget indicates the extent to which the DoD could retain existing service contracts and extend new contracts for additional services through the procurement process. With an approved budget, the DoD followed the legal guidelines established by Congress for acquisitions. Congress had no significant input into the type or amount of support services procured by defense organizations once the DoD budget was approved.

Congressional involvement in the defense policy process grew over the last several decades, providing it with the opportunity to impart its interests and beliefs on DoD outsourcing. Congress had leverage on outsourcing policy through its power to make legislation and appropriate funds. Congress became more likely to affect defense policy

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[20] Congress enacted the following legislation affecting the nature of outsourcing within the DoD: Small Business Act (1963), Office of Federal Procurement Policy Act (1983), Competition in Contracting Act (1984), Department of Defense Procurement Reform Act (1985), Department of Defense Reorganization Act of 1986 Goldwater-Nichols, Government Performance and Results Act (1993), Federal Acquisition Streamlining Act of (1994), Federal Activities Inventory Reform (FAIR) Act (1998), and the annual authorization and appropriations legislation. (This legislation may contain new or amended statutory requirements, like the Clinger-Cohen Act of 1996.)
C.B. Cochrane, and G.J. Hagan. 2005. Introduction to Defense Acquisition Management, edited by D. A. University: Defense Acquisition University Press.

by a variety of means including: altering DoD line-item requests, demanding justification for DoD programs, and mandating the Pentagon to undertake specific actions (Lindsay 1987, 373). In addition, Congress could legislate how activities such as competitive sourcing were conducted within federal agencies.

Congressional involvement and leverage in defense policy stemmed from a combination of factors. Initially, during the 1970s, the rise of the subcommittee system within the armed services committees strengthened their ability to intervene in the defense policy. For example, by 1979 the House Armed Service subcommittees marked up the entire defense authorization bill with the right to schedule hearings on virtually any subject (Lindsay 1987, 381). This contrasted the lump-sum authorizations the armed services committees approved prior to 1961, which were expansive enough to leave DoD's plans unfettered (Lindsay 1987, 375). The subcommittee system was indicative of the dispersal of power within Congress giving legislators an opportunity to increase their input in policymaking (Lindsay 1987, 378–379).

The second factor affecting congressional involvement and leverage in defense policy was the growth of the annual authorization process, discussed above, which expanded the intervention and influence of legislators and their staffs in defense policy (Lindsay 1987, 375,383). After 1960, all appropriations for the procurement of major weapons systems, which eventually extended to the entire defense budget, had to be preceded by a specific annual line-item authorization (Lindsay 1987, 375). The rise of the authorization process stimulated the defense appropriations subcommittees to increase their scrutiny of the defense budget and expand opportunities for congressional intervention in defense policy (Lindsay 1987, 376,383). With the congressional reforms

of the 1970s, legislators had more freedom to debate defense issues with less fear of retribution by congressional and/or committee leaders (Lindsay 1987, 384). The increased congressional scrutiny and involvement in defense policy provided greater opportunity for ideology to impact congressional decisions.

Executive

Authority and guidance for outsourcing also comes from the Executive through executive orders, national security decisions and directives issued by the President in establishing executive direction and the national budget (C.B. Cochrane and Hagan 2005, 7).[21] Legislatures expect the President to provide leadership through ideas and programs they seek to make the center of their legislative agenda (Keefe and Ogul 1985, 305). For example, Democratic and Republican presidents have focused on different macroeconomic policy choices as presidential agenda items. A central component of every Presidential agenda and strategy is the proposed Budget.

The President has the responsibility for preparing and presenting the budget which is the most authoritative single measure defining what the executive wants to do while in office (Keefe and Ogul 1985, 308). It is arguably a blueprint of the administration's goals and strategies (Keefe and Ogul 1985, 309). The President's effect and leverage on DoD outsourcing stems from his agenda for the nation and national defense, the type of

[21] Examples of executive direction include: the Bureau of Budget Circular A-76 (1967) introduced competition between government operated and private sector commercial activities based on the cost of the activity. It seeks to rely on the private enterprise system to obtain commercial products and services; Executive Order 12352 (1982) directed procurement reforms and establishment of the Federal Acquisition Regulation (FAR); Federal Acquisition Regulation (1984) provided uniform policies and procedures for the procurement of all goods and services by executive agencies of the Federal Government with guidance for defense acquisition programs provided in the DoD Federal Acquisition Regulation Supplement (DFARS); National Security Decision Directive 219 (1986) directed implementation of recommendations of the President's Blue Ribbon Commission on Defense Management.

budget requested, and the relationship with Congress, which has unlimited legal authority to alter the budget. For example, a factor in the President's defense policy is the projected size of the DoD budget and types of appropriations necessary for the envisioned defense structure, whether its a commitment to expansion of strategic weapon systems during the Reagan administration or a reduction in conventional force structure during the Clinton presidency.

The interrelationship between the President and Congress affects the President's agenda and level of success in advancing presidential policy and budget allocations to support initiatives and executive direction. The President's ability to develop coalitions within Congress is a factor in efforts to transform ideas into law. Developing coalitions is easier when your own party controls Congress. Yet, when the opposition party controls Congress, in periods of increased polarization, coalition building becomes more difficult. The study examines this interrelationship and the President's ability to infuse ideology into lawmaking through nine administrations during which Congress grew increasingly polarized over the last few decades.

Two Competing Economic Schools of Thought

A central factor that has divided the two parties and affected the nature of defense policy is the fundamental economic principles for managing the state. State intervention based on the general ideas of Keynes and Hayek's neoliberal economic approach to managing the nation's economy and public services have been two competing approaches used by our national governments. State intervention suggests that government knowledge is superior to that of the marketplace providing the intellectual foundations for

managing the economy (Yergin and Stanislaw 1998, 42). It is based on the Keynesian idea that governments create jobs and increase purchasing power through a process of replacing missing private investment with public investment financed by deliberate deficits (Yergin and Stanislaw 1998, 41). Keynes provided a specific rationale for governments to have a bigger role in the economy with confidence to manage and intervene in the economy effectively (Yergin and Stanislaw 1998, 42). The Democratic Party built its economic platform around state intervention with Roosevelt's New Deal as the foundation for deficit spending and big government programs.

A competing set of ideas and beliefs promoted by Frederick Hayek and embraced by the University of Chicago economists (Chicago School), led by Milton Friedman, suggested it was better for governments to disengage from economic activities, get smaller and allow private activity to champion the economy (Yergin and Stanislaw 1998, 145–146). This was the foundation of neoliberal economics. It suggested that unfettered markets produced the best outcomes and prices were the best way to allocate resources (Yergin and Stanislaw 1998, 146,149). It emphasized laissez-faire and free markets with a strong belief in the power of the markets and the effectiveness of competition (Yergin and Stanislaw 1998, 145–146). Hayek and the Chicago School provided a substantial part of the foundation for the intellectual reformulation and shift in the global attitude toward markets and neoliberal economic ideology in the United States (Yergin and Stanislaw 1998, 145,149).

Competing Economic Objectives and Defense Policy

Mark A. Smith notes how American politics since the mid 20th century have been marked by the widespread use of an economic lens for examining, discussing and deciding political questions. The type of military force structure and how military services are provided are political questions, as much as they are defense issues, and have been affected by the economic lens. Benjamin Fordham suggests that partisan conflicts over economic objectives shaped DoD budgets and affected the national defense posture during the Cold War (Fordham 2002, 63–88). Fordham finds that domestic political conflict figures prominently in the picture of American Cold War military policy.

As Fordham argues, during the Cold War Democratic presidents were more willing than Republicans to engage in deficit spending in order to fund both domestic and international programs as an alliance of state intervention policymakers and advocates of larger military budgets who played a role in promoting major military buildups under the Truman and Kennedy administrations (Fordham 2002, 67). The Eisenhower administration sought to balance the national budget and avoid inflation despite deferring important defense policies. Eisenhower's desire to avoid a budget deficit meant a greater reliance on nuclear weapons and air power instead of a large conventional force that would be too costly (Fordham 2002, 67).

Fordham suggests that major military procurement decisions of the 1970s and 1980s indicate a pattern of partisan conflict over economics, defense strategy and force structure (Fordham 2002, 69). In addition, his findings suggest that party ties of national security policymakers matter, as military strategy can reflect the nature of the party in power (Fordham 2002, 85). The Republicans and Democrats each sought to establish

different force structures when they controlled the White House, where Republicans sought a smaller force with increased spending on weapon systems as opposed to a large conventional force structure favored by Democrats.

Analogous to Fordham's findings that partisan politics and conflict over economic policy can shape military strategy is the thesis that partisan politics may predict changes in DoD outsourcing over the past 30 years. Each economic approach to managing national defense translates to either a larger or smaller commitment to the private sector enterprise. During a Republican regime, an increased interest in using private enterprise to support mission requirements within a reduced force structure is likely, as opposed to a Democratic strategy favoring uniformed manpower over outsourcing in a relatively unchanging force structure with limited weapon systems buildup.

Kevin Narizny argues that the economic interests of domestic societal groups play a key role in shaping state policy and behavior. Parochial interests and political contestation are at the root of state behavior (Narizny 2007, 313). As opposed to political ideology, it doesn't matter what motivates the behavior of politicians as long as their positions correspond to the partisan coalitions that selected them to lead (Narizny 2007, 32). He suggests in his study of Britain from 1905–39 that societal debate over Britain's international strategy was the product of cleavages in its domestic political economy (Narizny 2003, 189).

In comparing outsourcing in the federal government, particularly the DoD, Narizny suggests that Republicans and Democrats espouse different arguments and positions because they are representing different economic sectoral interests that are affected in some positive or negative way by the outsourcing phenomenon. It's likely that political

ideology and political and economic interests will track closely with each other in the study of DoD outsourcing. While outside the scope of this study, the study remains sensitive to the role of political interests of capital or specific economic sectors that gain power in different administrations or are represented by members of Congress and their potential impact on DoD outsourcing.

Mark A. Smith argues that the Republican political leadership and its neoliberal ideas have grown in the government over the past 30 years because Republican politicians have made the economy and economic issues the central focus of their platform. With economic insecurity at the forefront of people's minds in the 1970s and 1980s, Republicans adapted their messages to audiences by reprioritizing issues and reframing their positions around improving the state of the economy. This included using a neoliberal economic strategy that supported pro-business policies, support for using the market in public activities, and smaller government and larger private sector involvement in government activities through outsourcing opportunities (Smith 2007, 145). The Republican focus on a neoliberal based economic strategy helped to distinguish conservative and liberal platforms. This would also indicate that if ideology were a factor in explaining DoD outsourcing behavior, we would expect an increase in private enterprise within DoD missions, especially during Republican control of Congress and the Executive.

Polarization in Congress

The work of Keith Poole, Nolan McCarty and Howard Rosenthal on modeling congressional roll call voting in Congress argues that Congress began to polarize around conservative and liberal platforms beginning in the 1970s and gained strength throughout the course of the period.[22] Poole suggests in his work that members elected to Congress after 1970 created a polarized environment by maintaining their ideological position throughout their careers with minimal exception when voting during roll calls (Poole 2003, 3; Poole, Rosenthal, and Poole 2007, 28). Thus, once a liberal, conservative or moderate, members of Congress remained committed to these beliefs throughout their tenure (McCarty, Poole, and Rosenthal 2006, 16; Poole and Rosenthal 1997, 2001). McCarty, Poole, and Rosenthal note that after 1970, the party controlling government likely developed policy based on its ideology with relatively little change during its tenure of government control. Winning outcomes in the Congress were highly responsive to the balance of partisan forces within the Senate and House (Poole and Rosenthal 1997, 69).

As Poole, McCarty and Rosenthal suggest, most roll call votes can be interpreted as splits on the basic liberal-conservative dimension. This dispersion has increased over the course of the period where Congress was more likely to see extreme conservative and extreme liberal positions as compared to the 1960's (McCarty, Poole, and Rosenthal 2006, 23). The dispersion has led to the ideological composition of the two political

[22] They suggest that polarization in Congress can be defined as a separation of politics into liberal and conservative camps where conservative and liberal positions are matched with Republican and Democrat ideals respectively, over the past thirty years. For parties to be polarized, they must be far apart on policy issues and party members tightly clustered around the party mean (McCarty, Nolan, Poole and Rosenthal 2006; Poole and Rosenthal 2007, 105). Roll call voting is one method of congressional voting where each member's vote is recorded and held on record.

parties becoming more homogeneous. Overlap between the parties has diminished while the positions of average Democrat and Republican members of Congress have become more widely separated (McCarty, Poole, and Rosenthal 2006, 24).

The process of policy development and transforming ideological positions into policy and business practices is complex. Mark A. Smith argues that rhetoric has been a key element in the transformation process and integral in supporting the rise of Republican power and neoliberal ideas into policy throughout this time frame.[23] As an intervening variable, rhetoric is crafted by politicians and political leaders to advocate and justify their positions to constituents, bureaucrats and political elites (Smith 2007, 28). Smith argues that it provides the connection between preferences and policy choices, as preferences alone can not be the direct cause of policy (Smith 2007, 28).

Congress was increasingly polarized after 1970, where members were more likely to maintain policy choices throughout their tenure. I assume political leaders use rhetoric to advocate, justify and move their ideas and preferences into policymaking. Policy actions expected during a Democratically controlled government include:

- Increased levels of federal regulation
- Increased spending for government programs and debt creation
- Decreased private enterprise in federal activities

Policy actions expected during a Republican-controlled government include:

- Reduced level of federal regulation
- Reduced spending on government programs and debt creation
- Increased private enterprise in federal activities

[23] Rhetoric refers to verbal and nonverbal means of persuasion such a logical arguments, emotional appeals, personal credibility, presentation of evidence, language, organization and delivery of speeches (Smith 2007, 24-25).

Hypothesis 2 (H2)

DOD outsourcing is a consequence of a politically conservative Congress and President.

In H2, my argument is based on the proposition that changes in military missions and force structures have their roots in ideas held by political leaders. In addition, when a political party controls both Congress and the Executive, policy will favor increased outsourcing in periods of Republican control and decreased outsourcing in periods of Democratic control; when Congress is controlled by the competing party to the Executive, we are likely to see divided positions on outsourcing behavior with outsourcing activity likely to respond in the direction of the Congress; during periods when Congress is split, the Executive will have increased influence on the direction of outsourcing policy and activity.

Congressional legislation in support of activities that facilitate outsourcing is more likely to succeed if it has the support of the President. Liberal and conservative ideology is not solely based on party affiliation but can be determined by the overall legislative record of lawmakers. The dependent variable is the extent of outsourcing in each time period; the independent variable is the degree of liberal and conservative makeup in the Congress and Executive in each time period.

The Political Ideology Table below suggests outsourcing motivation based on the dominant party that controls two out of the three national policymaking and leadership bodies (Executive, House of Representatives, Senate). The suggested outsourcing motivation will be evaluated and discussed in chapters four through eight when each of the variables are evaluated against outsourcing data.

Political Ideology Table					
Case/ TimePeriod	**Executive**	**Senate**	**House**	**Dominant Party**	**Outsourcing Activity**
1: 1970–1980	Republican/ Democrat	Democrat	Democrat	Democrat	Decrease
2: 1981–1988	Republican	Republican/ Democrat	Democrat	Republican	Increase
3: 1989–1995	Republican/ Democrat	Democrat/ Republican	Democrat	Democrat	Decrease
4: 1996–2000	Democrat	Republican	Republican	Republican	Increase
5: 2001–2005	Republican	Democrat/ Republican	Republican	Republican	Increase
Dominant Party is when one party controls two of three federal governing bodies (Executive, House, Senate)					

Table ID1 (below) provides a general proposition of the type of actions expected from federal lawmakers during the period of the study based upon the makeup of Congress and the Executive as described in Table 11.[24]

TABLE ID1 EXPECTED FEDERAL POLICY BEHAVIOR

PERIOD	GOV'T INVOLVEMENT IN ECONOMY (REGULATION)	FEDERAL SPENDING AND DEBT CREATION (NOT INCLUDING CONFLICT/WAR SPENDING)	GROWTH OF PRIVATE ACTORS PERFORMING DOD SERVICES
1970–1980	High	High	Low
1981–1988	Medium-Low	Medium-Low	Medium-High
1989–1995	Medium-High	Medium	Medium-Low
1996–2000	Medium-Low	Medium-Low	Medium-High
2001–2005	Low	Low	High

- **1970–1980** High government involvement in the economy, with high federal spending and debt creation and low growth of private actors performing DoD services due to the dominate nature of the states role in policymaking from both sides of the government. Market-centric actions were less pervasive among government policy options and not a significant factor in mainstream federal policymaking for Nixon, Ford, and Carter and the Democratic Congress that maintained a large majority through 1980.

- **1981–1988** Medium-to-low government involvement in the economy and in federal spending and debt creation with medium-to-high growth of private actors performing DoD functions; growing interest and impact of neoliberal, market-centric choices in federal policymaking across the Republican government. The presidency was dominated by the Republican Party with Ronald Reagan serving in the Oval Office through 1988 with a split Congress through 1987. President Reagan attempted to reduce government size, regulation, federal spending and debt creation, and increase private

[24] Time frame is based on significant changes in the dependent variable.

sector actors in the public sector with some success. Though debt creation increased throughout Reagan's two terms, it did not appear to affect his commitment to neoliberal aims. The Congress appeared more appeasing to Reagan's policy actions in the first term with increased congressional splits during the second term. President Reagan was able to enact his legislative platform due to his election mandate and congressional split.

- **1989–1995** President George H.W. Bush attempted to maintain the Reagan economic and defense policies through 1992. Yet, the fall of the Berlin Wall and Soviet empire led to a tapering-off of defense spending (Yergin and Stanislaw 1998, 336). By the end of the Bush-1 administration, the ideas that underpinned the Reagan Revolution had acquired a much wider resonance in both parties (Yergin and Stanislaw 1998, 336). President Bill Clinton represented the New Democrats who criticized the traditional Democratic approach of "tax and spend" economics (Yergin and Stanislaw 1998, 336-337). President Clinton attempted to reshape government as a conservative Democrat, highlighted by his support for reducing the federal budget deficit. Expectations included minimal increases in federal spending, government growth and the growth of private actors in DoD services. The Democratic Congress through 1994 minimized efforts to move policymaking to the right. Congress attempted to be involved in the economy through increased government spending, economic stimulus programs and higher taxes on the upper income while minimizing the growth of private actors performing DoD services (Yergin and Stanislaw 1998, 337).

- 1996–2000 The 104th Congress, controlled by the Republicans, challenged many areas of traditional government expenditures, proposing a variety of government spending reductions. President Clinton adopted the principle of the proposed changes

that included a balanced budget (Yergin and Stanislaw 1998, 338). The Clinton administration became more conservative based on Republican gains and control of Congress, with a majority averaging eight seats in the Senate and 20 seats in the House. Given the Republican nature of Congress and President Clinton's conservative bent, expectations were for low-to-medium government involvement in the economy and, minimum federal spending with medium-to-high level of growth in private actors performing DoD activities.

- **2001–2005** Neoliberal/market-centric influence was expected across federal government as President Bush and the Republican-controlled Congress shaped policy. The President had success enacting neoliberal-based legislation, due in part to congressional support. Due to the Republican control of Congress and the Executive, expectations were for low government involvement in the economy with low federal spending with the high growth of private actors performing DoD services.

ORGANIZATION FACTORS FRAMEWORK

An organization may be defined as a combination of people with a common set of values who work together by fulfilling different but complementary functions to achieve some purpose or objective; the participants share a set of beliefs, which relates their values and purposes to larger organizations within which they operate (Friedrich 1963, 132). Organizations come into existence for the pursuit of specific purposes, tasks or objectives that demands coordination, planning and supervision (Posen, 1984). As Barry Posen notes, the national security activities of the state are divided among specialists. Each of the military services are assigned specific missions with large, expensive

capabilities (combat forces and their supporting elements) that involve the allocating of limited DoD resources to accomplish assigned missions (Barrett and Jones 1983, 31).

Morton Halperin (1973) suggests that influence, domain, essential role, independence, budget and morale are the principle interests of organizations that participate in the national security policy process. These interests are important variables in shaping the decisions and actions of an organization and are useful in the study of outsourcing behavior.

The most pervasive interest is to exert independent influence as it seeks to further organizational purposes, ensure its well-being and, where necessary, secure capabilities (Barrett and Jones 1983, 33). The essence of an organization, what it ought to be, how it ought to proceed and what it ought to seek to achieve derives from the common set of values and purposes that members of the organization share (Barrett and Jones 1983, 34). Maintaining or enhancing independence and, as suggested by Halperin and Kanter (1974), a quest for autonomy are sought by organizations to safeguard their essence and domain (Barrett and Jones 1983, 36). Manifestations of the interest in independence or autonomy include resistance to participation by outsiders in their operations (Halperin and Kanter 1973, 11-12). All military services are interested in the size and composition of their budget. A budget can be an indicator of the significance of influence within an area of responsibility while also reflecting national priorities at a given moment for staff and operational organizations (Barrett and Jones 1983, 37). Maintaining morale is an important interest of the organization as the values and purposes that members share must continue to be regarded in a favorable light and objectives must continue to appear to be worthwhile.

I suggest these values are pertinent and reflected across the actions of an organization. When I talk about organization factors in this study I'm referring to maintaining core competencies, unconstrained budget, and autonomy. These are derived from organizational values and used to evaluate the extent of organizational impact on outsourcing behavior. Organization factors are an appropriate lens to examine outsourcing in the defense realm since defense organizations are the primary actors and have a stake in the decision making process. Their missions are directly affected by outsourcing decisions.

Hypotheses derived from these organization factors are that organization members develop loyalty to the organization and conformity in performing activities. They develop routines that value predictability and stability and are averse to change, especially change from outside the organization. These preferred ways of performing tasks are known as Standard Operating Procedures (SOPs). SOPs in turn become institutionalized within an organization, where members have very little interest in change (Posen, 1984). Organizations facing decreased funding will focus on maintaining core activities— missions essential and fundamental to their survivability.

Barry Posen suggests that organizations abhor uncertainty and changes in traditional patterns of accomplishing tasks. James Q. Wilson notes that organizations are successful when they create a sense of mission, decide how to perform critical tasks and acquire a degree of autonomy with external political support (Wilson, 1989). As suggested by both Halperin and Wilson, organizations place a high premium on autonomy. In the relatively decentralized DoD outsourcing environment, organizational

autonomy will likely contribute to disparate behavior in levels of outsourcing activity and types of services being considered for outsourcing.

Despite having certainty and predictability in an organization, outsourcing suggests innovation by offering a new approach to providing capabilities and services for defense/national security activities. It is argued that innovation is rarely generated from within the organization due to the uncertainty it brings, unless the organization has a significant failure.[25] In such cases, outsourcing can be explained by organization factors when civilians with legitimate authority intervene to promote change (Posen 1984; Allison 1971).

Yet, outsourcing activities add a new dimension to operating procedures and are an adjustment to traditional patterns of conducting business that organizations seek to avoid. However, organizations may be likely to accept outsourcing if it has ramifications on their ability to save core programs or weapon systems that impact their mission, size and funding, especially in times of a reduced and limited budget. Prolonged budgetary famine, as noted by Allison, may result in a major retrenchment of an organization (Allison, 1971). Tasks that are not defined as central to the mission are often performed poorly or starved for resources (Wilson, 1989). These types of activities may be outsourced to protect the overall well being of the organization.

[25] Stephen Peter Rosen, "New Ways of War", *International Security*, Vol. 13 (Summer 1988), pp.134–168, offers a contrasting proposition that military innovation can be generated during peacetime without experiencing prior defeat, and the relative impact of civilian intervention can be less than that of indigenous military innovators.

Overview of U.S. Military Organizations

The study evaluates the DoD, which is a functioning organization with a mission and basic structure that includes powerful constituent organizations (Barrett and Jones 1983, 15). The organizational configuration for maintaining the military instrument consists of the military departments headed by service secretaries and contains four uniformed services responsible for providing forces for land, sea and air warfare (Barrett and Jones 1983, 21).[26] Each exhibits a strong interest in the maintaining function especially when they perceive an issue being decided is either potentially advantageous or threatening to their strength, vitality, and ability to perform its part of the function (Barrett and Jones 1983, 28).

The military organizations have the ability to translate their interests into influence due to an abundant freedom of action as a consequence of the structural configuration of the DoD (Barrett and Jones 1983, 29). Their freedom of action provides ample opportunities to seek and find powerful external proponents whose interests parallel their own (Barrett and Jones 1983, 29).

Carl Builder, in *The Masks of War* argues that the most powerful institutions in the American national security arena are the military services. These institutions, while composed of many individuals, have distinct and enduring personalities that govern much of their behavior (Builder 1989, 3). The essence of the military organization is captured in distinct mannerisms and a culture[27] that is derived from each service and its

[26] Maintaining functions are all actions incident to preparing forces for war and sustaining them during hostilities (Barrett, Jones, NDU, 1983, 22).

[27] Organizational culture is defined as a patterned way of thinking focused on the organization's central tasks (operations) and relationships (administration), passed on by generations and slow to change Smith, James M. 1998. Air Force Culture and Cohesion: Building an Air and Space Force for the Twenty-First Century. *Air Power* (Fall): 40-53.

approaches to strategy, national security and its dominant image of the next major war for which it must prepare to fight (Builder 1989, 127,131).

Organizations have considerable freedom in defining their missions and the capabilities they need to pursue those missions to include what kinds of people, expertise, experience and knowledge are necessary in the organization (Halperin, Clapp, and Kanter 2006, 27). The military services are no exception. Each considers their service as the decisive factor in winning wars. Since each service was not completely confident in relying absolutely on each other during a crisis, each produced redundant capabilities and self-reliant war fighting concepts (Johnson 2006, 194).

While DoD organizations have primarily unique missions, they share the following attributes:

- Each seeks to maintain their self-interest; they pursue unconstrained budgets and resources favoring service-defined missions and capabilities
- Reliance on technological advantage and the desire to integrate technology into force structure and operations for superior performance
- Slow to change force structure and missions primarily built to maintain traditional roles and missions, supporting large conventional and/or nuclear conflict scenarios
- Tasks not defined as central to the mission are often performed poorly or starved for resources

Air Force

Since its inception in 1947, the Air Force has focused itself primarily around strategic bombardment and tactical air warfare. It has argued strongly for its size in terms of the number of bomber and fighter wings, where technologically advanced aircraft have been a higher priority than the number of aircraft (Builder 1989, 21). The Air Force measures itself by the kind or quality of its aircraft followed by the quantity (Builder 1989, 21; Smith 1998, 44). Its legitimacy as an independent autonomous institution rests on the decisive and independent nature of the air war (Builder 1989, 28). The true business of the Air Force is waging the air war and those activities directly involved in that mission. The Air Force is confident in regards to the decisiveness of air power as an instrument of war, irregardless of whether it is waged for strategic or tactical objectives (Builder 1989, 28).

The Air Force continues to nurture and apply technology, as it depends on commercial hardware tuned to military needs, to develop its commitment to space operations and to provide air and space power and superiority for U.S. military actions around the world. Former Secretary of the Air Force James G. Roche notes the pursuit of the investments needed to sharpen the teeth of long-range strike, surveillance, mobility, unmanned aerial vehicles (UAV), and space assets. The Air Force is making critical investments to improve the capability of current weapon systems while bringing new capabilities to the fight by, for example, integrating space systems into virtually every aspect of military operations (Roche 2001-02, 13).

Today's Air Force is highly technical with a complex mix of specialties to support air, space and cyber capabilities. In a Pentagon Town Hall Meeting in May 2006,

Secretary of Defense Rumsfeld and General Peter Pace, then Chairman of the Joint Chiefs of Staff confirmed the central position of technology in the Air Force, noting how the Air Force planned to eliminate 40,000 personnel over five years as a result of advances in technology requiring less personnel for supporting activities (Mideast Stars and Stripes 2006, 1). Considering the Air Force dependence on high technology to support its aviation, space and cyber missions, along with its need to have a robust logistics infrastructure to support its weapons systems, increased outsourcing with the private sector is expected. Expertise in technology and logistics has grown throughout this period and will be necessary to maintain dominance in mission areas. Also, reductions in military and civilian manpower to pay for new technology and maintaining DoD personnel ceilings will put more demand on the private sector to support military activities.

Army

The Army's essence has been its ground combat capability (Halperin, Clapp, and Kanter 2006, 32). The Army concerns itself with how well it can adapt and use its assigned resources to achieve its objective of sustained land dominance across the spectrum of conflict (Builder 1989, 86; United States Army 2001, 277). In support of this objective, the Army has begun to move towards a dependence on technology. While already dependent on weapons such as the Abrams tank and Bradley fighting vehicle as key components of its war-fighting strategy, the weapons also provide access to a bigger budget slice in a defense program orientated towards sophisticated weapon systems that have incorporated greater technology into their development and support (Builder 1989,

24). Since 1990, we can expect to find an increase in the outsourcing of technology and logistics expertise to support Army weapons systems, objectives and deployed mission requirements.

Navy

The Navy's essence is to maintain combat ships whose primary mission is to control the sea against potential enemies (Halperin, Clapp, and Kanter 2006, 30). Its approach to decision making and force structure management is grounded in a tradition where independent command of ships at sea is a central element (Builder 1989, 18). This culture of independence has provided many navy units with a wide degree of latitude in decision making and budget actions in supporting their operational mission (Porter, 2008).

The Navy's size and relative success in budget battles is measured in capital ships (e.g. battleship, carrier, super carrier) and submarines. The size and composition of the required fleet have been remarkably constant despite changes wrought by wars, technological advances and new enemies (Builder 1989, 21). These weapon systems have necessitated a variety of support activities to provide for their operational requirements. With its continual worldwide mission, the Navy became a high technology organization open to new ways of doing business with maturing technologies (Mullen 2002, 38). Support activity and technical expertise requirements have provided ample room for outsourcing opportunities as the private sector developed similar capabilities.

Common to all Services

Support activities contributed to the unique mission of each service as a critical enabler for the decisiveness of force projection and military success on the battlefield. Information technology and logistics are two areas that provide direct support to the mission of each service. For example, within a conflict environment, providing the daily tasking order— detailing the nature of the mission for each service organization supporting a war/contingency environment is possible due to a complex and sophisticated secure computer and voice network involving a range of communication architectures stretching across the DoD infrastructure.

The support infrastructure has become fundamental to mission execution. Information systems became essential components for the success of the DoD mission transforming the nature of the battle space. Logistics provided the backbone of all air, land or sea operations and were essential for longer duration campaigns, providing supplies, spare parts, fuel, deployed base support, ammunition, etc. Military success during both peacetime and wartime operations would be jeopardized and less likely without these support capabilities.

Though the U.S. reduced its conventional force structure, its remaining forces were a shrunken version of their Cold War predecessors (Williams 2001, 2). American strategy was not decisively changed after the Cold War, as power projection, decisive force, overseas presence and strategic agility remained core concepts (Metz 2000, 36). Within its shrunken force size, technological dependency grew, as the DoD was still required to deliver its core mission requirements while also addressing emerging conflicts. With a

smaller force, the U.S. engaged in more conflict operations after the Cold War than it did between 1975 and 1990.

Hypothesis 3 (H3)

The Organization Factors Hypothesis for explaining the DoD outsourcing phenomenon is (H3): *New activities and those outside the scope of an organization's standard or doctrine-specific activities are likely to be outsourced in periods of budgetary decline and decreased organization autonomy.*

In H3 the dependent variable is outsourcing. Independent variables to be tested include type of organization activity, budget, and organization independence/autonomy. I test whether outsourcing activities are a result of the type of activity, size of the budget or degree of organization autonomy in the process. The hypothesis suggests that organizations will be more likely to outsource activities not aligned with traditional/core activities, or those low on their priority list, while focusing internal resources on primary or doctrine related activities. Organizations are also affected by budgetary reductions and external actors, and are more likely to outsource activities when budgets are decreasing and when facing increased pressure from external political or senior military leaders. Organizations seek increased independence/autonomy in decision making and it's argued that organizations with a high degree of autonomy will be very subjective in their outsourcing efforts, suggesting decreased activity. Those with limited autonomy are more apt to respond to demands from higher levels of command and prone to increased outsourcing.

The table below highlights the relationship between organization factors—level of autonomy, budget and the predisposition towards outsourcing core and non-core activities. In Chapters Four through Eight, and Ten, organization variables will be evaluated in examining DoD outsourcing behavior.

	Budget		
Autonomy	**Increase**	**Decrease**	**Significant Decrease**
High	⇓ **Non-core/Core**	⇓ **Non-core/Core**	⇑ **Non-core** ⇓ **Core**
Low	⇓ **Non-core/Core**	⇑ **Non-core** ⇓ **Core**	⇑ **Non-core/Core**
Very Low	⇑ **Non-core** ⇓ **Core**	⇑ **Non-core/Core**	⇑ **Non-core/Core**
⇑ **Increase in outsourcing activity** ⇓ **Decrease in outsourcing activity** **Core/Non-core refer to type of activity**			

CHAPTER THREE

DEFENSE OUTSOURCING OVERVIEW 1970–2005

The outsourcing of activities and services within the DoD has grown dramatically in recent decades. The use of private actors to augment and assume responsibilities for military forces throughout the DoD has become an increasingly common sight over the past three decades. In 2005, nearly 66 percent of the O&M budget, or approximately $130–140 billion, was spent on outsourced services, as compared to 1974 when 52 percent of the O&M budget, or $100 billion, was spent on outsourcing services.[28] In 2005, the amount obligated on service contracts exceeded the amount DoD spent on supplies and equipment to include major weapon systems (GAO 2006c, 4). In addition, when evaluating discourse analysis on usage of the terms "Outsourcing" and "Privatization" within newspapers and periodicals between 1970 and 2005, there has been a steep increase between the mid-1980s and 2005, as noted in Figure 28.

In this chapter, I'll address the two primary methods used by the DoD to outsource support activities — 1) the procurement of new or existing services, and 2) competitive sourcing initiatives for activities currently being performed by DoD organizations.[29] These will be the primary indicators of DoD outsourcing activity that will be evaluated throughout the study. I will then identify and describe each of the dependent and conditional variables associated with outsourcing activity. Finally, the chapter will

[28] Using 2005 dollars to standardize comparisons.

[29] In competitive sourcing initiatives DoD organizations compete with private sector organizations interested in performing the activity. Both types of outsourcing activities represent the decision of DoD agencies to use or consider private enterprise to perform activities either directly or indirectly involved with national defense and security.

conclude with a brief review of outsourcing activity and results from throughout the study.

DOD OUTSOURCING METHODS

DoD agencies use two primary methods to acquire services from the private sector. The first is through the acquisition of services that are new, improved or continuing in nature. DoD agencies directly seek private enterprise to perform select services (new or ongoing) that are usually peripheral to the core mission, through procurement processes. A vast array of services considered necessary in the performance and completion of an organization mission are subjected to competition throughout the service support sector, including personnel, administrative, engineering, logistics, base and post support functions in all military services (Harvey 2002, 56). O&M funds are programmed to support these activities through the DoD's Planning, Programming, Budgeting and Execution (PPBE) Process. The percent of O&M funds spent on procuring these services is measured annually to highlight spending behavior and changes throughout the period of the study.

This method represents the bulk of outsourcing activity in the DoD. This process requires the DoD to advertise the service requirement requested and accept bids from public and private organizations interested in performing the activity. DoD will primarily select the vendor with the best cost-savings for the required service. DoD will use cost as a primary determinant for a large majority of its contracts. It's an important variable to measure for examining outsourcing behavior, as it indicates the volume and extent of

private sector activity in DoD organizations as compared to those activities being performed by in-house military or civilian personnel.

DoD has traditionally approached the acquisition of services differently than the acquisition of products or weapon systems (GAO 2006c, 6). Acquiring services has been largely fragmented and uncoordinated within and across service organizations (GAO 2006c, 6). Responsibility for acquiring services is decentralized and spread among individual military commands and organizations, program offices, or functional units on military installations. Much of the responsibility for procurement of services is at the lowest levels of command as contract dollar values for services are usually much smaller and don't require senior level or congressional approval or oversight, as compared with contracts for weapon systems (GAO 2002b, 19).

As noted by DoD and military department officials interviewed by the GAO, the DoD generally views service acquisition as less risky than the acquisition of weapon systems (GAO 2006c, 6). They are not tied directly to mission accomplishment and tend to be composed of far more numerous and lower-dollar-value contracts, which are overseen by the service or component acquisition executives, as opposed to the Under Secretary of Defense (Acquisition, Technology, and Logistics), who provides oversight for the acquisition of DoD's largest programs based upon estimated dollar value; they include weapon systems and major automated information systems (GAO 2006c, 6).[30]

[30] The traditional view that service acquisitions are less risky and not tied to direct mission accomplishment has begun to change with the significant amount of outsourcing and procurement of support activities across nearly all functional areas in all services. Many military members would argue that contractors are fundamental to their mission accomplishment as they now manage and operate essential functions such as supply, communications and weapon systems maintenance at U.S. and forward deployed locations in conflict areas. Key military leaders consider contractors a fundamental component of their Total Force.

The second method for acquiring services is through OMB's Circular A-76/competitive sourcing process. In this approach, commercial activities being performed by military or DoD civilian personnel are identified by DoD components for competition (Andrews 2007). As with the procurement of services, competitive sourcing has been a decentralized activity for most of the study time frame where local level organizations select activities to be considered for outsourcing that are integral to the process. OMB's Circular A-76 provides the guidelines and procedures for the competition process where DoD organizations announce activities being competed, allowing private sector firms to compete against the existing organization providing the service.[31] The most important element of the competitive sourcing process is the expected cost-savings offered by each competing organization (Andrews 2007). The organization that wins the lengthy competition usually shows the most significant cost-reduction ability in performing/providing the required service.

In many cases, DoD looks for an initial 30–40 percent cost reduction through its A-76 competitive sourcing process (Andrews 2007). Activities that are won by private sector firms transition to procurement contracts after the initial contract term is completed making it very difficult to systematically track and monitor whether the projected cost savings were produced. If the DoD retains the activity, the private sector firm or DoD entity can re-compete for the contract at a later time.

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[31] OMB Circular A-76 was first issued in 1966. Authority for the OMB Circular A-76 originated in the Budgeting and Accounting Act of 1921 and the Office of Federal Procurement Policy Act Amendments of 1979. It provides guidance for agencies to determine whether commercial activities should be provided through contract with commercial sources, use of in-house governmental personnel, or through interservice support agreements with other federal agencies. Once an activity is selected for Circular A-76 review, the industry develops proposals; the agency puts together a more efficient organization for retaining the work in-house and prepares its own proposal. The best value contract offer is compared with the agency's proposal to determine final award. Note: The circular and its Supplement are not applicable to DoD in times of a declared war or military mobilization (Grasso 2005, 3,14,23).

As compared to the procurement of services, the A-76 competitive sourcing process represents a small amount of the total outsourcing activity of the DoD (under two percent). Yet, it is extremely important, as it is the only method by which the DoD makes its in-house personnel and services part of a competitive process in which it can replace existing military or federal civilian personnel with private sector resources. It provides valuable insight into factors affecting outsourcing behavior and the ultimate size and shape of the military and civilian (government-owned) manpower force.

DEFINING DEPENDENT VARIABLES

Dependent variables can be observed by two measures — changes in the annual procurement of services as a percentage of O&M costs, and changes in the annual amount of competitive sourcing activity.[32] Examining the procurement of services in relation to the O&M budget helps put into perspective the size and extent of changes in service procurement over time. It provides a barometer of the activity in procuring services relative to changes across other program areas funded by the O&M budget.

Data for the first dependent variable is provided in Figure 1.[33] It displays a yearly measure of the procurement of services as a percentage of O&M costs and is a useful

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[32] Procured services are paid from the O&M budget (GAO 2007, 2).

[33] Outsourcing services included in Figure are:
Research and Development; Special Studies and Analysis; Architect and Engineering Services; Automatic Data Processing and Telecommunication Services (Technology); Purchase of Structures and Facilities; Natural Resources and Conservation Services; Social Science; Quality Control, Testing and Inspection Services; Maintenance, Repair, and Rebuilding of Equipment; Modification of Equipment; Technical Representative Services; Operation of Government-Owned Facilities; Installation of Equipment; Salvage Services; Medical Services; Professional, Admin and Management Support Services; Utilities and Housekeeping Services; Photographic, Mapping, Printing and Publication; Education and Training Services; Transportation, Travel and Relocation Services; Lease and Rental of Equipment and Facilities; Maintenance, Repair or Alteration of Real Property.

Throughout the study I've evaluated and compared yearly costs using the 2005 consumer price index (CPI) that provides a common comparison on outsourcing costs for each year.

indicator of the volume and change to DoD outsourcing activity throughout the time frame of the study. The data indicates how outsourcing as a percentage of the O&M budget has grown over the time frame from an average of 56.9 percent through 1981, to 65.7 percent of O&M costs in 2005. During this period, the annual percent of O&M spent on procured services has ranged from a low of 52–54 percent in 1974, 1976, 1981, and 1991 to a high of 67 to 70 percent in 1982, 1985 and 1987. On average during the study time frame, more than half of DoD's O&M funds were spent on private sector actors to provide support services.

Figure 1B provides data on the average percent of O&M funds spent on procured services for each of the first five cases. This information helps to compare the changes in procurement activity for support services across the cases being studied.

The second dependent variable, competitive sourcing activity, is measured through the following four variables: the annual amount of completed cost-comparison studies performed by DoD organizations, the annual amount of DoD positions or full-time equivalents (FTE) positions studied, the annual amount of DoD public/private competitions, and the annual amount of competitive sourcing initiatives announced by DoD organizations.[34] The annual completed cost-comparison data is found in Table 5 for each DoD service/agency from 1978 through 1996. It provides a useful indicator in identifying competitive activity and trends across the DoD over time.

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[34] A cost-comparison study is the process of comparing in-house and private sector organizations against a Performance Work Statement (PWS) for the performance of required duties, and selecting the organization that can perform the duties more cost-effectively significantly reducing the current production cost of the service is a major factor in selecting the service provider (Andrews 2007). One FTE is equivalent to one position, or a full-time worker.

The second variable looks at DoD positions filled by either military and/or DoD civilian personnel. Evaluating the amount of DoD positions also considered FTE positions studied for competitive sourcing initiatives is an indicator of the extent that competition has permeated DoD missions and affected the size of the force. Table 7 and Figures 5 and 6 use data on the annual amount of positions studied to help explain competitive activity within the DoD. Table 7 lists the number of positions studied in the DoD on an annual basis from 1988 through1997. Figure 5 lists the number of positions studied in A-76 competitions between 1979 and 1996. It also lists the DoD's projection for positions to be studied from 1997 through 2003. Figure 6 provides data on the average number of total FTEs or positions competed for each year from 1996 through 2003. This data is important, as it reflects outsourcing effort versus outcome for nearly the entire period of the study and helps to highlight trends of activity within the DoD.

The third variable identifies the extent of competitive sourcing activity via the number of DoD public/private competitions held each year. Figure 7 measures this activity from 1995 through 2003, providing data on the total number of competitions within DoD each year, and the amount of competitions won by in-house and contractor bids. The data is useful in providing the level of competitive activity within the DoD and the patterns of success and failure for both private sector and in-house organizations in the competitive sourcing process.

Finally, the fourth variable to assess competitive sourcing activity is the annual number of competitive sourcing initiatives announced by DoD organizations. Each organization provides a public announcement for an activity it intends to competitively source, through the A-76 process, seeking both public and private sector bids.

Announcements are made throughout the year, offering private businesses the opportunity to compete against in-house organizations for the opportunity to perform select functions. An increased amount of announced initiatives suggests a greater level of activity for competition and outsourcing. Figure 8 charts the amount of initiatives announced by the DoD services and agencies between 1995 and 2004.

In the following section, I'm going to briefly examine the extent of change in DoD's outsourcing activity over the course of the study. It provides the foundation for testing independent variables and evaluating each of the three theoretical frameworks for their usefulness in explaining outsourcing behavior in Chapters four through eight and ten. To better understand the causal nature of outsourcing behavior in the DoD, the first five cases are framed by time periods distinguished by either a significant increase or decrease in outsourcing activity, as defined by changes in either service procurement or competitive sourcing activity. These periods are 1970–1980, 1981–1988, 1989–1995, 1996–2000, and 2001–2005. The sixth case evaluates outsourcing in the realm of DoD IT network management.

Overall, outsourcing activity for procured services increased over the course of the study at different rates of growth/decline. Competitive sourcing activity across the study fluctuated, with periods of active competition followed by little competitive activity. President Reagan's two administrations were the most active in both the procurement of support services and competitive sourcing activity, followed by President Clinton's second administration. The periods with least activity were 1970–1980 and the administrations of President G.H.W. Bush and President Clinton, between 1989 and 1995.

OVERVIEW OF DOD OUTSOURCING ACTIVITY 1970–2005

1970–1980

Between 1970 and 1980 there was an inconsistent pattern of growth in service procurement. During this period, the primary data (and only data available) to study outsourcing were the yearly amount of procured services and the percent of O&M dollars spent on procured services, as described in Figure 1. The amount spent on procured services ranged from $52 to $64 billion yearly, while the percent of O&M budget spent on service procurement ranged from 52 to 61 percent yearly. The change in the percent of O&M dollars spent on procured services from year to year during this period declined by 3.5 percent. The average percent of O&M budget spent on procured services was 57.8 percent. Data for competitive sourcing activity was not available until 1978 and it increased significantly between 1978 and 1981.

1981–1988

The first significant change in procurement activity for both service procurement and commercial sourcing activity began in the early 1980s. In comparison to the 1970s, the procurement of services increased significantly. From 1981 through the end of 1982 the percent of O&M budget spent on service procurement increased from 52.1 to 70.6 percent. This appears to be a result of the Reagan administration's investment in national security through a commitment to military buildup, and neoliberal ideological principles that will be discussed in Chapter five. The 18 percent increase in procurement spending was three times larger than the six percent increase in the O&M portion of the DoD budget for the same time period. The average percent of O&M funds spent on procured

services was 64.2 percent between 1981 and 1988, as compared to 57 percent in the prior period. The amount spent on DoD procured services averaged between $80–100 billion annually during this period, as compared to $52–64 billion annually in the 1970s.[35] Overall, the change in the percent of O&M dollars spent on procured services from year to year during this period increased by 9.3 percent.

Competitive sourcing activity, as measured by cost-comparison studies, paralleled the growth in service procurement. As listed in Table 5, cost-comparison studies peaked with 379 completed studies in 1983, while there were over 1,900 completed studies between 1980 and 1988. Data for both procurement of services and competitive sourcing indicates a significant increase in competition and a large commitment to using the private sector for performing DoD activities.

1989–1995

Between 1989 and 1995, the average percent of O&M funds spent on procured services was 61.6 percent, nearly three percent lower than the prior period. At this lower level of procurement, the percent of O&M spent on procured services increased by 1.2 percent due to increased procurement activity in 1992–1994 as the O&M budget decreased and procurement spending levels remained relatively consistent. A large decrease in competitive sourcing activity, as measured by cost-comparison studies in Table 5 and the total number of positions studied in Table 7, was a significant development highlighting substantial change in outsourcing activity during this period. Completed cost-comparison studies declined from 153 in 1988 to 9 in 1995, while the number of positions studied dropped from 12,000 in 1988 to 2,128 in 1995. While the

[35] The amount spent on procured services annually was adjusted to 2005 dollars.

data on service procurement reflects interest in retaining and hiring new private sector actors for functions not performed by DoD personnel, the competitive sourcing data reflected both legislative restrictions and hesitation from within DoD organizations towards outsourcing of functions being performed by their personnel.

1996–2000

Between 1996 and 2000, the average percent of O&M funds spent on procured services was 64.8 percent, nearly four percent greater than the previous period and the highest average across the case studies, as the DoD budget was at its lowest since the 1970s. At this increased level of procurement, the percent of O&M dollars spent on services decreased by three percent, as the O&M budget increased in 1999 and 2000 while the amount spent for procurement of services remained consistent. The increase in commercial sourcing as measured through A-76 competitions, positions competed and announced DoD competitive sourcing initiatives was significant. A-76 competitions, as tracked in Figure 7, increased from under 20 in 1996 to nearly 210 in 2000. Figure 6 displays how the average number of total positions competed increased from under 100 in 1996 to nearly 8,000 in 2000. The amount of announced DoD competitive sourcing initiatives represented in Figure 8 increased from 50 in 1995 to nearly 450 in 1999.

2001–2005

Between 2001 and 2005, the percent of O&M dollars spent on procured services increased by 3.7 percent, from $61.9 to $65.7 billion spent, with an average of 63.3 percent as the O&M budget increased to nearly $200 billion. Competitive sourcing

activity began to decline as announced DoD competitive sourcing initiatives declined from nearly 450 in 1999 to under 50 in 2004. DoD competitions decreased from over 200 in 2000 to 160 in 2003, while average number of total positions competed for annually declined to under 14,000 in 2003. The data indicates that while the DoD continued to seek private actors to perform new or existing activities, competitive sourcing activity began to decline based on the volume of competition for functions performed by the DoD.

The next five chapters address the outsourcing activities described above by evaluating each of the three theoretical frameworks against data from each of the five periods. The objective of these chapters is to identify those variables that are significant in explaining outsourcing activity throughout the study and the extent to which each theoretical framework is useful in explaining and understanding the phenomenon.

CHAPTER FOUR

CASE STUDY—DEFENSE OUTSOURCING 1970–1980

During the 1970–1980 period, outsourcing indicators are based on procurement activity that ranged from $52 to $64 billion where the percent of O&M funds spent on service procurement ranged from 52 to 61 percent.[36] Outsourcing activity decreased through 1974, increased between 1975 and 1978 and decreased slightly through 1980. While the DoD was efficient in outsourcing low-skilled requirements, organization autonomy was a central characteristic of outsourcing behavior, resulting in selective outsourcing based on disparate local organizations with little oversight and accountability.

Outsourcing behavior highlighted inefficiencies in providing the national defense capability and was insensitive to war fighting commanders and the American public. The interest of the services in maintaining organization independence undermined the joint structure and comprehensive national defense mission. The semi-autonomous position of defense agencies that went relatively unchecked by leadership contributed to a lack of transparency and violated the theory of governmental checks and balances.

STRATEGIC EFFICIENCY 1970–1980

During this period, strategic efficiency offers a limited lesson in explaining DoD outsourcing activity. By examining pay rates and pay-growth, it appears that military and federal civilian personnel were a better cost savings than private sector personnel for

[36] O&M costs are in 2005 dollars.

most military activities. Strategic efficiency would expect outsourcing in low skill areas, such as housekeeping and utilities, to provide opportunities for DoD personnel in higher skilled activities where they offered a greater cost savings advantage than private sector equivalents. Transaction cost economics is aligned with these expectations as low-skilled activities are mundane and commonly found in the market. The market offers the most efficient mode for organizing these transactions, as significant competition can be arranged to provide a safeguard for procurement.

The data on outsourcing through DoD's service procurement process does not support strategic efficiency as 65–75 percent of service procurement actions were for higher skilled activities where DoD personnel offered a cost savings advantage. Outsourcing through the competitive sourcing process (A-76) does support the strategic efficiency for a majority of its actions, as approximately 75 percent of the DoD's competitive sourcing initiatives were for low-skilled/manual labor type commercial activities such as utilities and housekeeping services.

Comparing Military with Private Sector Pay

In the 1970s as the DoD transitioned to an all-volunteer force, military and federal civilian pay trailed behind pay levels for comparable personnel in the private sector. This was in an era when low-quality recruits, lack of experienced personnel and insufficient training created what many argue was a hollow military force (Jehn 1999, 2). Military pay achieved a short-lived parity with private sector pay in 1972–73 when the all-volunteer force was born. In 1973 annual military pay averaged $8,977 as compared to civilian industry pay which averaged $9,106 while others argued that it did not include

fringe benefits of up to 25 percent of military compensation (Finney 1975b, 25).[37] During the mid-to-late 1970s, military and federal civilian pay raises were consistently capped below wage increases in the private sector (Figure 11) and federal civilian salaries trailed behind those in the military (AUSA 2000, 1; Finney 1975a, 25). Figure 11 highlights the military-private sector pay gap between 1977 and 1980 (The bars with a negative percentage measure indicate a slower pay raise). It highlights how military pay grew slower than private sector pay.[38]

Personnel cost savings between the DoD and private sector can be evaluated in Figure 17 by comparing pay-growth by specific functional specialty areas, such as professional/technical, administrative, service, etc. In the professional and technical functional areas such as health, law, staff, computer, and satellite military pay-growth trailed civilian counterparts by four to eight percent from 1977–1980. During these years every functional area listed in Figure 17 — professional/technical, administrative, service, craft/production and operator/laborer, military personnel were a better cost value than their private sector equivalents.

Comparing Federal Civilian With Private Sector Pay

How does federal civilian pay compare with the private sector? For DoD civilians, I reference the federal government's process for setting wage rates governed by a table of salaries referred to as the General Schedule (GS), and the Congressional Budget Office

[37] Determining military compensation has always been controversial, as the military and the Commerce Department focused on base pay plus allowances for clothing, housing and meals.
(Finney, John W. 1975b. "Military Pay Put Above Civilians". *New York Times*, March 2, 1975, 25).
[38] The lack of a military pay gap in 1982 was the result of a large military pay increase amounting to 25 percent of base pay aimed to counter recruitment and retention issues arising from the introduction of the all-volunteer force in 1973 (Hosek, Peterson, Heilbrunn 1994).

(CBO) comparison of the annual value of federal and private sector benefits (Masia and Holen 1997, 1).[39] For DoD civilians, changes in federal pay are compared with private sector pay using the ECI index from 1977 through 1980.

The data, illustrated in Figure 20, shows that both groups started with comparable salaries in 1977. [40] Yet, the private sector had faster pay-growth and increased wages as compared to the federal civilian sector between 1970 and 1980. In 1979, Jerome M. Rosow, chairman of the Advisory Committee on Federal Pay, reported that since 1970 federal white-collar salary scales rose 73 percent while white-collar pay in the private sector rose by 92 percent (Associated Press 1979, 59). Through 1980, the data suggests that federal civilian personnel were likely to be a better cost savings and more affordable to the DoD over time than their private sector counterparts. The pay gap was also supported by the findings of President Carter's advisory panel that noted the disparity between federal white collar and equivalent private sector pay (Associated Press 1979, 59).

The wage data for the 1970s, as discussed above, show that military and DoD federal civilians competed for wage parity with the private sector. The expectations from the strategic efficiency framework are not supported by the DoD outsourcing data for procured services (Figure 29) and some competitive sourcing activities. The cost savings value for higher skilled activities favored DoD personnel. Nearly 65 to 75 percent of outsourcing for procured services (Figure 29) and 25 percent of competitive sourcing actions (Table 4) were for higher skilled labor-type activities. Strategic efficiency is

[39] The General Schedule is the government's largest pay plan, covering 76 percent of all employees (Masia and Musell 1997, 2).
[40] 1977 is the last year for which federal employees received a full pay raise necessary to make federal and private sector salaries comparable as defined by law (Masia and Musell 1997, 10).

useful in explaining outsourcing through most competitive sourcing practices (Table 4), as 75 percent of these outsourced activities, were for low-skilled activities such as housekeeping and utilities.

POLITICAL IDEOLOGY 1970–1980

The political ideology framework seeks to identify how a set of shared ideas and beliefs of government leaders impacts choices, actions and ultimately policymaking. This section will evaluate whether the neoliberal economic ideas of introducing competition into the federal workplace, specifically the DoD, and using the private sector to deliver public goods and services is a causal factor in DoD outsourcing activity during the 1970–1980 period. I'm going to address the nature of these shared ideas and beliefs held by government leaders (evaluating each administration and Congress in the Nixon, Ford and Carter era as they pertain towards the government and economy and what actions were taken based on these ideas and beliefs to affect outsourcing activity.

Nixon Administration

The predominant method of managing the U.S. economy from Roosevelt's New Deal into the 1970s was through state intervention, where the government had a very active role in overseeing and directing the economy. President Nixon's 1969 election raised hopes for neoliberal economists that a counterrevolution against the legacy of the New Deal and state intervention were at hand (Klein 2007, 132). Nixon met regularly with Milton Friedman in the Oval Office and named several of Friedman's acolytes (e.g. George Schultz and Donald Rumsfeld) to key economic posts (Klein 2007, 132-133).

Rumsfeld used contractors to gain leverage over a defiant federal civilian workforce as the director of the Office of Economic Opportunity. Rumsfeld hired Booz Allen Hamilton and Arthur Andersen to reorganize the agency and eliminate 108 civil positions (Guttman and Willner 1976; Peckenpaugh 2003e, 4). Though a minor example, it highlights the existence of neoliberal type actions in the government. Also, Roy Ash was selected by Nixon to run the OMB and oversee federal contracting in 1972. Ash, a former chief executive officer of Litton Industries, Inc., a major government contractor, played a key role in the establishment of a leading contracting-out lobbying group, the National Council on Technical and Service Industries (Hanrahan 1983, 90).

However, in 1971 with a slumping U.S. economy, high unemployment and inflation, Nixon embraced state intervention with price caps for basic necessities such as rent and oil to avoid his own political demise (Klein 2007, 133). Nixon told aides that decisions on economic matters had to be guided by political considerations, presumably because of the consequences for his public support (Smith 2007, 144). Nixon introduced a full employment budget providing for deficit spending to reduce unemployment and supported the development and passage of an income policy whereby the government intervened to establish a wage and price control system (Yergin and Stanislaw 1998, 60–63). In addition to the implementation of economic controls, Nixon carried out a great expansion of regulation such that more new regulation was imposed on the economy during the Nixon administration than in any other Presidency since the New Deal (Yergin and Stanislaw 1998, 64).

The administration did not appear to have an effective competitive sourcing strategy to increase private sector utilization in the federal system. Though data does not exist on

the extent of competitive sourcing activities prior to 1978, the Nixon administration did not take action to focus attention on A-76 and the competitive sourcing process in an effort to stimulate or increase its activity within the DoD. For example, the GAO, who administered the A-76 program, did not update the A-76 circular to address common problems and irregularities found across organizations.

Neoliberal beliefs did not factor into the shaping of policy during the Nixon administration, despite a few minor examples of market related actions, Nixon's actions reflected a strong commitment to government involvement in shaping the economy and the market. Between 1970 and 1974, the average percent of O&M funds spent on procured services was 58.6 percent, declining by 8.5 percent since 1970. Spending on outsourcing activities decreased from $63.9 in 1970 to $51.9 billion in 1974 (see Fig 1). Nixon's actions appeared influenced by state intervention in the economy as opposed to implementing Milton Friedman's suggested market-centered actions for managing the government and addressing the country's economic problems. [41]

Ford Administration

Ideology does appear to offer some significance in explaining outsourcing behavior during the Ford administration. Confidence in state intervention and the supremacy of government knowledge in running the economy began to be questioned during the mid-1970s as the economic system suffered from recession, slow growth, high inflation, high taxes and increased unemployment. The skepticism generated by the economic difficulties of the 1970s helped to enlarge the growing influence of ideas for less

[41]Figures are standardized using the 2005 Consumer Price Index

government intervention in markets and economic policy with increased competition among the private sector, as promoted by Frederick Hayek.

As noted earlier, neoliberal economic ideology was not a popular option for policymakers during the 1970s and would take some time for it to become a dominant framework for national economic policy development. The concept of outsourcing and privatization was still relatively unknown in the United States. The Ford administration used a combination of neoliberal and state intervention type actions in its 1975 battle with recession. President Ford used tax cuts, cash rebates and deficit spending as part of his anti-recession policies, resulting in the federal budget deficit increasing from 0.53 to 4.10 in 1975 (Meeropol 1998, 54). With the Ford campaign in 1976, the Republican party began to increasingly use neoliberal concepts to address national financial troubles in the economy (Smith 2007, 144–145). Ford's proposed Government Reform Act of 1976 attempted to reduce the impact of federal regulations on selected sectors of the economy, exemplified in the airline industry(Haider 1979, 252). The Ford administration's support for deregulation of the airline industry eventually became law during the Carter administration in 1978 (Yergin and Stanislaw 1998, 342–343,345).

In President Ford's budget message for fiscal year 1977, he noted his belief and support for expanding competition and private enterprise in the economy while reducing the size of government. He noted the gradual and uneven growth trend in the federal government, arguing that the drift towards bigger and bigger government must be stopped. He also pointed to the private sector as the driving force in the U.S. economy over its history. He argued that the U.S. must rely on and nurture the private sector for the economy to grow, instead of continuing to increase the government share of the

economy, which would dampen the forces of competition in the economy resulting in little or no growth (Ford 1976).

During the 1976–77 period, with a Democratically controlled Congress, President Ford took actions to increase the role of private actors in the federal government while reducing the federal workforce through management reforms to integrate better budget and management operations (Haider 1979). In July 1976, President Ford launched a Presidential Management Initiative (PMI) focusing on five initiatives that included contracting-out. What became known as "Operation Barnacle Remover," the President asked each agency to develop a plan to increase reliance on the private sector and ordered them to identify five types of activities that were being performed in-house for possible contracting-out (Haider 1979; Hanrahan 1983, 90).

The Ford administration took actions designed to make it easier to justify agency decisions to contract-out government services. Based on estimates reviewed by the U.S. General Accounting Office, OMB revised Circular A-76 by specifying an increase to the amount used to compute employee retirement costs in cost studies used for outsourcing competitions from seven to 24.7 percent of a federal employee's base pay. In addition, retirement and health and life insurance benefits were increased to four percent rather than at 1.4 percent (Haider 1979, 253; Hanrahan 1983, 91).

Both percentages were key variables used to determine in-house costs for the performance of government services. By increasing the percentage of retirement costs and life insurance benefits, the cost of federal employees increased when compared to the private sector during cost comparisons in competitive sourcing activities. The change had a dramatic impact in making a wider range of labor intensive activities available for

contracting out, with at least 75,000 federal jobs more expensive than if the same jobs were performed by contract workers (Hanrahan 1983, 91).

The actions of the Ford administration were aimed at giving private sector actors opportunity to compete successfully during job competitions and ultimately increase private sector performance of government functions. These actions appear to have been driven by an interest in reducing the size of government, as the Ford administration intended to introduce increased contracting-out actions of additional support activities and services, including aircraft and vehicle maintenance, and computer services at military bases and other federal installations (Hanrahan 1983, 91). Ford's PMI actions appear consistent with his earlier budget message calling for smaller government and expanding competition and private enterprise in the economy. Ford's actions contributed to the development of neoliberal economic policymaking in the federal government. Between 1974 and 1997 while outsourcing and privatization were still relatively unknown and rarely discussed, money spent on DoD outsourcing of services through procurement climbed from $51.9 to $57.4 billion and approached the levels at the end of the Vietnam war in 1973 (Figure 1). The percent of O&M budget spent on procurement of services increased by 3.5 percent from 52.2 to 55.7 percent while the overall DoD payroll was reduced from $158.8 to $148.3 billion (Figure 4).

Carter Administration

The results of DoD outsourcing during the Carter Administration did not appear to be driven by ideological actions or design. When President Carter took office in 1977 he began a rollback of conservative policies that supported an increased private role in

government as shaped by the Ford administration. Initially, his administration included the review of outsourcing as part of their overall program for government reorganization. Within five months of taking office, the Carter administration stopped President Ford's Presidential Management Initiatives and reduced the amount used to compute employee retirement costs in A-76 competitions from 24.7 percent of a federal employee's base pay to 14.1 percent (Hanrahan 1983, 91). However, it was later raised to 26 percent of an employee's base pay during his administration, likely resulting from his support for maintaining federal personnel ceilings established by OMB and Congress and limiting the costs of federal employment (Staats 1979, 2; Hanrahan 1983, 91).

The manning ceilings supported by the Carter administration to limit the growth and expense of the federal workforce actually supported pro-business efforts to increase outsourcing. Between 1976 and 1980 the military was reduced by nearly 20,000, while DoD civilians were reduced by nearly 55,000. Many adherents to personnel ceilings saw it as a tool for controlling the growth of the federal bureaucracy. President Carter affirmed his faith in personnel ceilings in a fireside chat two weeks after he took office (Hanrahan 1983, 33). Yet, as observed by Senator Frank E. Moss, D-Utah, reducing the federal workforce without reducing the workload created a misleading illusion of control, as it did not control costs nor produce efficiency (Hanrahan 1983, 34). It prevented federal managers from improving productivity, since they were unable to use the best possible mix of government and contractor employees (Hanrahan 1983, 34).

In 1979 congressional testimony, Carl Black, a local Washington, D.C. consultant and former military officer noted how personnel ceilings favored the consulting industry since DoD requirements did not get reduced but resulted in fewer people, which required

agencies to hire outside contractors to assist in accomplishing the local mission (Hanrahan 1983, 33). Admiral Alfred J. Whittle, Jr., Chief of Naval Materials, acknowledged that the Navy would have to contract out more services because of personnel ceilings placed upon the DoD. As noted by Admiral Whittle, the Navy preferred to have ships overhauled in naval shipyards because they get better service (Hanrahan 1983, 94–95).

While contracting-out solely to meet civilian personnel constraints was prohibited by law, it was inevitable for it to happen as services did not have enough personnel to perform in-house activities, according to Admiral Whittle (Hanrahan 1983, 95). The Carter administration implemented personnel ceilings to hold the line on federal employment and save money (Hanrahan 1983, 95). However, as noted by former Rep. Herbert E. Harris II, D-Virginia, personnel ceilings led to increased outsourcing where savings from cutting federal employees were often not realized (Hanrahan 1983, 95). Personnel ceilings fell in line with a market-centered conservative economic agenda of increasing the role of the private sector in DoD.

The Carter administration took a variety of actions to control the growth of contractors. Initially, it attempted to control the growth of contractors performing consulting activities for the federal government that had been unchecked throughout the 1970s. President Carter's 1977 memorandum to federal agencies requested a review of their consulting service arrangements to ensure they were appropriate and necessary (McIntyre 1980). Carter's memorandum was followed by OMB Bulletin No. 78-11 to

meet a requirement for uniformity of definition, criteria, and management controls among the agencies (McIntyre 1980).[42]

Noting the growth and minimal control of consultants in a wide variety of areas, the Carter administration issued Circular A-120 for consulting services of an advisory nature to agency administration and program management.[43] Seeking to control and reduce the extent of private actors performing federal services, the circular called for rigorous cost comparisons between in-house and private-sector performance of a service, using contractors on an intermittent and temporary basis, prohibiting contracts for inherently governmental services and severely limiting long-term consulting arrangements (Hanrahan 1983, 95). The administration believed these services were being used excessively, unnecessarily and improperly (Hanrahan 1983, 92). Private contractors performing these consulting services would likely be compared to officers or senior NCOs who provided a greater cost savings to the DoD.

In the summer of 1977, with support of the Democratic controlled Congress, President Carter signed legislation imposing a moratorium on new contracting-out activities in the DoD until March 15, 1978. It restricted base operating support services from commercial contract, as well as logistical support, intermediate and depot level maintenance, research, development, and test and evaluation activities (GAO 1979, 2). The legislation reflected congressional criticism of defense contracting procedures. The

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[42] OMB Bulletin No. 78-11 defined consulting services as "those services of a purely advisory nature relating to the governmental functions of agency administration and management and agency program management. These services are normally provided by persons or organizations who are generally considered to have knowledge and special abilities that are not generally available within the agency GAO. 1980. Government Earns Low Marks on Proper Use of Consultants. Washington, D.C.: General Accounting Office.

[43] Areas affected by crackdown on private consulting and services: policymaking, repeated contract extensions, nonessential studies and analyses, bypassing or undermining personnel ceilings, pay limitations, competitive employment procedures, revolving door abuses, interagency duplication of efforts and conflicts of interest between consultant advice and outside financial interests and affiliations.

Democratic position on outsourcing government activities was expressed by the House Appropriations Committee and its Democratic Chairman George Mahon arguing that contracting-out had wasted taxpayers' money and harmed the civil service system (Hanrahan 1983, 92). The legislation was limited to new contracting-out actions and did not address pre-existing contracting arrangements.

Political ideology did not appear useful in explaining DoD outsourcing activity during the Carter administration. While it was still a relatively minor topic based on discourse analysis in public newspapers and academic journals (Figure 28), the expectation of Democrats was for reduced outsourcing activity. Despite the administration's efforts to control outsourcing of consultants and support activities, the data in Figure 1 doesn't reflect their success in this area, as outsourcing costs increased from $57.4 to $61.9 billion between 1977 and 1981, with a peak of $63.5 billion in 1978.

Additionally, though the Carter administration had initiated Circular 120 to control the outsourcing of consulting services in the professional and management support areas between 1977 and 1980, outsourcing costs for DoD's professional services and management support rose from $1.6 to $3.1 billion (Figure 29). Also, although DoD's A-76 (competitive sourcing) activity data was not captured on a federal database until 1979, once the data became public it indicated a sharp increase in competitive sourcing activity between 1979 and 1980, with completed DoD cost comparison studies of in-house commercial activities rising from 99 to 154. While the expectation in the Democratic administration was for reduced outsourcing activity, the actions of the Carter administration were not successful at containing the growth of the private sector. As the

outsourcing results appear to reflect a market influence, the actions of the President and the Democratic Congress were not intended to have those results.

As discussed earlier, the President was unsuccessful in controlling the growth of new procurement and contracting-out of government activities through legislation. The Democratic Congress expressed frustration with outsourcing practices and passed legislation to limit new outsourcing activities for 12–18 months, yet it had a difficult time reaching a consensus on the role of the private sector in performing government activities. It introduced six bills to improve federal contracting practices but only one was enacted to Public Law.[44] As noted in the next section, the outsourcing findings appear to demonstrate the initiative of military services to procure and compete activities, based on local organization interests and mission requirements.

ORGANIZATION FACTORS 1970–1980

Between 1970 and 1980, expenditures on outsourcing (procurement) activities as noted in Figure 1 remained relatively consistent and steady, averaging around $58 billion annually. DOD organizations at the lowest levels had a great amount of control and independence in selecting the activities for outsourcing. While A-76 competitive sourcing data was not systematically captured by the federal government until 1978, the literature suggests that service organizations selectively applied Circular-A-76 while senior civilian leaders did not enforce A-76 requirements (Comptroller General 1973; GAO 1972; Staats 1979; GAO 1981a; GAO 1979).

[44] Public Law (96-304, 307) required agencies to submit consulting services budget justifications to Appropriation Committee (GAO 1980).

The period between 1969 and 1974 proved difficult for the Pentagon and its military services who needed to adjust to a changing environment with new demands on the DoD that included a decline in the level of defense expenditures as the Vietnam war efforts declined, increased personnel costs, high costs for weapon systems, reduction in civilian and military personnel, the phase out of older weapon systems, and reduced base infrastructures (Korb 1979, 26–45). In 1969, Defense Secretary Melvin Laird inherited a demoralized force due to in part to the previous leadership of Defense Secretary Robert McNamara, who excluded the military from the decision making process within the Pentagon (Korb 1979, 85).

Secretary Laird concluded that McNamara had over centralized the Pentagon and had given insufficient weight to professional military judgment (Korb 1979, 87). He instituted a process labeled "participatory management" that dispersed some of his power and gave military leaders a much larger voice in the decision making process and greater choices in managing the defense budget (Korb 1979, 87). Secretary Laird looked primarily to the military services and their Chiefs for the design of the force structure, not attempting to exercise control of details in the defense budget and allowing the services wide latitude in structuring the budget categories (Korb 1979, 87, 90).

Support for organization autonomy and independence was revitalized during the Laird era, affecting policy to include the procurement environment through the end of the decade and into the 1980s. During the 1970s, the congressional desire to retire older weapons systems and reducing infrastructure, personnel and budget, offered the opportunity for outsourcing in non-core mission activities. The increased autonomy of

service organizations would likely limit the extent of outsourcing in an effort to preserve the organization and budget capacity.

In this environment, it appeared that the autonomy of military organizations had an impact on the extent of outsourcing of commercial activities and selection of contractors. The ability of service organizations to limit the effect of the A-76 process on their respective personnel and missions and maintain their standard procedures and practices was evident from the opportunities to outsource DoD commercial functions that were not extended for consideration to contractors. In 1970, 2,759 of 5,421 in-house activities, or 51 percent, costing approximately $3.3 billion annually, had not been reviewed but represented a source of potential savings (GAO 1972). In the early 1970s the DOD spent approximately $6.3 billion annually to provide installations with commercial and industrial services and products that included maintenance, food service, transportation, and ammunition (GAO 1972, 1).

Most of these services were not directly connected to the primary mission of these organizations as discussed above in the review of each military service. Table 4 provides a list of the type of activities (functions) and number of competitive sourcing studies performed in DoD outsourcing efforts between 1978 and 1986. Most of these activities were local support functions not connected to combat or wartime mission requirements. Contractors received approximately 18 percent of these DOD's expenditures (GAO 1972, 1). Depot maintenance involved repair, overhaul, and modification of equipment beyond the capability of operational units. In 1969–1970, depot maintenance cost $2.6 billion; $2 billion worth of that maintenance was performed at military installations and $600 million by contractors (GAO 1972).

In addition to these in-house contracting opportunities, a 1970 Comptroller General review of DOD outsourcing activities (GAO 1972) at six DOD locations indicated three significant findings:

1. Installations omitted commercial-type activities from installation inventories[45]

2. DOD personnel were performing new activities that should have been considered for public-private competition as they were not considered inherently governmental activities

3. Justifications for continuing in-house performance of activities were unsupportable. Twenty-six activities with an annual cost of $65 million were omitted from inventories due to a lack of definitive guidelines

These findings indicated that DoD organizations put little emphasis on A-76 guidelines and used their own local procedures and interests for managing installation manpower requirements. Procurement guidance was not followed by base/post leaders despite A-76 and DOD requirements requesting each Service Secretary to obtain approval from the Assistant Secretary of Defense (Installations and Logistics) prior to initiating new in-house activities. At two of six locations studied by the GAO, both lack of service guidelines and not maintaining standard operating practices were noted (GAO 1972, p.16–17). Local base justifications for continuing the performance of in-house functions were not supported by most decision making explanations (GAO 1972,

[45] Installation inventories are the total type and amount of activities being performed at an installation. By omitting them from the inventory, they were precluded from being candidates for commercial sourcing and potential outsourcing.

7). [46] Most recommendations were based on the reviewer's personal knowledge of the function with no evidence of the factors used for consideration (GAO 1972).

The lack of senior service level policy guidance and organization subjectivity was noted in the findings at various installations where in-house performance of similar functions were justified by differing, contradicting and unsupported reasons (GAO 1972, 7). Organization autonomy was reflected in their ability to subjectively determine (based on local interests) which activities/services would be considered for competition. The Army reviewed and justified in-house performance of building maintenance and repair at 102 installations, of which 77 were based on officials who believed programs would be delayed by changing to contract performance and 20 due to non-availability of adequate sources (GAO 1972, 7). These justifications were made primarily because local officials suggested there was not enough time to look for commercial sources and perform cost studies (GAO 1972, 7).

Service organizations reacted slowly to change, defended their organizational interests and attempted to maintain core procedures. For example, in 1974 the OMB ordered services to study the feasibility of hiring private contractors to perform support functions on military bases performed by civilian employees (Finney 1974). Though the OMB contended that contracting-out these services would save money, the military services did not share the same view. They opposed a reduction in their civilian forces with almost the same fervor with which they resisted cutbacks in troop strength (Finney 1974).

[46] In-house refers to activities being sourced through government military or civilian personnel as opposed to contractors.

Lack of oversight by senior civilian leadership reinforced the climate of organization autonomy that supported local selectivity with no necessary priority for outsourcing through the competitive sourcing process. A 1977 report by the Comptroller General noted that DOD inventories of commercial and industrial activities were unreliable. Installation personnel did not identify all activities and costs. Inappropriate justifications and difficulty in matching DOD classification of commercial and industrial activities with the military service activities allowed organizations to maintain control over the outsourcing process and continue to use in-house resources (GAO 1979, 10).

Findings in the area of augmenting military services with management support consultants continued to highlight an organization behavior of independence and self-interest when it came to procuring these commercial activities by military services. This was not an area of competitive sourcing where organizations would lose valuable personnel positions, but of procurement of management services allowing organizations to augment their size with civilian specialists. Since the 1960s this behavior was noted as part of military culture (GAO 1981b, 21). This can be exemplified in the 1979 review of 256 management consultant contract awards across the DOD. Organization independence and self-interest were exemplified in the following:

- The use of consultants to perform work that should be completed by DOD personnel

- Revolving door abuses where former employees were given preferential treatment in obtaining contracts

- Excessive use of sole source contracts restricting competition

- Repeated contract extensions and failure to maintain adequate information on the number and cost of consulting services (GAO 1981a, 1,4)

Through 1980, organization factors appear significant in explaining outsourcing behavior within the DOD, as both budgets and personnel were reduced The data in Table 4 for competitive sourcing indicates that organizations primarily protected their core mission activities and procured a variety of support services focusing primarily on activities with low skill requirements secondary to mission requirements. Data from Figure 29 points to procurement activities in the range of 25–35 percent for support activities that included utilities and housekeeping activities. The type of services procured appears to indicate that many organizations were selectively competing positions not considered essential to the core mission. The inconsistent nature of O&M expenditures across the DoD throughout this period supports the argument that local organizations maintained control of the process and used private actors where necessary to satisfy secondary requirements and augment their organizations as a result of budget and personnel reductions.

Due to the lack of competitive sourcing data on a DoD-wide scale in the 1970s, comparisons of yearly activity were unavailable through 1978. As noted in Table 4, once competitive sourcing data was tracked in 1978, the type of support activities competed were local in-garrison activities and similar to procurement data indicated in Figure 29 (Ex. facilities, utilities maintenance, custodial, motor pool). Competitive sourcing activity is indicative of organizations focusing on core missions and utilizing their limited personnel on higher priority skills and activities. DOD service organizations were able

take advantage of weak oversight, implementation, monitoring and enforcement practices in Circular A-76 to subjectively outsource activities that fit their local interests.

While A-76 procedures and competitive sourcing were selective and lacked political oversight, and procurement remained decentralized with power at the local level, outsourcing behavior for support services during this period was a microcosm of the much larger defense environment. It highlighted behavior that was ultimately inefficient in providing the larger national defense capability and contributed to potential insensitivities to war fighting commanders and the American public. While service leaders with support of Secretary Laird sought autonomy and independence in developing and planning their missions and running their organizations, the increased autonomy was an undermining factor in the ability of the DoD organization to fulfill its national requirement for genuine joint military advice and unified military action. The priority of being able to execute a national defense effort appeared secondary to the requirements of each military service (Barrett and Jones 1983, 49).

For example, in defense acquisition, central management failed to force adequate comparisons of the capabilities of proposed and competing systems to accomplish a given mission at early stages of the process of deciding new weapons and equipment (Barrett and Jones 1983, 60). The 1977–80 Defense Organization Study found that civilian leadership in the DoD did not provide clear, definitive policy guidance needed for military planning (Barrett and Jones 1983, 54). Military staffs formulated their own policy programs without explicit acceptance or rejection by senior decisions makers resulting in the policymaking function moving from civilian to military authority (Barrett and Jones 1983, 54).

The preeminence of the four services in the DoD organizational structure during the 1970s was out of proportion to their legally assigned and limited formal responsibilities for the maintaining function. The interest of the services in maintaining organization independence and ensuring their capability to accomplish service missions provided continuing incentives to influence as many decisions as possible and co-opting the joint structure (Barrett and Jones 1983, 79).

A difficulty inherent in the DoD organizational structure, with its increased autonomy, was the service influence over joint forces. In this environment, services had a major influence on both the structure and readiness of military forces for which a joint forces commander was responsible but had very little input (Barrett and Jones 1983, 53). Rather than being unresponsive, the military made inputs into decision making, where defense policy was predominantly service-orientated. The tendency was for each service to favor capabilities enhancing its organization. The objective was to potentially rush into production a unique capability or weapon system, outsource a service/function or maintain a traditional outdated mission with inadequate test, evaluation or reappraisal that was not sufficiently offset by a broader DoD perspective (Barrett and Jones 1983, 80).

While every organizational entity has its own interests, which will advance if unchecked, and may not further the interests of its larger mission, it requires some over watching authority(Barrett and Jones 1983, 74). The degree of limited efficiency by the DoD due to chain of command and management discrepancies caused concern over wartime effectiveness while undermining its economy due to the relative lack of competition and over watch by agencies (Barrett and Jones 1983, 76).

The semi-autonomous position of defense agencies in the environment of organizational self-interest was relatively unchecked by leadership, as suggested across the DoD. It had a potentially adverse impact on the public trust by increasing the lack of transparency in DoD functions and violated the theory of governmental checks and balances.

CHAPTER FIVE

CASE STUDY - DEFENSE OUTSOURCING 1981–1988

During the period of 1981 through 1988 yearly outsourcing activity costs for procurement grew from $62 to $87 billion, while the percent of O&M budget spent on service procurement ranged from 52 to 70 percent.[47] Competitive sourcing activity was significant as marked by the extensive activity around cost-comparison studies of in-house commercial activities. Cost comparison studies increased from 99 in 1979 to 379 in 1983 with an annual average of 210 between 1980 and 1988. Outsourcing of services through competitive sourcing grew by 37 percent over the previous period.

Reagan's beliefs and subsequent neoliberal economic strategy, though used discriminately and with congressional support for a majority of the period, was significant in explaining DOD outsourcing behavior.[48] Funding for DoD outsourced activities had its greatest peacetime increase, as compared to activity before and after this time frame, with an increase of nearly 41 percent. The result of interservice competition for resources, similar to the first case, reduced civilian control of the military. The natural consequence was a heightening of civil-military disagreement and loss of information critical to effective decision-making and transparency in military activities.

STRATEGIC EFFICIENCY 1981–1988

As noted in chapter 2, the DoD's objective was to attract quality personnel with a competitive compensation package that exceeded the pay of seven of 10 private sector

[47] O&M costs are in 2005 dollars.
[48] Increasing the deficit was not a reflection of neoliberal economic policymaking.

workers. In assessing cost efficiency, paying employees less than the 70th percentile did not effectively meet its competitive standard with the private sector for its share of the quality workforce but it did gain cost efficiencies for the DoD by being able to perform its mission with a workforce for less than its targeted cost. The assumption made in assessing cost efficiency is that pay rates below the 70th percentile would be considered more cost-effective, while those above the 70th percentile less cost-effective for meeting DoD requirements.[49]

In the early 1980s, Congress provided a large military pay increase, addressing the restraints placed on the growth of military pay in 1979 and 1980 (Slackman 1982, 1). Congress raised military pay and allowances by roughly 30 percent in 1981–1982 helping DoD manpower achieve parity with comparable private sector personnel, while addressing concerns with an insufficient quality of manpower being recruited and trying to retain a competent, competitive and skilled workforce (Slackman 1982, 1).

Despite the 1982 pay raise, the officer and enlisted force appeared relatively cost-effective for the DoD throughout the 1980s, as noted in Table 8, where pay remained below the 70th percentile for most personnel throughout the period. In Figure 9, military pay for junior (E-4) and mid-level (E-6) enlisted personnel with varying levels of education was compared against similar private sector personnel from 1982 through 2000. The data shows that military pay for both junior and mid-level enlisted was a cost advantage for the DoD in the 1980–1988 period. Their pay ranged from below the 50 percentile for junior and mid-level enlisted with some college, to the 60th percentile for junior enlisted with high school. Similarly, junior and mid-level officers were a cost savings, as well (Figure 10). While junior officer pay appeared competitive with private

[49] Assuming personnel are qualified and able to perform required services.

sector equivalents in the early part of the period, junior officer pay decreased from the 75th to the 60th percentile from 1982 through 1988 as mid-level officers decreased from the 65th to 55th percentile from 1982 through 1988. This also pointed to the fact that as junior level officers transitioned to more experienced and skilled levels of activity (mid-level) their pay grew less competitive than private sector equivalents.

Comparison of federal and private sector pay in Figure 20 highlights the growing disparity between federal and private sector pay in the 1980s. ECI data on the military-private sector pay gap between 1981 and 1988 is provided in Figures 11 and 14. It highlights how the relative pay raises between 1983 and 1988 increased at a slower rate for military personnel than their private sector equivalents.[50] (The bar with a negative percentage measure indicates a slower pay raise than the private sector.) Figure 12 supports similar findings as it charts the difference between changes in regular military compensation (basic pay, allowances for housing and subsistence and federal tax advantage that occurs because allowances are not taxed) and the civilian ECI index. The data indicates that military pay grew slower than private sector pay through 1988. Most DoD personnel were a cost savings in comparison to their private sector equivalents, based on pay differences. The pay gap data, which favored private sector pay growing faster than military pay through 1988, provided further support for the cost-advantage of military personnel and less incentive to outsource for efficiency purposes.

Wage growth for civilians in the private sector who were demographically similar to officers and enlisted personnel on active duty is also tracked using the Defense

[50] The lack of a military pay gap in 1982 was the result of a large military pay increase amounting to 25 percent of base pay aimed at countering recruitment and retention issues arising from the introduction of the all-volunteer force in 1973 (Hosek, Peterson, Heilbrunn 1994).

Employment Cost Index. Figure 15 notes that between 1982 and 1988, officer pay grew slower than private sector equivalents while the enlisted force had pay-growth parity with their private sector equivalents. Within the enlisted force, Figure 16 compares senior and junior enlisted pay with their private sector equivalents. Senior enlisted pay grew slower from 1984–1988, while junior enlisted pay grew faster from 1983–1988. While junior enlisted pay grew faster than civilian equivalents, pay rates for junior and senior enlisted personnel remained below the 70th percentile and a cost savings to the DoD.

Comparing pay-growth by categories in Figure 17 such as professional/technical, administrative, service, etc. further specifies where (functional areas) cost savings advantage existed for either the DoD or private sector. For example, in the professional and technical functional areas such as health, law, staff, computer, satellite, etc., military pay-growth was significantly behind the pay-growth of their civilian counterparts from 1984–1988. In these functional areas, we were less likely to see outsourcing activity due to the cost savings of military personnel. Yet, in activities categorized as operators, laborers, craft and production such as groundskeepers, vehicle drivers, and facility maintenance outsourcing activity was more likely after 1982 due to the increased growth of pay for military personnel assigned to less skilled activities as compared to their civilian counterparts.

Overall, in the 1980s, the pay comparison data suggests that since mid-1982, basic pay for mid to senior enlisted personnel, officers and GS wage rate pay for federal civilians were cost effective for DoD. The DoD was able to employ qualified personnel for below the 70th percentile market value. While DoD employed a cost-effective workforce where pay remained behind private sector equivalents for enlisted force and

mid-senior level military, by 1988 medical spending for DoD personnel had grown by nearly two and half times that for private sector employee's suggesting the cost savings advantage of military personnel would begin to decline. Throughout the 1980s strategic efficiency expected minimal outsourcing activity associated with activities requiring the senior non-commissioned officer enlisted force and mid-senior level officers and federal civilian personnel. Increased outsourcing activity was expected for entry-level activities with less skill requirements and with lower graded personnel.

The type of commercial activities procured in large quantity through procurement during this period included utilities and housekeeping, maintenance of equipment and professional, management support. For many of these routine activities, the market offered the most efficient provider as competition was abundant and transaction hazards minimal. Through 1988, utilities and housekeeping services consumed about 30 percent of O&M dollars. While many of these activities were aligned with expectations from strategic efficiency theory, the outsourcing of professional management support activities did not support the strategic efficiency framework. Though some junior officer positions (who were not a cost advantage during the early part of the period) were likely employed by these activities, the majority of personnel staffing these positions were more likely to be experienced officers or mid to senior level enlisted personnel. Overall, between 1981 and 1988, the percent of O&M budget spent on outsourcing through procured services increased by 11.7 percent.

Strategic Efficiency was effective in explaining a majority of outsourcing through competitive sourcing. Competitive sourcing activity between 1980 and 1988 was significant as marked by the extensive activity around cost-comparison studies of in-

house commercial activities. Cost comparison studies increased from 99 in 1979 to 379 in 1983 with an annual average of 210 between 1980 and 1988. Between 1981 and 1988, outsourcing of services through competitive sourcing grew by 37 percent over the previous period.

75 percent of the activities competed through 1986 (Table 4) were for low-skilled support activities not requiring advanced training or mid to senior level personnel. Outsourcing was expected in these areas, as DoD personnel were not as cost-effective here as they were in higher skilled areas and pay rates were increasing for DoD personnel in low-skilled support activities as compared to their civilian equivalents.

POLITICAL IDEOLOGY 1981–1988

Reagan Administration

The 1980 election changed Congress dramatically, creating the first Republican majority in the Senate since 1955 and a nominally Democratic majority in the House of Representatives (Edelstein 1982, 1). In 1981, the Reagan administration and the 97th Congress, created significant changes in the role and scope of government, using the new conservative majority in the House and Senate to shape government in favor of big business industry and the military (Edelstein 1982, 1).

The election of Ronald Reagan, the most prominent leader of the American conservative movement during this period, resulted in a marked increase in ideological polarization among party leaders and activists in the United States (Abramowitz and Saunders 1998, 636). Reagan's administration represented the anti-government sentiment harbored by many Americans as a result of the nation's poor economic conditions

(McCarty, Poole, and Rosenthal 2006, 173). The conservative and neoliberal economic aims of the Reagan administration were to reduce the size of government, cut public programs, promote free enterprise and free markets in order to stimulate the economy.

The administration had success reducing the individual tax rate and fighting inflation by reducing it to under four percent by 1982 (Yergin and Stanislaw 1998, 335). Efforts to realize a reduction in spending proved very difficult. Reducing entitlements was unpopular and interest in building up the military produced increased deficits through both terms. During the Reagan presidency, the annual deficit almost tripled and the gross national debt rose from $995 billion to $2.9 trillion (Yergin and Stanislaw 1998, 336). Reagan's economic policies demonstrated a mix of neoliberal and state intervention influences. Yet, his program of tax cuts, increased military expenditures, and reductions in domestic social programs divided the nation along ideological lines and produced the highest level of party unity in Congress in decades (Abramowitz and Saunders 1998, 636–637).

The Reagan administration used a neoliberal strategy to affect governance and the increased growth of outsourcing within the DoD. Reagan was initially active in overhauling government regulation of business (Cox and Skidmore-Hess 1999, 168). This indirectly supported his outsourcing ambitions as it provided increased opportunities for business in all sectors and weakened unions. Reagan's market ideals for government did not help the federal labor-management relationship. It was an adversarial relationship between labor and management that controlled the outsourcing process (Naff 1991, 27).

In general, the federal unions viewed privatization as a threat that must be opposed at all costs to support their members and maintain union strength (Naff 1991, 24,27). The

delegation of exclusive right to make contracting-out decisions to management by the federal labor relations statue left little room for unions to oppose outsourcing actions and there was no mechanism for union or employees to appeal a decision to contract outside the agency (Naff 1991, 25). Federal unions used a variety of strategies to protect the interests of members from contract-out decisions and attempted to have contracting-out included in their collective bargaining arrangement. However, the courts consistently upheld management's right to make the decision to contract out and generally prevented the union from interfering with these decisions (Naff 1991, 26).

As the Reagan administration faced limited opposition from federal unions, it began to formulate aggressive proposals for the sale of a wide range of state assets. These included the sale of federally owned park and wilderness lands, National Weather Service satellites, Conrail and AMTRAK, and a major petroleum reserve (Feigenbaum, Henig, and Hamnett 1999, 135). The Reagan administration also adopted the argument that privatization, rather than representing a rejection of the goals associated with the welfare state, represented an adoption of private means to pursue public goals.

Reagan's Executive Orders displayed his commitment to fulfill on ideas to reduce the size of government, increase competition and provide the private sector with greater economic opportunities in the public sector. These were captured in Executive Order (EO) 12329 delivered in October 1981 establishing a Presidential Task Force on Private Sector Initiatives aimed at greater public-private partnerships and to decrease the dependence on government (Reagan 1981). The implementation of EO 12352 addressed federal procurement reforms to include remaking it easier for agencies to procure goods and services and to enhance effective competition and limit noncompetitive actions in the

procurement process (Reagan 1982). The establishment of the White House Office of Private Sector Initiatives and its associated Advisory Council (EO 12427) aimed at removing barriers to social programs administered by private organizations and increasing awareness of importance of public/private partnerships (Reagan 1983).

In 1987, Reagan's Executive Orders 12607 and 12615 directly addressed privatization and the outsourcing of commercial activities. Executive Order 12607 established the President's Commission on Privatization tasked to study and evaluate the privatization phenomenon (Linowes 1988, 257–259). The committee was tasked with developing a framework for a privatization program. This task included identifying opportunities, legislative and administrative actions necessary to affect privatization initiatives, removing existing privatization restrictions, and actions necessary to create broad-based support and a conducive environment for privatization (Woolley and Peters 2006).

Executive Order 12615 was the first order issued since the establishment of Circular A-76 with the objective to acquire government commercial-type activities in the most economic and efficient manner with private industry given priority in providing new federal government requirements where reasonable (Reagan 1987). It expressed Reagan's commitment to increase the role of the private sector in providing federal services and directed agencies to ensure new government requirements for commercial activities are provided by private industry, wherever possible. It also requested agencies to identify A-76 study goals and anticipated savings in their annual budget submissions.

Reagan's aggressive actions to outsource federal positions prompted significant job competition at the Defense Department and throughout federal agencies as it held agency

leaders to reviewing and holding competitions for at least three percent of all commercial activities annually until all activities were reviewed (Kettl 1993, 49; Woolley and Peters 2006). The results of these actions were highlighted earlier in Table 5 showing a significant growth in completed cost-comparison studies of in-house commercial activities services during the years of the Reagan presidency.

The Reagan administration targeted a review of nearly 380,000 federal employee positions that were considered activities subject to private competition. He also required quarterly briefings from the Director of the Office of Management and Budget on outsourcing progress throughout the federal system (Woolley and Peters 2006). His focus on revising the A-76 policy in conjunction with EO 12607 and 12615, were elements of the administration's agenda to establish a structured and ongoing competitive process between the government and private sector for the fulfillment of government services. It highlighted his belief in neoliberal economic methods and was a keystone in his ideological appeal for the government's privatization movement.

As noted earlier, the growth of congressional involvement in the annual authorization process became an instrument to further ideological strategies. Increased scrutiny of the defense budget expanded opportunities for Party goals and ideals of congressmen to be infused in decisions on what got funded and how much. Within Congress, the impact of Reagan's ideas, through the Republican controlled Senate, was felt in the budget with an increase in strategic-military spending and procurement of support services.

The amount spent on DoD outsourcing rose by nearly 41 percent from $61.9 to $87.2 billion from 1981 to 1988. Between 1981 and 1988, the percent of O&M spent on

procured services rose by 11.7 percent increasing from 52.1 to 63.8 percent with peaks of 70.6, 68.8, and 67.3 percent in 1982, 1985 and 1987, respectively. As noted in Figure 5, the growth of military positions in A-76 competitions rose from 5000 in 1979 to nearly 11,000 in 1983 with a steady annual average between 7,000 and 11,000 through 1988 (Cohen 1997a, 30). The amount of completed cost studies for private sector competition (Table 5) was significant as compared to periods before and after the Reagan period. More than 1500 cost-comparison studies were completed during the period as compared to 154 studies between 1978 and 1980 and 205 studies between 1989 and 1996. As the Reagan administration grew the size of the military and DoD civilian force by five and seven percent respectively, at an increased cost of 12.8 and 9.8 percent (Figure 4), he maintained a commitment to increased outsourcing within the DoD that became a large growth area for the private sector.

Challenges to Reagan's Neoliberal Strategy

Despite Reagan's interest in outsourcing DoD activities, they were not fully embraced by all members in Congress. Congress was divided with Republicans controlling the Senate and Democrats controlling the House from 1981–1987. Between 1983 and 1987 a coalition emerged in the Democratic controlled House critical of the Pentagon's purchasing system. Though the main interest centered on larger weapon systems, its impact permeated the entire procurement process. A bipartisan coalition of procurement reformers became active during the House action on the annual defense bill offering several proposals aimed at changing the way the Pentagon procured its weapons, parts and services (Congressional Quarterly 1987, 234). In 1985, demands for

procurement reform came from those in Congress opposed to the pace of Reagan's defense buildup. The Democrat controlled Congress could not confront President Reagan directly due to the popular support for his military buildup (Sapolsky and Gholz 1996, 5). Driven by widespread reports of overpricing and other abuses in Pentagon purchasing of weapon systems and parts, Congress attempted to hobble the military buildup through regulation that would reduce fraud, waste, and abuse in defense contracting and change the way the Pentagon purchased goods and services (Congressional Quarterly 1985, 164; Sapolsky and Gholz 1996, 5).

The increasing polarization in Congress limited bipartisanship and appeared to have a direct impact on competitive sourcing activities. On May 11, 1987, Democrats firmly controlled the House of Representatives by a margin of 71 members and expressed concern that the contracting-out process would erode the capability of more complex and core military functions and ultimately impair mission capability and readiness. Democratic Representative Bill Nichols (D) introduced an amendment to the House floor calling for the commanding officer at each military installation to have the option of which job functions to study for contracting out under the A-76 program (Congressional Record 1987).

Representative Nichols saw the need for local installation commanders to have more input into the process since they were the most affected by the actions. A variety of factors appeared to contribute to giving commanders increased authority in the outsourcing process to include: the length of time it took to complete A-76 competitions, lack of commander control over outsourced activities, inadequate oversight of contractor activities, substantial cost increases to contracts in follow-on years due to inadequate

initial contract design, reduction in unit budget and personnel size. Commanders had little interest in competing activities that would ultimately limit their flexibility and control over the mission and possibly reduce the size of their budget. The Nichols amendment argued for organizational leaders at the level being impacted, instead of senior DoD or national leaders, to have responsibility in determining whether competition should occur and if so, which activities would be competed.

While the amendment focused on giving commanders greater authority in the A-76 outsourcing process, it also provided a convenient legislative mechanism to counter the neoliberal efforts at increasing private sector opportunities in the public sector. It led to a significant reduction in DoD competitive sourcing activity. The amendment **H.AMDT.95** was passed in Committee of the Whole by voice vote (Congress 2007). In addition, the House amendment **H.ADMT. 96** prohibiting the contracting out of security guard functions at any military installation or facility was passed (Congress 1987; Congressional Record 1987).

Between 1988 and 1995, Democrats controlled the Senate by an average margin of 10 members and controlled the House by an average of nearly 85 members. The Nichols Amendment, 10 U.S.C. 2468, was adopted in the 1988–89 National Defense Authorization Act and was effective through September 30, 1995. The Nichols amendment gave leverage to DOD leaders to resist President Reagan's neoliberal based goal of reducing in-house positions through a three percent outsourcing target (Congressional Quarterly 1987, 238; GAO 1997, 2). Commanders were given the authority to decide whether to conduct A-76 competitions and which activities would be

subject to A-76 review without quota requirements (Congressional Quarterly 1987; Warren 1997, 7).

An example of another roll call vote demonstrating the ideological shift in Congress at the end of Reagan's second administration, with a Democratically controlled Congress, was the congressional vote on an amendment to prohibit the privatization (contracting out of major agency functions to private firms) of the National Technical Institute Service. Introduced to the House on September 26, 1988, by Representative Doug Walgren, the amendment passed in committee of the Whole by recorded vote of 219–116 (THOMAS 2007).

Reagan's Impact on DoD Outsourcing

Despite the defeats in outsourcing strategy at the end of his second term, Reagan's belief and subsequent market strategy (with congressional support) for a majority of the period, was significant in explaining DOD outsourcing behavior. Funding for DoD outsourced activities had its greatest peacetime increase, as compared to activity before and after this time frame, with an increase of nearly 41 percent. The percent of O&M spent on procured services increased by 11.7 percent during this period. The amount of DoD cost-comparison studies and positions competed within A-76 studies were larger than periods before and after Reagan's presidency.

ORGANIZATION FACTORS 1981–1988

The attributes of the defense organization from the 1970s had not changed through the first half of the 1980s as service independence had extremely altered the balance of

influence with the DoD. Two notable concerns with the organization was its comfort with the past, resistance to change and not making a sufficiently rigorous examination of defense requirements and alternatives (Jones 1996, 23). DoD had evolved into a grouping of large, rigid bureaucracies embracing the past and adapting new technologies to fit traditional missions and methods (Jones 1996, 23).

Considering the nature of the DoD organization during the first half of the 1980s, what affect did this have on outsourcing behavior? Though Congress introduced the Goldwater-Nichols Act in 1986 to empower the Chairman of the JCS and joint force commanders, improve the quality of military advice and reduce the service role in shaping resource decisions, it had little affect through 1988 on the climate within service organizations (Locher 1996, 12–16). As services interests dominated the DoD environment, the Reagan budget increase began to impact the defense structure. From 1981 through 1988 the DOD budget increased by more than 30 percent. Given the relative power and independence of the services and their sub-organizations, outsourcing activity for support services remained at the local level to support subjective requirements or activities.

Mostly, DOD organizations would remain committed to their primary Cold War defense missions. The rising budget and Reagan's commitment to a strong defense put little pressure on DOD organizations to change their behavior or reduce their size. The increased size of the military force was impetus to reduce the size of outsourcing. Organizations would seek to maintain the status quo, protect their personnel from potential job loss and seek to increase their budgets through larger missions and taskings.

However, outsourcing activity did not reflect the expected behavior in the framework of organization factors. The percent of O&M spent on the procurement of services increased from 52 to 70 percent between 1981 and 1982, with peaks of 69 and 67 percent in 1985 and 1987, respectively. For the overall period, the percent of O&M increased by 11.7 percent and averaged 64.2 percent. The amount of O&M spent on procured services increased considerable in comparison to a decade earlier. Using 2005 dollars, the increase between 1981 and 1982 for the amount spent on procuring support services was 43 percent. This was the largest one-year increase since the start of the study in 1970 and expenditures through 1988 remained relatively high in comparison to the 1970s. Competitive sourcing activity also increased during this period.

The services procured utilities and housekeeping services consumed about 30 percent of O&M dollars. These services would be an expected procurement action in most organizations due to their nature. However, the procurement of support services, some with direct relevance to primary missions in areas of quality control, maintenance of equipment, professional and management support appeared less likely from an organization perspective given an increasing budget, manpower and service autonomy where service roles and missions remained relatively stable throughout the case-study.

Functions/services contracted out included preparing strategic plans, participating in the preparation of acquisition plans, source selection plans, contract administration and quality assurance on other contractors' operations, maintaining, repairing, modifying, testing, and inspecting weapons and weapon systems (DoD IG 2000, 5; DOD/SIAD 2006, MN02). Between 1980 and 1988, quality control, testing and inspection services increased from $139M to $486M, maintenance, repair and modification of equipment

services increased from $2.9B to $5.1B, and professional, administrative and management support services increased from $3.1B to $8.3B.

The services allocated limited resources among their traditional missions and sought ways to justify a greater share of the budget where each attempted to out game the others without sufficient regard for cross-service programs (Jones 1996, 26). It resulted in a budget derived from the disparate desires of the individual services rather than a well integrated plan with civilian and military leadership working together (Jones 1996, 26). Bureaucratic resistance to change was enormous and reinforced by allies of the services who were bent on keeping the past enthroned (Jones 1996, 27).

Additionally, Congress found numerous obstacles precluding exercise of effective civilian authority , particularly by the Secretary of Defense (Locher 1996, 11). In the congressional report Defense Organization published in 1985, the Secretary's efforts were seen as seriously hampered by the absence of a source of truly independent military advice (Locher 1996, 11). As noted by Congress, the overall result of inter-service logrolling was a highly undesirable lessening of civilian control of the military (Locher 1996, 11). The natural consequence was a heightening of civil-military disagreement, a loss of information critical to effective decision making, and political weakening of the Secretary of Defense and his OSD staff (Locher 1996, 11).

CHAPTER SIX

CASE STUDY - DEFENSE OUTSOURCING 1989–1995

In the 1989–1995 period, the average percent of O&M spent on procurement decreased to 61.6 percent. The procurement of services increased by 1.2 percent during this period, reflecting the decrease in DoD's O&M budget as yearly outsourcing (procurement costs) declined from $80 to $78 billion.[51] Strategic efficiency appeared useful in explaining the decreased outsourcing activity for procured services as military personnel were a better cost savings than the private sector. However, it was ineffective in explaining the large decrease in competitive sourcing activities, especially in lower skilled areas where the private sector provided a cost savings, as measured through cost comparison studies and the annual amount of positions studied. Completed cost comparison studies declined to 202 between 1989 and 1995. Total positions studied declined from 12,000 in 1988 to 2,128 in 1995.

Political ideology was useful in explaining reduced outsourcing, especially in the competitive sourcing realm, as congressional legislation put extreme limitations on new outsourcing and the federal A-76 competitions. Democrats favored a controlled and limited role of competition and private sector participation within the federal government as procurement abuses within the DoD during the 1980s reinforced the Democratic interest in limiting private enterprise in the public sector. Once Democrats gained control of Congress in 1989, the success of neoliberal based actions supporting competition of internal federal positions diminished.

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[51] Outsourcing activity measured in 2005 dollars.

Organizational commanders were supported by congressional legislation that assisted their efforts in avoiding competitive sourcing activities. Commanders were empowered by federal law allowing them to directly determine the extent of outsourcing in their organizations. Commanders were able to limit and in many cases stop competitive sourcing activities at their local organizations during the 1989–1995 period. The outsourcing process continued to highlight inefficiency and relative weakness in providing a consolidated national defense.

Service orientated outsourcing objectives, with a decentralized local flavor, continued to dominate the landscape with no apparent relationship to a bigger mission objective. Similar to earlier periods, each service worked autonomously within its own procedures for identifying peacetime personnel requirements in support positions to determine the most efficient personnel mix for performing assigned missions and tasks. This process was based on a subjective determination of positions considered essential and non-essential for military incumbency. The interests and objectives of each service, as demonstrated in procurement and competitive sourcing behavior, appeared to rise above the requirements of a unified support/operational defense plan.

STRATEGIC EFFICIENCY 1989–1995

Comparing Military with Private Sector Pay

Between 1989 and 1995 military personnel appeared more cost-effective than their private sector counterparts. Data for basic military pay as a percentile of private sector pay for male enlisted and officer personnel from 1989 through 1995 is provided in Table 8. It supports the cost-savings of the majority of military personnel where pay ranged

between the 50th and 60th percentiles. Figure 12 highlights the growing disparity between military and private sector pay-growth during this period. The higher rate of pay-growth for private sector personnel led to a pay gap of 25 percent between federal and private salaries by 1993, as noted in Figure 20 (Masia and Holen 1997, 10).[52]

Military pay for junior (0-3) and mid-level (0-4) male officers as a percentile of private sector pay from 1989 through 1995 is provided in Figure 10. Mid-level officers offered a cost savings for most of the period as their pay hovered between the 50th and 60th percentile area, while pay for junior grade officers was in the 60th to 70th percentile range through 1995 (Hosek 2001, 73). The 0-4 pay (mid-level officers) percentile lies below that of the 0-3 (junior grade) indicating that military officers became a better cost savings as they gained experience and increased their time in the DoD. Equivalent private sector workers were better compensated and less of a cost savings for the DoD as their pay was such that it increased more rapidly than military pay as workers gained job experience and served longer (Hosek 2001, 74).

Specific functional specialty areas in Figure 17 further refines the comparison of military and civilian pay-growth between 1989 and 1992. Similar to the 1980–1988 period, personnel in the professional/technical, administrative, and service areas offered the DoD a greater cost savings than private sector equivalents. Yet, in activities categorized as operators, laborers, craft and production such as groundskeepers, vehicle drivers, and facility maintenance increased pay-growth for military personnel assigned to these activities gave the cost savings advantage to their civilian counterparts.

[52] The assumption of a zero pay gap for 1977 relies on governmental pay surveys (Masia and Musell 1997, 11).

In addition to military pay not being competitive with private sector counterparts, the majority of military pay grew slower than civilian pay from 1989–1995 as noted in Figure 14. Within the enlisted force, Figure 16 compares senior and junior enlisted pay with their private sector equivalents. Senior enlisted pay grew slower from 1989–1992 with small growth in 1993–1994, while junior enlisted pay grew faster from 1991–1995.

Non-Pay and Deferred Benefits Analysis

Non-pay and deferred benefits are conditional variables because of their indirect affect on the results of a competitive sourcing and procurement activity. When combined with pay variables, they could affect outsourcing behavior and whether the private sector is more or less cost-effective. These variables appear to factor into the cost effectiveness of military personnel narrowing in comparison to private sector workers in the 1990s. The affect of non-pay benefits such as medical coverage and retirement costs on a DoD cost savings analysis is very difficult to capture as less than 50 percent officer and 15 percent of enlisted personnel remain on active duty for 20 years (Figure 21) and the nature of medical expenses vary across individual and family. There is no well-established indicator or adjustment to add to the DoD's RMC to provide for this comparison with the private sector.

Medical Spending Growth

One of the larger non-pay benefits that contributed to the decrease in military cost-effectiveness is medical care. The growth of medical spending climbed from the mid

1980s through 1995 and contributed to the increased costs for DoD personnel.[53] Over half (56 percent) of the total growth in spending per active-duty service member from 1988 to 2003 can be generally attributed to national changes in health care costs (Percy, Clay-Mendez, and Gilmore 2003, ix). Figure 25 charts the growth of DoD's medical spending in comparison to the decline of the active duty force.

Medical spending is substantially higher per dollar of cash compensation for members of the military than for federal civilian employees or private-sector workers due to the early age of military retirement and the high rate at which DoD's beneficiaries utilize health care services (Percy, Clay-Mendez, and Gilmore 2003, x-xi). Figure 26 provides a comparison of medical spending per dollar for service members and federal and private sector employees from 1988. It illustrates the significant rise in medical costs ($13,000) for service members between 1988 and 2003 as compared to federal civilian and private sector employees.

Private employers were able to avoid significant cost increases in employee health benefits by shifting costs to the employees (Percy, Clay-Mendez, and Gilmore 2003, 8).[54] From a strategic efficiency perspective, this gives the private employer a competitive advantage over the DoD. The employer continues to provide required employee medical coverage but not at an overwhelming cost while shifting more medical costs and responsibility onto the employee. As noted in Figure 26, the ratio of the average private firms' spending on medical benefits to spending on salaries and wages decreased during

[53] The DoD views many of its medical costs as unavoidable and argues that it must operate its own in-house system of health care providers and military medical treatment facilities to ensure the U.S. forces will have reliable, high quality medical care in time of war and to attract and retain high-quality active-duty and reserve forces during peacetime (Percy, Clay-Mendez, and Gilmore 2003, ix).

[54] Employers limited their health care increases by either dropping health insurance coverage, requiring higher contributions from employees toward premiums, shifting to preferred provider plans and away from more costly fee-for-service plans, or offering plans with higher deductibles and co-payments (Percy, Clay-Mendez, and Gilmore 2003, 8).

this period from 8.3 percent in 1991 to 7.5 percent in 2000 (Percy, Clay-Mendez, and Gilmore 2003, 9).

During this period, military and federal civilian pay in the middle and senior level enlisted and officer positions continued to offer a cost savings when compared to their private sector equivalents. Junior officer and enlisted personnel pay grew closer to the 70^{th} percentile towards the end of the period yet remained a cost savings to the DoD. Medical expenditures marked a significant increase in the cost of DoD personnel that added to a narrowing cost savings gap between DoD and private sector workers. Outsourcing activity would be expected during the 1990s in the low-skilled and junior-level positions where private sector personnel remained a cost savings.

Strategic efficiency was useful in explaining decreased outsourcing activity for procuring skilled services, however, it was not useful in explaining the decrease in procurement and competitively sourcing activity for low skilled services where private sector offered a cost savings. While the cost of outsourcing through procurement activities decreased from $80.8 billion to $78.3 billion, competitive sourcing activity decreased by nearly six times as measured through cost comparison studies and the annual amount of positions studied. Completed cost comparison studies declined from more than 1,200 in the 1980–1988 period to 202 in the 1989–1995 period (Table 5), and total positions studied declined from 12,000 in 1988 to 2,128 in 1995 (Table 7).

Strategic efficiency expected an increase in competitive sourcing and procurement for low-skilled areas where the private sector had a cost advantage, i.e. utilities and housekeeping positions. Procurement in these positions declined annually from $3.3 to

$3.1 billion while in-house cost comparisons declined across all areas between 1990 and 1995 (Figure 29).

POLITICAL IDEOLOGY 1989-1995

G.H.W. Bush Administration

George H. W. Bush was elected president in part because he promised to continue Reagan's policies (Meeropol 1998, 207). President Bush-1 had been associated with a more moderate wing of the Republican Party before becoming Ronald Reagan's Vice President and favored a restrained approach towards the size and responsibilities of government (Feigenbaum, Henig, and Hamnett 1999, 139). Actions supporting neoliberal behavior included the desire to reduce regulation to allow American businesses to compete in the global marketplace through the Council on Competitiveness with Vice President Quayle as the chair (Meeropol 1998, 207). The Council on Competitiveness worked with the OMB to review regulations drafted by federal agencies seeking to prevent excessive costs to businesses in the private sector (Feigenbaum, Henig, and Hamnett 1999, 140).

However, the Democratically controlled Congress appeared successful at limiting the extent of neoliberal influence in policymaking. For example, in efforts at cutting the deficit, the Democratic leadership in Congress insisted that raising taxes on the highest-income Americans, so as to make the tax system fair, was essential if they were to agree to any budget cutting. The president had to explicitly support the decision to make the tax increase bipartisan (Meeropol 1998, 208). The president acquiesced by signing the Deficit Reduction Act of 1990, which combined fairly stringent rules controlling

spending with an increase in taxation. Additionally, despite Bush's strong ideological commitment to reducing regulation, the American Disabilities Act of 1990 increased the regulatory burden and cost to American business (Meeropol 1998, 215).

The impact of market-centric actions on DoD outsourcing activity during the Bush administration appeared insignificant due to the power of the Democratically controlled Congress. While Bush remained committed to privatization efforts started by Reagan, the average percent of O&M spent on procurement of support services increased by 2.5 percent between 1989 and 1992 as compared to the 11.7 percent increase during the Reagan era (Feigenbaum, Henig, and Hamnett 1999, 140). The 2.5 percent increase came in an environment of a shrinking O&M budget (with the Gulf War in 1991 being an exception) and a slight decrease in procurement expenditures.

While Congress was controlled by the Democrats from 1988 through 1994 and had little impact on procurement activities in the support realm, it had greater influence than the Executive on the competitive sourcing aspects of outsourcing behavior. It passed legislation to restrain the A-76 process and undercut the private sector cost comparison goals set by OMB across federal agencies (GAO 1997, 2). In addition to the Nichols amendment, Congress ensured the 1991–1994 DOD Appropriation Acts prohibited funding for A-76 reviews of a single function that lasted more than two years and multiple functions lasting more than four years (DOD 1993; Warren 1997, 7).

Outsourcing through competitive sourcing activities was affected during this period with a decline in the number of cost studies and competitions. Table 5 shows a significant decrease in the amount of completed cost-comparison studies of in-house commercial activities between 1989 and 1992 with 174 completed studies as compared

with 683 completed studies from 1985 through 1988. Figure 5 and Table 7 also show a significant drop in the number of DoD positions competed between 1989 and 1992 declining from 6,100 to 496.

Clinton Administration

President Clinton's government in many respects represented a conventional center-right agenda akin – as Clinton himself put it – to an Eisenhower Republican stance updated to the post-Cold War epoch (Pollin 2003, 5). As a reform-minded, free trade Democrat who supported the ratification of NAFTA, President Clinton entered the Oval Office promising to get the economy moving and to reign in the budget deficit. He successfully gained support for the Omnibus Budget Reconciliation Act of 1993 that accomplished deficit reduction and an increased tax rate for high income earners. His administration was defined by reductions in government spending, enthusiasm for free trade, inconsistent efforts to assist working people in labor markets, and deregulation of financial markets with the support of the Federal Reserve Board Chairman, Republican Alan Greenspan (Pollin 2003, 5–6).

During Clinton's first term, in the climate of deficit reduction and minimal government spending, efforts at reinventing government urged increased competition in the public sector to improve performance and increase efficiency. Yet, despite interest in improving government effectiveness through competition, he was unsuccessful in bringing change in the A-76 competitive sourcing process of the DoD. Rather, a strong Democratic Congress was significant in the reduction of outsourcing activities in DoD's

competitive sourcing process by maintaining the policy established by the Nichols amendment to give competitive sourcing decision making to installation commanders.

While Congress impacted the DoD outsourcing of services through its internal competitive sourcing practices based on legislation giving local organizational leaders freedom and discretion around competition, it did not have the same influence when it came to outsourcing of services through procurement. Procurement of services was funded through O&M accounts of local DoD organizations and, for the most part, outside the congressional realm. While the amount spent on procurement decreased slightly during this period within a declining O&M budget, it still allowed for the percent of O&M spent on procurement of services to increase between 1992 and 1996 by four percent. Considering the Clinton priority to reduce the budget deficit and reduce the growth of government, procurement activity suggested the continued dependence on the private sector for supporting the mission and new requirements as DoD personnel were reduced as part of a smaller government.

To evaluate whether political ideology is a factor in explaining DoD outsourcing behavior during Clinton's first administration, I'll examine the results of outsourcing activities, the administration's policy actions as they apply to the DoD, and an evaluation of the effect of congressional actions.

Within three weeks of his inauguration, the President, by executive order, called on agencies to cut 100,000 federal jobs over three years (Goldenkoff 1997, 1). In 1993, Vice President Gore's National Performance Review (NPR) expanded the administration's downsizing goal to 252,000 positions in five years (Goldenkoff 1997, 1). In addition to the President's NPR initiative to reinvent government and reduce the size

of the bureaucracy, the Defense Science Board (DSB) Task Force on Outsourcing and Privatization, the Commission on Roles and Missions of the Armed Forces (CORM), and the Defense Reform Initiative (DRI) addressed the role of outsourcing in downsizing the DoD and improving efficiency. Each of these activities supported the construction of Clinton's strategy to reinvent government through competition and downsizing.

As opposed to the Reagan and G.H.W. Bush administrations, President Clinton pledged to do more to get federal unions involved in management decisions. Clinton's 1993 Executive Order 12871 called on agency heads to establish labor-management partnerships, in which union leaders would be involved in more decisions, and to negotiate with unions over permissive issues, including the numbers of jobs in agencies (Friel 1999b). Clinton's efforts to appease unions with increased involvement at the bargaining table prevented strong union objections to his announced manpower cuts (Friel 2003, 3).

Congress

Democrats controlled Congress through 1995 with a margin of nearly 12 members in the Senate and 90 members in the House. Congressional legislation regarding DoD outsourcing, established during the Democratically controlled Congress prior to and during Clinton's first term, was not pro-competition. For example, congressional provisions in the Defense Authorization Acts of 1993 and 1994 prohibiting DOD from entering into contracts resulting from cost studies done under OMB Cir. A-76 through April 1,1994 (Warren 1997, 7). It put extreme limitations on new outsourcing and the federal A-76 competitive sourcing program.

Legislation established within the Democratically controlled Congress prior to the Clinton administration and still applicable included the Nichols amendment restricting the growth of outsourcing in the DoD by giving local installation commanders control of the process. The Nichols amendment ran through the 103rd Congress in 1995 and exemplified how competitive sourcing activity was an easy target for Congress to affect outsourcing, since they could create legislation to modify Circular A-76 and the ability of federal agencies to competitively source positions.

Congressional Democrats favored a controlled and limited role of competition and private sector participation within the federal government, as procurement abuses within the DoD during the 1980s reinforced the bad opinion Democrats had of private enterprise operating in the public sector and the surge of federal services sourced to the private sector in the Reagan administration. Democrats in Congress voiced concerns over its impact on national defense and constituents affected by these competitions (Congressional Quarterly 1987). Once Democrats gained control of Congress in 1989, the success of neoliberal-based actions supporting competition of internal federal positions faded.

Executive Initiatives to Reinvent Government – National Performance Review

In contrast to the Democrat-controlled Congress who saw competitive decisions best managed at the lowest levels of the organization (e.g. installation commanders), President Clinton used a macro approach to instill competition and change in the

government. He started with NPR to set the groundwork for facilitating reforms.[55] In March 1993, President Clinton followed up on his interest in using the market to leverage change by appointing Vice President Al Gore to oversee the NPR. His objective was to make specific recommendations for creating government with less bureaucracy and more independent decision making and action (Feigenbaum, Henig, and Hamnett 1999, 143-144).

The 1993 NPR was one of his first initiatives aimed at establishing an effective, efficient and responsive government (Harney 1998, 58). The NPR sought to find a cheaper way to provide government services. Competition was the key element in the NPR for producing effectiveness, as government organizations would compete amongst themselves and the private sector. The NPR appeared to embrace the existing federal A-76 competitive sourcing process for initiating competition and savings.

The results of the review engaged the Clinton administration into strongly supporting efforts to reengineer the government, downsize the federal workforce, and emphasize competition across government services (Harney 1998, 53). The NPR aimed at using market incentives to solve problems by using the power of the federal government to trigger greater activity within the private sector.

The NPR concluded that the DOD could no longer afford to conduct business as usual. They challenged DoD service organizations to erase their cultural bias against outsourcing and criticized the DOD for not fully embracing the free market concept (Harney 1998, 54). It noted that statutory roadblocks had prevented the DOD from outsourcing, citing how Congress stopped the DOD from outsourcing further work to

[55] A "macro" approach refers to Clinton's interest in looking at the objective of government reduction from a wide perspective, using initiatives such as the National Performance Review, task forces, and commissions to provide recommendations for adoption that included outsourcing.

contractors. In an effort to spark competition within the federal government, utilize expertise, and reduce costs the administration requested that agencies obtain in-house assistance for construction and design services from either the Army Corps of Engineers or the Naval Facilities Engineering Command (Harney 1998, n.22). Whether it was feasible or even a cost-savings for agencies to use these in-house resources was not addressed.

The NPR recommended the administration propose legislation to remove statutory barriers, noting that the OMB would review OMB Circular A-76 for potential changes to ease the contracting process (Harney 1998, n.22). This resulted in Cir. A-76 Supplement: Performance of Commercial Activities in March 1996 (Harney 1998, 54).[56] The NPR also urged senior Pentagon leaders to face the outsourcing challenge squarely, noting that while DOD could not outsource command functions, it could outsource support functions like data processing, billing and payroll. The NPR noted how the Pentagon's own defense contractors contract out similar functions without the strenuous efforts required by the government's A-76 process (Harney 1998, 54).

Government Reinvention Efforts by DoD Civilian Leaders

Senior DoD civilian leaders supported the Clinton administration's reinvention efforts. Dr. Paul Kaminski, Clinton's Under Secretary of Defense for Acquisition and Technology, from October 1994 through May 1997, established the Defense Science Board (DSB) Task Force on Outsourcing and Privatization in October 1995. The task force was created to assist in the development of an aggressive outsourcing strategy. The

[56] The 1996 OMB Circular A-76 revision changed how the DOD could decide to contract a commercial activity introducing the concept of best value procurement to the outsourcing process.

administration's objective was to improve the quality of DOD support services at significantly reduced cost given the DOD was faced with declining resources for modernization and a large support structure (DSB 1996). Composed of leading executives of major defense and commercial companies, retired senior military officers, and outside experts with extensive experience in outsourcing issues, their recommendations called for extensive outsourcing of support services and a departure from the current reliance on the A-76 process that had shortfalls (noted earlier), causing excessive delays and costly to service organizations (DSB 1996, 12).

DOD's senior civilian leadership supported President Clinton's reform agenda and the findings of both the DSB Task Force results and the Commission on Roles and Missions of the Armed Forces. They called for increased outsourcing of activities across a quarter of a million DoD positions engaging in commercial-type including data processing, base maintenance, logistics, health services and training (Correll 1995). Secretary of Defense William J. Perry noted how outsourcing initiatives were in line with his objectives and goals to find savings in support activities and assisting in the procurement of major weapon systems (Towell 1996). He defended outsourcing as a means for the DOD to accomplish its missions in an environment of budget reductions, increased operations tempo and modernization.

In August 1995, then Deputy Defense Secretary John P. White gave renewed emphasis to the A-76 program when he directed the services to make outsourcing of support activities a priority seeking outsourcing candidates in a broad range of activities (White 1995, 3). He sought to reduce operating costs and free up funds for higher priorities such as weapon systems acquisitions (Holman 2001, 5).

In response to the National Defense Authorization Act for Fiscal Year 1996, the DOD published *Improving the Combat Edge Through Outsourcing* in March 1996 describing its initiative to determine where outsourcing, privatization and competition can lower costs and improve readiness (DOD 1996, 2). The DOD report emphasized the sizable portion of support activities in the defense budget and how these activities were largely established and organized during the Cold War when DOD depended predominantly on organic support driven by the possibility of an extended conflict with a rival superpower and a less sophisticated private, commercial infrastructure (DOD 1996, 1). [57] From October 1995 to January 1997, DOD projected over 34,000 base support position studies under OMB Cir. A-76, and planned to study nearly 100,000 more positions over a six-year span (GAO 1997).

Secretary William Cohen

Secretary of Defense William Cohen, a Republican, embraced President Clinton's desire to reduce the size of government by applying a competitive private sector approach to the DOD, and running the Pentagon like a private business, following a similar approach taken by Secretary Perry (Wilson 2000, 21). Cohen's priority was focused on downsizing and shrinking the armed forces by not replacing those who leave and forcing others out as a tool in the FY1997 budget process. Running the DOD like a private business and downsizing without replacement all pointed to outsourcing as a key driver in facilitating mission objectives that still remained relevant.

In the National Defense Authorization Act of 1996, a provision required the DOD to reevaluate thoroughly its defense strategy every four years with the Quadrennial

[57] DOD estimated that $93 billion would be spent in FY96 on operations and maintenance.

Defense Review (QDR) starting in 1997 (The Defense Monitor 1997, 1). The QDR was mandated by Congress to address a perceived mismatch between the stated defense strategy and the forces and resources that were being made available to implement it (Zakheim 2004, 1). Congress directed the Secretary of Defense to examine defense programs and policies through 2005 including force structure, defense strategy, budget and infrastructure. Congress also appointed an outside panel of defense experts to assess the nation's future military strategy and force structure with the National Defense Panel (Robb 1996, 4; Zakheim 2004, 1).

Secretary of Defense Cohen presented QDR to Congress on May 15, 1997 announcing that for the DOD to maintain the "tooth," or combat readiness of national defense, it must cut the "tail," or the support functions (Harney 1998, 54-55). Secretary Cohen stated that the DOD must identify and then choose between the military's core functions and those functions that could be performed by the private sector, noting that a leaner, more efficient, and cost-effective DOD could serve the war fighter faster, better and cheaper (Harney 1998, 55). Cohen's comments echoed what study groups, task forces, panels and civilian DOD leaders agreed upon throughout the Clinton presidency— the need to embrace the private sector in order for the DOD to be effective at providing national defense.

Defense Reform Initiative

After review of the QDR by the House Committee on National Security, Secretary of Defense Cohen commissioned a Task Force on Defense Reform to further investigate ways to reduce, streamline and outsource its infrastructure. It produced the Defense

Reform Initiative (DRI). Secretary Cohen portrayed the DRI as a sweeping program aimed at reforming the business of the DOD, stating that "American business has blazed a trail and we intend to emulate their success. We have no alternative if we are to have the forces we need as we enter the 21st century" (Office of the Assistant Secretary of Defense 1997).

The DRI recommended using best business practices from the private sector in defense support activities, while also recommending the outsourcing of in-house functions. It created ambitious goals for the DOD, including the competition of 30,000 positions per year between FY1998 and FY2003, and evaluating the entire military and civilian workforce by 1999, to identify which additional functions are commercial in nature and could be targeted for competition (Cohen 1997a, 32–38). Secretary Cohen set an ambitious goal for outsourcing competition between 1997 and 2003 (Figure 5) supporting the administration's downsizing objective.

Neoliberal Shift in Congress

The 104th Congress (Republican majority) that began serving in January 1995 proposed significant reductions in government programs and tax cuts as well as a balanced budget (Yergin and Stanislaw 1998, 337–338). It clearly represented the return to primacy of neoliberal based policies including outsourcing, as the Nichols amendment became ineffective after September 30, 1995. In 1996, upon reaching a compromise on a balanced budget with Congress, Clinton noted how the era of big government was over, reflecting a redefinition of the relationship of state and marketplace, with more confidence in the ability of markets to sort things out independent of government (Yergin

and Stanislaw 1998, 327–328). While Clinton's rhetoric appeared to support the interests of the private sector in establishing federal services as a new market, his second term would reflect mixed results in what was delivered.

Results from Clinton's First Term

Clinton's first term produced an increase in outsourcing through the procurement process. Between 1992 and 1996, the percent of O&M budget spent on the procurement of support services increased from 61.7 to 65.7 percent, as the slight decrease in procurement expenditures was less than the larger decrease in the O&M budget. The relatively stable procurement activity (based on expenditures) marked the lack of congressional reach on the procurement of support requirements managed by federal agencies. The data for procured services also highlighted the significant role private actors developed within the DoD force structure as the overall size of the DoD decreased by 528,000 personnel (military and civilian).

The DoD accepted the private sector as its first choice for performing many support activities when essential mission requirements would not be reduced. Private actors were becoming central to the mission in an era of growing new capabilities and technologies as the U.S. military became more active abroad in a variety of areas with limited manpower. The declining amount of in-house personnel reduced the availability of trained military and civilian forces, leaving many organizations dependent on the commercial sector when performing mission requirements.

Outsourcing through A-76 competitive sourcing was marked by a significant slowdown. As indicated in Table 5, DoD's competitive sourcing program had nearly

stopped, as cost comparison studies continued to decline, with only 32 being completed between 1992 and 1996. In Figure 5, the numbers of positions in A-76 competitions were at their lowest levels during this period, while in Figure 8, the number of announced DoD competitive sourcing initiatives ranged from 50 to 150 between 1995 and 1996. The minimal competitive sourcing results appear to stem from the Democratic Congress being opposed to strategies increasing the private sector role in public activities.

Despite the recommendations from a variety of study groups within the first Clinton administration to increase competition through the A-76/competitive sourcing process for service activities/functions, they were not successful in getting the Democratic Congress to embrace market-orientated actions. As noted above, the A-76 process, as indicated by completed cost-comparison studies of in-house commercial activities, was scaled back significantly. The Democratic Congress, through its legislation, did not support the ideas of increased competition, market incentives and the expansion of the role of the private sector in the federal government.

ORGANIZATION FACTORS 1989–1995

DoD organizations faced budget reductions, threats to their core activities and outside intervention during this period. These factors are useful in explaining procurement sourcing activities. Outsourcing activity is expected upon budget decline and when core activities are threatened. Between 1989 and 1995, the DoD budget was reduced from $445.5 to $340 billion and the O&M budget declined from $136 to $120 billion as military and DoD manpower were steadily reduced. During this period, organizations resisted budget cuts and force reduction efforts as members of Congress

sought to reform and reduce missions due to the end of the Cold War. Due to budget reductions being greater than the relatively small reductions in procurement spending, the percent of O&M budget spent on new procurement activity increased from by 1.2 percent (Figure 1).

While procurement spending declined slightly in comparison to the O&M budget, competitive sourcing activities decreased significantly and did appear responsive to budget and core mission factors. Congressional legislation appeared as a significant factor in providing local organizational leaders with the independence and autonomy to act according to their mission interests. The loss of budget and manpower, together with a further reduction of in-house manpower through competition, added to further organizational change and mission disruption that leaders likely sought to avoid.

Initially, outsourcing behavior was not an easy sell to DoD service chiefs and commanders, as organizations remained resistant to changing their core missions. Service organizations found themselves attempting to move from a Cold War system that defined their missions, operating procedures, resources and funding, to an uncertain international system with no defined enemies. Ultimately, senior DoD military leaders had little choice but to reduce their post-Cold War forces and use procurement actions to augment core missions, limit budget loss, and provide for new capabilities, especially technically sophisticated activities.

The development of the Base Force in 1990 was the first significant DOD event that initiated top-down pressure on service organizations to find ways to conduct their missions and services with less budget resources and personnel. It began a process that

would cause service organizations to reevaluate activities and functions and seek private actors for the performance of a variety of functions due to their reduced manning.

In the fall of 1989, General Colin Powell, Chairman of the Joint Chiefs of Staff, began planning for what he called the post-Cold War Base Force (Korb 2000, 1). His principal challenge was to reshape defense policies and the armed forces in light of the changing global political and military environment, ballooning federal deficits and declining defense budgets that would begin to affect military culture and the way it conducted its business (Jaffe 1993, 13,27; Larson, Orletsky, and Leuschner 2001, xv).

He emphasized to service chiefs the need for a new strategy and force cuts, rather than continuing to request a force structure that would not be funded, based on the current international environment (Jaffe 1993, 18,22). He adopted the term Base Force to designate his recommended minimum force, which the DoD could not go below. He envisioned a military about 75 percent the size and cost of the military that existed when he took office in 1989 by reducing the force structure and budget by five percent a year between 1990 and 1995 (Korb 2000, 1).

However, as organization factors suggests, service chiefs resisted Powell's plan. They refused to seriously address the need for force cuts. They believed he was usurping their force planning prerogatives by proceeding with the Base Force plan despite their objections (Jaffe 1993, 27). Service chiefs controlled budget submissions and refused to support Powell's Base Plan. Through the mid-1990s, Congress vented at the unchanging military force structure despite significant changes in the international system and a budget deficit.

In the 1990–91 Program Object Memorandum (POM)[58] cycle, the services did not accommodate the views of the JCS Chairman with their budget submissions. They supported only a two percent per annum reduction in real growth in the budget over the Six Year Defense Plan (Jaffe 1993, 34). Service Chiefs remained reluctant to concede resources and force cuts despite the changing world environment.

Service chiefs became more receptive to the Base Force concept when congressional participants in budget negotiations were not going to permit the force levels in the service POMs (Jaffe 1993, 39,41–42). Secretary of Defense Richard Cheney directed the services to implement the Base Force in November of 1991 resulting in a 25 percent force structure reduction and a 20 percent active manpower reduction through the FY 1993–1993 period (Larson, Orletsky, and Leuschner 2001, xvi). General Powell believed that to survive as effective forces in the changed fiscal environment, the services had to cease competing with each other for dwindling resources and reduce and reconfigure (Jaffe 1993, 50). However, this would prove to be a difficult challenge for the services as competition for the dwindling share of the defense budget increased in the 1990s.

At the onset of the Clinton Administration, in addition to pressure on the DOD from their senior civilian leadership, Congress put pressure on the DoD to reduce its size and spending, being concerned with the nature of the defense structure shaped by the Bush-1 Administration. Congress believed that the Pentagon had continued to use Cold War era assumptions to develop force and spending requirements (CDI 1998, 1). In July 1992, Senator Sam Nunn (D-GA), then Chairman of the Senate Committee on Armed

[58] The POM is the primary document used by the services to submit programming proposals. It includes an analysis of missions, objectives, alternative methods to accomplish objectives, and allocation of resources (iCenter, Office of the Secretary of Defense (OSD) Comptroller, 2007).

Services, suggested a review of the current service roles and missions due to concern about mission redundancy and duplication of capabilities by different services costing the government billions of dollars a year (Lussier 1994, 2).

There was a measure of distrust in Congress regarding the DOD, and a perception that Pentagon leaders were not looking over the horizon and preparing the nation for the likeliest wars (Wilson 2000, 15). Leaders of the Army, Navy and Air Force argued that they still might have to fight against Soviet weapons, and resisted giving up their own Cold War weapons while they pressed civilian leaders to buy a new generation of weapons (Wilson 2000, 14). Resistance to giving up old mission requirements affecting the size and nature of the force structure exemplified organization behavior and the desire to sidestep change while doing what it knows best.

Yet, continued pressure on service organizations to make adjustments was substantial. DOD and senior government leaders, along with members of the National Defense Panel, created expectations for service organizations to fulfill. The QDR recommended further reductions of civilian and military support personnel by adopting private sector business practices, such as outsourcing, to lower costs and improve performance (Harney 1998, 55).

The QDR encouraged outsourcing of more non-war fighting support functions, predicting the DOD would enjoy the same benefits private industry gained from outsourcing. These included improved quality, responsiveness and access to new technology and lower costs. The QDR justified its position by noting that 61 percent of DOD employees in FY 97 performed infrastructure or support functions including training, logistics support, central personnel services, headquarters functions, medical

care, science and technology services, and command, control and communications services (Harney 1998, n.32). The QDR panel also proposed cutting 109,000 civilian and military personnel involved in support functions, boosting the total infrastructure force reduction since 1989 to 39 percent (Harney 1998, 32). The panel directed the DOD to outsource military tasks that mirror commercial functions, especially in the logistics and support areas (Harney 1998, 32).

Competitive Sourcing

A different dynamic appeared to exist in the competitive sourcing environment as activity within the DoD nearly ceased (Table 5 and Figure 5). Competitive sourcing had the greatest reduction of activity since the federal government began tracking it in 1978. Between 1989 and 1995, the DoD completed 202 cost-comparison studies, as opposed to the 1,744 completed between 1981 and 1988. Commanders were clearly not in favor of the competitive sourcing process as it jeopardized their manpower authorizations, which were already targets for reduction, despite efforts to maintain their steady-state mission and manage global disorders.

Personnel reductions through competitive sourcing activities did not provide a mission incentive. Competitions lasted on average anywhere from 18 to 36 months, introducing organization turmoil and morale problems into the mission. The Army IG reported in 1989 that Army cost studies were lengthy because installation commanders did not view the A-76 program as having a high priority and therefore did not emphasize its importance. Service officials believed the process was adequate and did not plan any

policy changes or new approaches for shortening cost-study completion times (GAO 1997, 8).

Commanders were also reluctant to reduce the size of their force as it affected their manpower budget during the next budget cycle (Andrews 2007). Due to downsizing, local commanders feared they might not receive adequate funds to hire civilian replacements, or that they could lose the replacement positions through civilian reduction targets (GAO 1994, 4). Funds allocated to replace military personnel with civilians in support positions did not have to be used for that purpose (GAO 1994, 4).

Funds for civilian personnel were derived from several accounts that could be used for a variety of purposes. At one location, civilian employees identified 2,200 military positions for replacement. The command lost about 2,000 of these military personnel but gained only 800 civilians (GAO 1994, 4). The command's budget was reduced, in part due to downsizing, before civilians could be hired (GAO 1994, 4). Civilian requirements and budget allocation decisions were made independently of each other (GAO 1994, 4). Organizations will act to protect their resources, especially if it affects budget outcomes. They will avoid any behavior that risks losing manning positions and funds that can ultimately impact their mission.

Organizational commanders were supported by congressional legislation that assisted their efforts in avoiding competitive sourcing activities. Commanders were empowered by federal law allowing them to directly determine the extent of outsourcing in their organizations. Where most force reductions were outside the control of DoD organizations, the Nichols amendment gave local commanders autonomy and direct authority in whether or not competitive sourcing activities were utilized. Without the

pressure and requirements of a political or higher headquarter agenda to reduce force structure through internal competitions, commanders relished the opportunity to protect their in-house resources. Commanders were able to limit and in many cases stop competitive sourcing activities at their local organizations during the 1989–1995 period.

Competitive sourcing activities were low because legislation provided commanders with increased freedom of action/autonomy in managing their organizations and protecting their core missions from contractors that often limited their ability that included commander authority, leverage and autonomy. For example, commanders raised concerns that private sources of support would not provide the predictable services needed during unpredictable contingency type missions (Camm, 9). Military leaders preferred to use in-house personnel because they could exercise greater control over them. Contractors could not be used for any activities outside those stated in the contract, unless the contractor agreed to the additional work and was monetarily compensated. Also, contractor issues could not be handled directly through the commander but required a contracting officer and quality assurance expert to resolve problems. Outsourcing presented commanders with additional work, coordination, visibility and extraneous requirements that limited and obscured their independence and autonomy.

While procurement and competitive sourcing behavior appeared to have different influencing factors during this period, service orientated outsourcing objectives with a decentralized local flavor continued to dominate the landscape with no apparent relationship to the larger scale joint mission objectives. Similar to earlier periods, each service worked autonomously within its own procedures to identify peacetime personnel

requirements for support positions and determine the most efficient personnel mix to achieve assigned missions and tasks. This process was based on a subjective determination of positions considered essential and non-essential for military incumbency.

A 1993 manpower study indicated that services varied significantly in the degree to which they used military and civilian personnel to perform similar functions. It reflected their autonomy and individual approach to the federal competitive sourcing program. For example, the services collectively employed more than 21,000 enlisted military and civilian equivalent personnel whose primary occupational specialty was computer operator. Only 17 percent of computer operators in the Air Force were civilian, whereas in the Navy more than 53 percent were civilian, and in the Army about 68 percent were civilian (GAO 1994, 21).

The autonomous nature of each service and variation across services in filling similar positions is supported by the data in Table 12. It shows the occupational specialties with the greatest amount of variation across the services. The outsourcing process continued to highlight inefficiency and relative weakness in providing a consolidated/joint national defense. The interests and objectives of each service, as demonstrated in procurement and competitive sourcing behavior, took priority over the requirements of a unified support/operational defense plan involving all of DoD's service organizations.

CHAPTER SEVEN

CASE STUDY — DEFENSE OUTSOURCING 1996–2000

In the 1996 through 2000 case study, the average percent of O&M budget spent on procured services increased to 64.8 percent. The three percent decrease in O&M spending on procured services during the period was attributed in part to an increased O&M budget from 1998 through 2000, as procurement costs remained relatively steady.[59] As the cost savings from DoD personnel appeared to be diminishing in some areas, in comparison to the private sector, procurement activity remained relative steady during this period. Competitive sourcing activity including announcements and competitions increased and was consistent with the strategic efficiency framework.

President Clinton's relatively market-focused agenda did not support DoD's outsourcing activity, as poorly structured manpower reductions, ambivalence towards the federal competitive sourcing process, and alignment with federal unions conflicted with the goal of an increased role for the private sector in providing DoD support services. Organization factors were significant in explaining outsourcing behavior, as service chiefs faced mounting force size reductions and the lowest budget since the 1970s, which jeopardized weapon system modernization efforts and core missions. Modernizing weapon systems was a fundamental interest of each service, in order to maintain its organizational strength and primary missions.

The case-study notes the reluctance of Congress to reform itself and improve the process of spending defense dollars, coupled with a business-as-usual approach in the services to continue to build Cold War era weapon systems. It highlighted the ongoing

[59] Outsourcing costs are measured in 2005 dollars.

conflict and inefficient nature of policymaking in the procurement realm among senior civilian and defense leaders as war fighting priorities, the ultimate justification for outsourcing efforts, appeared misguided, service dominated, and enamored of congressional politics.

STRATEGIC EFFICIENCY 1996–2000

Throughout the 1990s as pay increased relative to the private sector for the junior enlisted and officer force, those positions remained a slight cost savings as their pay remained below the 70th percentile for the majority of personnel. Yet, with the growing DoD medical expenses increasing by 40 percent per person between 1988 and 2000, we would expect to see increased outsourcing activity as DoD personnel became less of a cost savings when considering both pay and non-pay benefits.

Basic military pay as a percentile of private sector pay from 1996 through 1999 for male enlisted and officer personnel is provided in Table 8 and supports the cost savings of the majority of enlisted and mid-to-senior officer personnel. Figures 9 and 10 also highlight the cost savings of the enlisted and officer corps during this period. Figure 9 indicates that most junior-to-mid level enlisted personnel were in the 60–65 percentile (positive cost savings) while junior enlisted with the least amount of educational skills (high school) ranged from mid-60s to more than 70 percent (less of a cost savings).

Figure 10 reflects the military pay of junior (0-3) and mid-level (0-4) male officers as a percentile of private sector pay from 1996 through 2000. Mid-level-to-senior officers were a cost savings for most of the period as pay for mid-level officers hovered below the 60th percentile area while pay for junior grade officers remained less of a cost

savings as their pay rate bounced between the 60th and 70th percentile range between 1996 and 2000 (Hosek 2001, 73).

The 0-4 pay (mid-level officers) percentile line lies below the 0-3 (junior grade) line, indicating that military officers remained a better cost savings as they gained experience and increased their service time in the DoD. Equivalent private sector workers were less of a cost advantage as they were better compensated and their pay increased more rapidly than those in the military (mid/senior-level officers) who gained job experience and served longer (Hosek 2001, 74). Figure 12 supports similar findings as it charts the difference between changes in regular military compensation and the civilian ECI index between 1996 and 2000. The data indicates that military pay grew more slowly than private sector pay through 2000.

Non-pay and deferred benefits appear to factor into some military personnel being less cost-effective than federal civilians or private sector workers during this period, as the complete military compensation package for the average active duty service members grew by nearly 80 percent from 1988 to 2005, while total military end strength declined by nearly 700,000 personnel.[60] Thus, despite the reduction in force and expected cost savings with fewer DoD members, the rising costs associated with military compensation appeared to limit the expected savings.

One of the larger non-cash benefits was medical care.[61] By 2000, it accounted for nearly 40 percent of the cash compensation to DoD service members, as compared to 15

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[60] Military compensation includes: basic pay, housing allowance, subsistence allowance, tax advantage, installation-based benefits, active duty health care, social security, retiree benefits and retirement pay accrual.

[61] The DoD views many of its medical costs as unavoidable and argues that it must operate its own in-house system of health care providers and military medical treatment facilities to ensure that U.S. forces will have reliable, high quality medical care in time of war and to attract and retain high-quality active-duty and reserve forces during peacetime (Percy, Clay-Mendez, and Gilmore 2003, ix).

percent for federal civilian and nine percent for private sector employees. As noted earlier, private employers avoided significant cost increases in employee health benefits by shifting costs to the employees (Percy, Clay-Mendez, and Gilmore 2003, 8).[62] This shift was noticeable in the increasing rise of employee deductibles and co-payments. The cost for employee deductibles and co-payments in preferred provider plans had risen by 37 percent since 1996 (Percy, Clay-Mendez, and Gilmore 2003, 8–9).

Table 10 provides a 1998 CBO comparison of the annual value of federal and private sector benefits for five hypothetical employees. The analysis compares the dollar value of benefits that various types of hypothetical employees earn in a year (Musell and Holen 1998, vi). The analysis suggests that employee benefits represent a significant portion of the compensation packages of both the federal government and large private firms ranging from 26 to 50 percent of pay for federal employees and 24 to 44 percent of pay for private sector employees (Musell and Holen 1998, vi). The value of the federal government's benefit package exceeded the private sector package by up to 7.2 percent. This supports CBO's overall findings for federal employees with pay near the level of their private-sector counterparts — the advantage in employee benefits puts the value of the entire compensation package (pay and benefits) at or above the private sector.

The increased cost of military and federal civilian compensation, including pay and non-pay benefits such as medical care, and growing pay competitiveness for a range of federal employees suggested an increased growth in outsourcing activity, through the lens of strategic efficiency, as the size of the military and federal cost advantage appeared to

[62] Employers limited their health care increases by either dropping health insurance coverage, requiring higher contributions from employees toward premiums, shifting to preferred provider plans and away from more costly fee-for-service plans, or offering plans with higher deductibles and co-payments (Percy, Clay-Mendez, and Gilmore 2003,8).

be shrinking. The decline in the amount of O&M spent on service procurement activities did not support the strategic efficiency framework, yet, the average percent of O&M spent on procurement increased relative to the 1989–1995 period. Thus, while DoD did not commit as much of its O&M budget to service procurements, its O&M budget increased during this period, and the actual procurement dollars spent remained steady throughout the period. The data suggests that the DoD remained committed to outsourcing and that strategic efficiency was useful in explaining this behavior.

Despite the combination of rising costs and a decline of DoD personnel, the significant jump in competitive sourcing activities is concerning from a transaction cost perspective. The jump seems to indicate an expansion in the types of services being considered for competition where the cost of potential transaction hazards had not been fully considered and built into DoD contracts. Whether the DoD or the market was the most efficient source for providing DoD services, based on the ability to mitigate potential transaction hazards, did not appear to be significant in the A-76 competitions. Monitoring and contract surveillance continued to be a problem throughout this period.

The annual amount spent on procurement in 1996 was $76.3 billion compared to $75.1 billion in 2000.[63] While procurement of services remained relatively steady with some decline, competitive sourcing activity significantly increased during this period and did represent expectations from a strategic efficiency perspective. A-76 competitions increased from 20 in 1996 to 210 in 2000. DoD competitive sourcing initiatives increased from 50 in 1995 to nearly 450 in 1999, and positions competed increased from under 100 in 1996 to 8000 in 2000. The results were aligned with the strategic

[63]Outsourcing measured in 2005 dollars.

efficiency framework considering the rising cost of DoD personnel and their decreased cost savings value in organizations when compared to the private sector.

POLITICAL IDEOLOGY 1996–2000

Clinton's Second Term

The Clinton administration and Republican Congress generally shared common aims on reducing the size and cost of government (Pollin 2003, 75). The core of Clinton's economic policies appeared neoliberal. For example, in 1996 both agreed on balancing the budget through tax and spending cuts, though each proposed different solutions to accomplish the goal (Meeropol 1998, 249–250). Spending on government programs, relative to Gross Domestic Product (GDP), dropped from 21.9 percent of GDP in the last year of the Bush-1 presidency to 18.1 percent by the end of Clinton's second term (Pollin 2003, 72). Wage inequality appeared to be growing. Between 1983 and 1997, the percentage of personal income received as wage and salaries fell from 58.5 percent to 56.4 percent, and in manufacturing industries it fell from 13.8 percent of personal income to 10.3 percent (Meeropol 1998). At the same time, the share of corporate profits in national income rose from 7.6 percent in 1983 to 10.8 percent in 1996 (Meeropol 1998, 250).

President Clinton's policy actions continued to deviate from traditional Democratic tax and spend initiatives. Vice President Gore introduced the next phase of the administration's reinventing government initiative that included privatization as a tool to sell off some commercial activities within the government (Shoop 1995, 1). In the President's 1996 budget, he proposed privatizing the following activities:

- The Energy Department's power marketing administration
- The Naval Petroleum Reserve ($1.6 billion)
- Three of five federal minimum and low security prisons and one detention center
- Office of Personnel Management's (OPM) training operation and investigations Group
- Government helium reserves
- Parts of NASA and the National Weather Service

Additionally, the administration sought privatization studies for service functions of the Government Services Administration. As the administration proceeded to initiate privatization type actions, officials appeared to have a narrow view of privatization. Elaine Kamarck ran Vice President Gore's NPR and defined privatization as purely divesting the government function and not contracting out (Shoop 1995, 3). In Clinton's eagerness to privatize select federal activities, there appeared to be minimal consideration to keep these activities in-house. There was no effort at using the existing A-76 process to competitively source positions and determine whether a private organization could provide similar services and capabilities, or whether private sector competition existed for providing the services. Once privatized, there was no plan to ensure that the activities were being provided in a more efficient manner through oversight mechanisms. The Clinton administration reduced contracting and procurement professionals by nearly 50 percent. Ultimately, the interest in cutting government costs did not appear aligned with improving the efficiency of activities.

Evaluation of Clinton's Actions on DoD Outsourcing in Second Term

Though President Clinton appeared aligned with a neoliberal focus in a variety of economic policies to reduce the size and scope of government that included privatization, political ideology was limited in explaining DoD's outsourcing results from the procurement of services and competitive sourcing. The annual expenditures of DoD outsourcing for procured services decreased by 1.2 billion between 1996 and 2000 but remained relatively steady despite the decrease. The percent of O&M spent on procured services decreased by three percent as the overall O&M budget increased by $5 billion and the DoD payroll (active military and civilian) dropped by nearly 21 percent. The data supports neoliberal expectations for maintaining procurement activity given mission requirements, the reduced force size and the opportunity to create an increased private sector footprint in the public domain.

While the outsourcing results were aligned with a neoliberal agenda, poorly structured manpower reductions, ambivalence towards the federal competitive sourcing process and on Executive conflict with legislation supporting increased competition and outsourcing efforts were factors questioning the significance of market-centric ideals in the administration's decision making and the results of DoD outsourcing activity. Poorly

Manpower Reductions

There was little evidence that the significant reduction in manpower was carried out within a comprehensive and mission focused plan to reshape the workforce through carefully planned cuts aimed at positions no longer essential to the core missions within each service (Goldenkoff 1997, 1). Professor Don Kettl, Director of the Fels Institute of

Government and Professor of Political Science at the University of Pennsylvania, noted how the federal government took a haphazard approach to downsizing, selecting reduction goals without thinking about downsizing strategically (Friel 1998b, 1). There was no consideration that agencies would be able to ensure their work could be accomplished efficiently and effectively. Paul Light, the Paulette Goddard Professor of Public Services at New York University, noted how the Clinton administration failed to systematically look at how it should structure the federal workforce to carry out the variety of government missions (Friel 2000, 2). While the Clinton administration had the intention of using privatization for select federal activities, its narrow vision and implementation of the process limited the ideals of competition for providing increased efficiency.

Competitive Sourcing Ambivalence

The narrow approach to privatization was also reflected in the administration's ambivalence in supporting competitive sourcing objectives within government agencies. In the recommendations made by the NPR, DSB, CORM and DRI to increase outsourcing within the DoD, the vehicle to achieve those results was through competitive sourcing. Both the competitive sourcing and procurement of service processes depend on a skilled professional workforce that plans, competes, awards and manages sophisticated long-term service contracts (Schooner 2004, 1). Despite mandates from the above study groups to contract-out functions, the administration placed no concurrent emphasis on retraining or obtaining suitable acquisition personnel to facilitate these recommendations (Schooner 2004, 1).

The civilian acquisition workforce comprised professionals intimate with the outsourcing and contract compliance process. DoD reduced the acquisition workforce by half from a peak of 310,000 workers in 1989 to about 150,000 in 2001 despite an increase in the contracting workload of 12 percent over the same period (Cahlink 2001, 1; Peterson 2003, 1). Robert Lieberman, DoD's assistant Inspector General for auditing, studied the impact of workforce reductions on acquisition reform. He noted that Congress and the Clinton administration's reinvention of government efforts shared in some of the blame for haphazardly handing out pink slips and facilitating a theme throughout the decade to downsize for the sake of downsizing (Cahlink 2001, 2).

Legislative Conflicts in Development of the FAIR Act

The White House position on developing the Federal Activities Inventory Reform (FAIR) Act conflicted with outsourcing recommendations from government study groups seeking a positive impact in reducing the size of DoD's federal workforce. For example, between 1993 and 1997, Sen. Craig Thomas, R-Wyoming, began drafting the Freedom from Government Competition Act that was introduced in February 1997 and would privatize any program deemed "not inherently governmental" (Friel 1998a, 1; Light 1999, 1).[64] The Bill met with opposition from the Clinton administration and federal employee unions. Later versions of the Bill that did not require wholesale privatization, but mandated public-private competitions for non-inherently governmental programs was still opposed by the administration (Friel 1998a, 1).

The Bill eventually evolved into the FAIR Act of 1998 and was signed by President Clinton, requiring federal agencies to review their activities and define them as either

[64] Privatize is used in the broader sense where contracting-out is included as an activity.

inherently governmental or commercial. The Act highlighted activities that could be subject to competitive sourcing but did not mandate contracting-out (Friel 1998a, 1; Jacobson 1998a, 1). The measure signed by President Clinton was a weaker version of legislation sought since 1997. It mollified most critics of the initial legislation, including the Clinton administration, because it seemed mostly to codify the A-76 Budget Circular that already existed (Jacobson 1998b).

The ambivalence of the Clinton administration towards outsourcing was evident from the fact that the FAIR Act simply mandated compliance with a longstanding A-76 provision that OMB did not consistently enforce in the past. In addition, the Clinton administration and congressional supporters of outsourcing continually sparred over the FAIR Act inventories once the law was passed (Cahlink 2000, 1). In 1999, OMB released lists that found nearly half of all federal jobs were commercial in nature, but found reasons for exempting many from public-private competition (Cahlink 2000, 1).

DoD's Outsourcing Environment

Results from DoD's competitive sourcing program in Clinton's second term fluctuated yearly due likely various influences such as the DSB, CORM, DRI, and congressional legislative changes. As noted earlier, the percent of O&M spent on procurement of support services decreased by three percent between 1996 and 2000, as actual procurement costs for services remained relatively steady. Yet, the growth in outsourcing from competitive sourcing activities was similar to the Reagan period. Figure 8 highlights the substantial growth of announced DoD competitive sourcing initiatives between 1995 and 2000. DoD announced 41 competitive sourcing initiatives

in FY 1995, 164 initiatives in FY 1996, 417 initiatives in FY 1997 and 400 initiatives in FY 1998 and 453 initiatives in FY 1999 (Kleinknecht et al. 2005, 5,8). Figures 6 and 7 note how the average number of positions studied for competition rose from under 1,000 to nearly 8,000 positions by 2000, while the number of DoD competitions rose from 70 to nearly 210.

DoD's A-76 program manager suggests that the increase in DoD competitive sourcing during the late 1990's is not necessarily attributable to Clinton's reinventing government initiative or an ideological interest (Andrews 2007). Annie Andrews notes how the Clinton administration did not provide top-down leadership in the DoD or across federal agencies supporting the benefits of cost-saving opportunities available from the A-76 competitive sourcing process (Andrews 2007). As noted by his opposition towards the FAIR Act legislation, the President had conflicting interests between the government drawdown and increasing competition across the federal workforce.

While President Clinton wanted to support a government drawdown through recommendations provided by the NPR and other studies, he was aligned with federal employee union interests to protect federal positions from mandatory competitive sourcing competitions (Jacobson 1998b, 1). His support for unions was also represented in the 1999 efforts to reengage labor-management relations started in Executive Order 12871 by tasking agencies to improve their efforts to bargain with unions over workplace issues (Friel 1999a). Many federal managers resisted the order's call to bargain over issues such as employee size, as the U.S. Court of Appeals continued to rule that Clinton's order gave unions no legal rights (Friel 1999a). Jacques Gansler, the Pentagon's acquisitions chief during the latter half of the Clinton administration, noted

how defense officials were eager to open more jobs to competition in the late 1990s but ran into opposition from the White House, particularly from Vice President Gore, who did not want to lose the support of federal unions (Cahlink 2003, 2).

ORGANIZATION FACTORS 1996–2000

During this period, organization factors appear to be significant in explaining outsourcing behavior. Service chiefs faced mounting force size reductions and the DoD budget saw its lowest levels since 1976.[65] The smaller budget jeopardized weapon systems modernization, directly impacting core missions. Modernizing weapon systems was a fundamental interest of each service to maintain its organizational strength and primary missions. New and improved weapon systems and technology allowed organizations to compete for larger shares of the defense budget and bolster the effectiveness of their missions. Service chiefs ultimately became more proactive in reducing manpower costs, enabling funding for modernized weapons in order to preserve combat capability/core missions (Wilson 2000, 20).

Service chiefs readdressed outsourcing, primarily competitive sourcing activities, when funding for weapons systems was threatened. DoD's widespread efforts to open up its activities to competition with private firms was driven primarily within the DoD to address fiscal problems and funding shortfalls estimated at more than $20 billion a year (Peters 1999, 1,2). The average percent of O&M budget spent on procured services during the period was 64.8 percent, an increase of 3.2 percent from the 1989–95 period, indicating that the DoD was allocating more money towards the procurement of services to support mission needs. Competitive sourcing activity also increased significantly as

[65] Measured in 2005 dollars.

DoD leaders appeared to seek savings from within their organizations to fund weapons modernization.

The independence and autonomy of service leaders was reduced as they had minimal control over the magnitude and pace of personnel reductions and directed organizational leaders at every level to push force reductions through downsizing. While organizational leaders made the critical decisions concerning downsizing efforts, there was no doubt that force reduction results were expected (McCormick 1998, 63). For example, in 1998 the Air Force asked each of its major commands to determine which service functions should be outsourced to industry in an effort to save $2.4 billion for weapons modernization by 2003 (Muradian 1997, 1). As noted by Loren Thompson, a senior fellow at the Alexis de Tocqueville Institute, the Cold War leadership of the Air Force gave way to a new generation of general officers who had more of a bottom-line, results-orientated management style.

Each of the services addressed their situation similarly by reevaluating old ways of doing business as compared to new methods and means to maintain their forces and capabilities in the fiscally constrained environment. Management culture began to change when general officers began turning to the marketplace as a vehicle to save money that was being wasted in inefficient or outdated activities. In the Air Force, the change was fostered from the top down by former Air Force Chief of Staff Gen. Ronald Fogelman (Muradian 1997, 3). Some argued that competitive sourcing offered the potential opportunity to find savings in activities on average of 30–40 percent (Gansler 2003b, 1).

From an organization perspective, these potential cost savings could be programmed towards weapon systems and modernization efforts affecting the core missions. Thus, leaders began to seek out as many commercial activity opportunities within the DoD as could be competed. Commercial sourcing activities (A-76 competitions) rose dramatically (see Figure 6 and 7) as announced DoD competitive sourcing initiatives peaked in 2000 with nearly 450 (Figure 8).

DoD organizations also began to reevaluate which functions were being defined as DoD-only or "inherently governmental," and redefine these functions to provide a larger array of activities available for civilian competition.[66] This would ultimately have the effect of reducing in-house manpower costs wherever private enterprise won competitions. These cost savings would go towards the organizational objectives of modernization and new weapon systems. Organizations began focusing their in-house personnel strength on core activities, with non-core activities available for civilian competition.

DoD civilian leaders such as Secretary's Perry and Cohen attempted to run the Pentagon like a private business. Secretary Cohen noted that "to preserve combat capability and readiness, the services targeted their force reductions by streamlining infrastructure and outsourcing non-military essential functions" (Cohen 1997b). The professional and management support, medical and technology areas showed tremendous growth in procured services between 1995 and 2005 (Table 1) that can be attributed to new systems, commercial-type activities and an increase in DOD requirements.

[66] DoD personnel can only perform inherently governmental activities. Each service determines what is inherently governmental for their missions.

Figure 29 highlights the type of commercial activities outsourced by the military services. It was not surprising for support services to be targeted for competition as a significant portion of the DoD budget funded these services not considered core capabilities or weapon systems. Support missions had limited budget growth and faced competition from private sector enterprises as compared to core missions that, for the most part, were unique to military organizations, central to the DoD's existence and the primary focus for budget growth.

A growing aspect affecting all missions throughout the DoD was the advancement of new, sophisticated technologies essential in integrating into DoD operations and for the success of many core missions. Significant change and improvement took place in technical skill areas. New requirements for sophisticated technology to support core missions, weapon systems and the complex data infrastructure (the backbone of the DoD) required an exponential growth of expertise.

As noted earlier, Table 1 and Figure 29 highlight the large increase in ADP and Telecom procurement growth in the last 10 years of the study. The DoD did not have sufficient training resources or manpower to attempt to provide the growing volume of sophisticated technology services internally. They also did not appear willing to compete with the private sector to make significant investments in establishing a robust time-sensitive training and R&D infrastructure requiring regular investments of the latest technology. In a period when the DoD faced force reductions and needed to find money for weapons modernization, this option appeared unlikely.

The improved economic opportunities for civilians with high-tech skills, as compared with military and federal personnel, placed a burden on the efforts of each

service to meet their high tech requirements with quality personnel. It was difficult to retain highly qualified military or federal civilian experts, in high tech areas, due to competition from the private sector who offered much greater financial benefits (Soloway 2007). Outsourcing provided DoD organizations with an avenue of easy access to instant capability, required expertise and knowledge that were either limited or not available in service organizations. A significant investment in R&D, training and increased force structure was unnecessary when utilizing the private sector for these services. Figure 29 shows a five-fold growth of technology outsourcing expenditures in the DOD during the 1990s through 2005. The dependence on the private sector for providing mission support services had begun and grew with intensity as the DoD turned to a technologically sophisticated infrastructure to support its mission objectives.

While increased outsourcing behavior for support services reflected the need for weapons modernization and reshaping in an environment of reduced budgets and force reductions, the war fighting priorities — the ultimate justification for these outsourcing efforts — appeared misguided, service-dominated, and enamored in congressional politics, despite the input of the Chairman of the Joint Chiefs of Staff (the principle military advisor to the President, National Security Council and the Secretary of Defense). For example, in 1999 General Shelton, the JCS Chairman, expressed concern about Congress's desire to have the DoD spend too much on missile defense, leaving other threats uncovered (Wilson 2000, 181). His foremost concern for the nation in the Twenty-first century was asymmetric threats, or those that attack and disable the U.S. computerized network and cause havoc to civil society and military operations (Wilson 2000, 180). Based on his assessment of the future, the chairman's responsibilities

included crafting plans for wars and ensuring that the services buy the right kinds of weapons and resources for the next war, not the previous one (Wilson 2000, 179–180).

However, Congress permitted the military services to continue to buy or improve weapons designed for the Gulf War and the Cold War. Civilian leaders allowed the Army to overbuy M-1 tanks despite the need to make the Army lighter and more mobile; the Navy was allowed to continue to buy, at $2 billion each, nuclear powered attack submarines designed to hunt and destroy Soviet submarines during the Cold War; the Air Force was permitted to develop and produce F-22 fighters designed to engage Warsaw Pact aircraft that were no longer a threat (Wilson 2000, 195–196).

The unwillingness of Congress to reform itself and improve the process of spending defense dollars, coupled with a business-as-usual approach in service efforts to build Cold War era weapon systems, highlighted the conflicting and inefficient nature of policymaking in the procurement realm among senior civilian and defense leaders since the start of the study.

CHAPTER EIGHT

CASE STUDY - DEFENSE OUTSOURCING 2001-2005

In the 2001 through 2005 case-study, yearly outsourcing activity costs grew from $78 billion to $130 billion, while the percent of O&M budget spent on service procurement ranged from 59 to 66 percent.[67] The findings suggest that procurement activity occurred in both low and high skilled areas, rather than in the most economical and efficient activities. The likelihood of complex transactions being managed by the market increased, suggesting transaction hazards were less likely to be successfully mitigated, producing increased inefficiency in outsourced activities.

The expansion of DoD services to be procured as a result of conflicts in Iraq and Afghanistan increased the possibility of inherently governmental activities being outsourced to the market and hazards to probity that included non-compliance by service providers resulting in a lack of confidence in information and assessments in situations. Additionally, it created a perceived threat to the democratic principle of accountability and diffused government responsibility with non-state actors undermining the state's capacity to govern.

The trend towards lower competitions and announcements in the competitive sourcing arena did not support strategic efficiency expectations, as many enlisted, junior officer and some junior government civilian positions were not a cost savings to the DoD when compared with private sector personnel. Political ideology was useful in explaining the increase in outsourcing through procurement but was not as successful in explaining the decline in competitive sourcing activity in the market-centric

[67] Outsourcing activity measured in 2005 dollars.

administration. Organization factors appeared useful in explaining increased procurement activity. Increased technology and activities resulting from the conflicts in Iraq and Afghanistan required more personnel to accomplish organizational mission requirements. Additionally, organizations had little interest in competitive sourcing activities, as increased budgets, reduced threat to core missions, and relative autonomy led to decreased activity.

In this case study, the increased level of outsourcing, particularly procurement of support and operational services, led to concerns over transparency, accountability and contract surveillance/monitoring. These concerns were highlighted by public reports of contract abuses during the U.S. war fighting effort, potentially undermining the effectiveness of the U.S. government. The DoD's war fighting effort was marked by areas where power and control had ceded to DoD contractors.

STRATEGIC EFFICIENCY 2001–2005

Between 1999 and 2005, pay raises became aligned with ECI increases for the private sector and military pay and compensation increased for active duty military personnel. As noted in Table 9, basic pay increased by 21 percent while total cash compensations, including basic pay, housing, tax advantage and other pay and allowances, increased by 25 percent. Non-cash benefits increased by 44 percent and the cumulative compensation of cash and non-cash increased by 33 percent. These compensation increases added to the growing cost of military personnel. Figure 12 tracks the cumulative difference between changes in the RMC and the civilian ECI, and notes how the growing cost of military personnel increased the cost savings of private sector

personnel. Figure 12 highlights how the RMC for military personnel increased faster than the civilian ECI after 2000, suggesting that military personnel were becoming more costly than comparable private sector personnel. Strategic efficiency theory would expect increased outsourcing in commercial-type activities supported by most enlisted and junior officer personnel who had become less of a cost savings.

A measure that captures a more targeted pay comparison is the estimated distribution of federal and private salary differences for selected professional and administrative occupations. The data provides a snapshot of the differences between federal and private sector pay for select professional, administrative, technical and clerical occupations, using data from 2000. Figures 18 and 19 provide comparisons of the percentage differences in salary for federal and private pay among federal employees.

In Figure 18, federal pay is lower, and in many cases substantially lower by more than 21 percent, for professional and administrative occupations. More than 20,000 federal employees had salaries that were from 21 to more than 30 percent lower than private pay. Figure 19 indicates that in the technical and clerical occupations there was more diversity among salaries, but federal pay still appears to be lower than private pay. The salary of more than 12,000 federal employees were up to 10 percent lower than private pay, while the salary of nearly 3,000 were between 11 and 20 percent lower than private pay. While a substantial amount of federal employees were a cost savings for the DoD, small percentages were not. Nearly 4,000 federal employees had salaries up to 10 percent higher than private sector pay and more than 2,000 had salaries up to 29 percent higher.

The data indicates that it is more common for federal workers to earn less than their private sector counterparts, particularly when they are in higher paying, white-collar jobs, as in the professional and administrative occupations (Losey 2007, 1). These are mostly comparable to mid-to-senior level officer and enlisted personnel. As noted by the president of the National Treasury Employees Union, the federal workforce is a white-collar one, and more and more federal jobs are in the professional categories, indicating that pay disparity affects a large majority of federal workers (Rutzick 2006, 1). The strategic efficiency framework would suggest increased outsourcing in junior level occupations such as technical and clerical activities where pay can be higher than private-sector pay and limited outsourcing for higher graded and skilled positions where DoD and federal personnel were still a cost savings.

Results, however, appeared mixed, with some outsourcing activity not aligned with predicted behavior. Predictions were not accurate in areas where DoD personnel were more cost effective in mid-to-senior level officers, civilians and higher skilled technicians. Procurement continued to grow with private sector skilled and experienced professionals despite the DoD cost savings. As noted in Figure 29, between 2000 and 2005, procurement in professional, administrative and management support services increased from $11.8 billion to $28.5 billion, and IT increased from $5 billion to $10.3 billion. In areas where DoD was less cost-effective and higher outsourcing activity was expected (i.e., utilities and housekeeping, technical and clerical positions), strategic efficiency predictions were accurate, as procurement for these services increased by $4 billion.

The findings suggest that outsourcing activity occurred across the board, rather than where it would be most economical and efficient. The percent of O&M dollars spent on procured services increased by 3.8 percent, from 61.9 in 2001 to 65.7 in 2005. The likelihood of complex transactions being managed by the market increased, suggesting transaction hazards were less likely to be successfully mitigated. The expansion of DoD services to be procured increased the possibility of inherently governmental activities being outsourced to the market, and the hazard to probity.[68] A detriment to strategic efficiency is the lack of competition in outsourcing efforts. Only 40 percent of Pentagon contracts supporting the conflicts in Iraq and Afghanistan were conducted under full and open competition while 44 percent of contracts were given under other than full and open competition—usually as sole source contracts (Makinson 2004, 2).

Competitive sourcing activity, as measured by the annual amount of A-76 competitions, average number of positions competed, and announced competitive sourcing initiatives, decreased throughout this period. The average amount of positions annually competed declined to fewer than 14,000 in 2003. A-76 competitions decreased from over 200 in 2000 to 160 in 2003, and announced competitive sourcing initiatives declined from 450 in 1999 to under 50 in 2004.

The trend towards a lower amount of competitions and announcements is inconsistent with strategic efficiency expectations since many enlisted, junior officer and some junior civilian positions were not a cost advantage to the DoD when compared with the cost savings potential for private sector personnel. Considering the decreased cost

[68] I consider inherently governmental transactions to be similar to sovereign transactions. As noted by James Q. Wilson, sovereign transactions are considered ones that are endowed with indefeasible authority. There are certain commands that only the state ought to issue, as it alone embodies the public's authority (Williamson 1999, 321).

savings from DoD personnel as compared to the earlier period, increased competitive sourcing activity would be expected.

POLITICAL IDEOLOGY 2001–2005

G. W. Bush

Political ideology does have some explanatory power in the G.W. Bush administration in regards to outsourcing behavior. The G.W. Bush administration aligned itself with neoliberal principles to reduce the size of government and increase the role of private actors performing DOD services through both competitive sourcing and direct procurement. Competitive sourcing, though a relatively small activity when compared with overall procurement of commercial services, remained an important activity in distinguishing the extent to which ideology was a factor in explaining DoD outsourcing behavior.

Congress enacted legislation mandating a study of the government's competitive sourcing process in October 2000 due to continued deficiencies within the A-76 process (Walker 2003, 1). The Commercial Activities Panel was formed as part of the congressional mandate to recommend a way forward on competitive sourcing (Soloway 2004, 2). President Bush made competitive sourcing a key part of his initial Presidential Management Agenda (PMA).

In contrast to President Clinton, President Bush used top-down leadership to initiate his competitive sourcing objectives through PMA, and used the FAIR Act as a vehicle for selecting functions to compete (Andrews 2007; Peckenpaugh 2001a, 1). For example, the President made competitive sourcing one of his top five initiatives in the 2001 PMA,

targeting a better managed and more entrepreneurial government using private industry to provide public services (Grasso 2005, 14). This was the first time since the inception of Circular A-76 that an administration enforced the requirements of the circular across all federal agencies (Andrews 2007). Earlier administrations did not appear to be actively engaged in implementing A-76 requirements. The Bush PMA made competitive sourcing mandatory across all federal agencies (Bersch 2007).

The PMA provided the objectives of the administration and drove the priorities and actions of all federal agencies (Bersch 2007). The competitive sourcing initiative sought to reduce costs through increased competition as federal agencies assessed what functions and transactions the private sector could perform (Walker 2005a). The President supported a market based strategy for the federal government through increased competition for federal activities (Gansler and Lucyshyn 2004, 14).

The G.W. Bush administration was the first to require all federal agencies to use FAIR Act job inventories as a guide for outsourcing goals, as OMB Deputy Director Sean O'Keefe directed agencies to develop plans for competing positions listed on their FAIR Act inventories (Peckenpaugh 2001a, 1). In addition, the OMB directed agencies to submit lists of jobs classified as inherently governmental, with their FAIR Act inventories to be released and accessible to the public at a later date (Peckenpaugh 2001d, 1). Federal union officials protested the cataloging of inherently governmental jobs as a violation of the spirit of the FAIR Act, arguing that the pro-contractor bias of the Bush administration used regulation to get done what it could not accomplish legislatively (Peckenpaugh 2001d, 1).

The outsourcing of federal jobs was among the toughest issues for federal unions to tackle in the G.W.Bush administration, as the administration expected to eliminate 40,000 middle management jobs in the federal government and open up 450,000 jobs through competition by 2005 (Makinson 2004, 18; Saldarini 2000). The Bush administration pulled back from the agreement that President Clinton signed in Executive Order 12871 to improve union-management relations (Friel 2003, 3). They also opposed unionization for 50,000 screeners at the Transportation Security Administration and revoked bargaining rights for Justice Department employees, leading unions to further distrust the Bush administration on competitive sourcing (Friel 2003, 3). Federal law affecting unions did not change much throughout the period of the study and prevented unions from striking as they could not force management to bargain over the number of jobs or the method or means of work (Friel 2003, 1). To fight outsourcing, unions attempted to publicize their battles with the Bush administration and seek assistance from Congress.

While President Bush embraced conservative, neoliberal ideals of market competition in the government sector through the procurement and the A-76 process, congressional support was not as forthcoming. From 2001 to 2003, the 107th Congress was composed of a Republican-controlled House while Democrats controlled the Senate with a narrow 50-49 majority. From 2003–2005, Republicans controlled the 108th Congress with a narrow 51-48 majority in the Senate. The Republican Congress was not able to align its legislation to support the Bush agenda for increased competitive sourcing within the DoD, due in part to the slight majority, the possible effect on constituents

fearful of losing their jobs, and questions regarding the fairness and equity of the A-76 process.

Concerns regarding the loss of federal jobs, the fairness of the A-76 process toward government employees, and doubts as to whether A-76 saved the government money promulgated an anti-competition/outsourcing environment in Congress. Legislation and administrative actions to improve the federal competitive sourcing environment were either blocked, delayed or challenged with anti-competitive sourcing legislation throughout the post-2000 period (Andrews 2007). These actions had an impact on reducing competitive sourcing behavior within the DoD.

After 2000, the number of DoD A-76 competitions remained relatively high but began to decline (Figure 7), as the total number of positions competed for each year began to decline after 2002 (Figure 6). The announced DoD competitive sourcing initiatives declined substantially between 2000 and 2005 (Figure 8). The decline appeared to be in part a case of congressional resistance to Bush's competitive sourcing initiatives in general, and specifically to OMB's 2003 revision to Circular A-76 that resulted from the findings of the Commercial Activities Panel.[69]

In 2002, the OMB directed agencies to outsource or hold public-private job competitions for 15 percent of federal jobs deemed commercial by the end of FY 2003, and eventually open to competition 50 percent of their commercial jobs, a percent set by President Bush (Peckenpaugh 2002, 1). A bipartisan group of Senators assailed the Bush administration plan to let private firms bid on thousands of federal jobs, as they feared the

[69] Section 832 of the Floyd D. Spence National Defense Authorization Act of 2001 required the Comptroller General of the United States to convene a panel of experts to study the policies and procedures governing the transfer of commercial activities from government personnel to a federal contractor (Commercial Activities Panel Final Report 2002).

initiative could weaken the civil service (Peckenpaugh 2002, 1). Donald Kettl, Director of the Fels Institute of Government at the University of Pennsylvania, noted that the requirement for federal workers to face regular competition challenged the idea of a career federal service:

> "The bedrock of the civil service has long been neutral competence and strong expertise, grounded in a career service," said Kettl. "Staging regular competitions…would undermine the commitment to a career service, especially if the scope of services and the standards for competition shift over time and, in the process, put more federal workers at risk" (Peckenpaugh 2003b).

In 2003, after pressure from the House and Senate against arbitrary numerical targets in competitive sourcing, the OMB eliminated government-wide numerical goals in favor of individual targets for the levels of competitive sourcing feasible at each agency (Gruber 2003, 1).

In an effort by the Bush administration to streamline the job competition process and make it easier for agencies to open 450,000 federal jobs to private sector competition, it completed a full revision of Circular A-76 in May 2003. The new process attempted to make competition easier on employees by setting tight deadlines for job competitions and requiring competition winners, whether contractor or federal employees to meet performance standards (Peckenpaugh 2003b, 1). The systematic nature of OMB's reforms attempted to make recurring A-76 competitions a way of life for federal workers (Peckenpaugh 2003b, 1).

Yet lawmakers continued to try and slow down the administration's competitive sourcing initiative. In June 2003, legislation was created to prevent new job competitions in the Interior Department (Peckenpaugh 2003c, 1). Opponents of

competitive sourcing initiative argued that employees would be kept away from their normal jobs while the costs for supporting job competitions would be excessive. At the 2003 confirmation hearing for prospective OMB Director Joshua Bolten, Senator George Voinovich, R-Ohio, argued that competitive sourcing was causing unease inside the federal workforce. Senator's Lautenberg, D-NJ, and Akaka, D-Hawaii, both criticized the administration's competitive sourcing initiative, arguing it could force agencies to put inherently governmental work – that by law must be performed by federal employees – up for competition with private firms (Peckenpaugh 2003d, 1,2). Opponents of competitive sourcing continued their attack on Circular A-76, as the House passed legislation in September 2003 to withhold funds that could be used to implement the revised A-76 policy. Twenty-six Republicans broke ranks with the Bush administration to support the measure due to skepticism around the true savings produced by contractors, interest in protecting constituents and support for federal employee unions (Biesecker 2003, 1; Peckenpaugh 2003a, 3).

New legislation and legislative changes, as exemplified above, continued to affect the DoD competitive sourcing program. For example, Section 335 of Public Law 108-136, (National Defense Authorization Act for Fiscal Year 2004), November 24, 2003, required DoD to delay implementation of the revised circular until 45 days after DoD submitted a report to Congress on the effects of the revision (Kleinknecht et al 2005, 8). Due in part to congressional resistance towards the G.W. Bush competitive sourcing initiatives and delays in getting the updated Circular A-76 approved, competitive sourcing across DoD activities dropped significantly between 2002 and 2005. Based on bipartisan resistance to increased competitiveness in the DoD through A-76 competitive

sourcing initiatives, it did not appear that political ideology was a significant factor in explaining outsourcing activities.

Ideology does appear useful in explaining DoD outsourcing of new and continuing activities through procurement actions (outside the scope of the A-76 process) by examining the actions of President Bush and his administration during the U.S. campaign in Iraq.

Department of Defense

The Pentagon had several proponents of neoconservative, free-market polices, such as Donald Rumsfeld, Dick Cheney, Paul Wolfowitz, Douglas Feith, Zalmay Khalilzad and Stephen Cambone, with many former corporate executives from large weapons manufacturers, such as Under Secretary of Defense Pete Aldridge (Aerospace Corporation), Army Secretary Thomas White (Enron), Navy Secretary Gordon England (General Dynamics), and Air Force Secretary James Roche (Northrop Grumman) (Scahill 2007, xvii).

Secretary Rumsfeld's DoD leadership advocated a revolution in military affairs predicated on increased competition between government and private sector entities for the improved performance of federal functions. For Rumsfeld, the idea of applying market logic to the U.S. military was a project that dated back four decades (Klein 2007, 289). It began in the 1960s when he attended seminars at the University of Chicago and developed a friendship with Milton Friedman who later lobbied President Reagan to make Rumsfeld his running mate because of his commitment to deregulated markets and economic ideals similar to his own (Klein 2007, 289).

Rumsfeld's actions, supported by the administration, produced significant increases in outsourcing dollars while limiting the growth of DoD manpower in the midst of the Global War on Terrorism (GWOT). Between 2000 and 2005, DoD outsourcing expenditures for support services grew by 73.2 percent, while the percent of O&M spent on support services grew by nearly four percent to 65.7 percent (Figure 1). During the same period, military and DoD civilian manning and salary costs remained relatively steady at $1.38 million, with a slight rise in salary costs in 2004 and 2005.

Rumsfeld emphasized in one of his first major addresses the wholesale shift in running the Pentagon and supplanting the DoD bureaucracy with a new model based on the private sector (Scahill 2007, xiv). He announced a major initiative to streamline the use of the private sector in waging of America's wars (Scahill 2007, xiv). The impact of his policy was felt on the military force structure supporting the Afghanistan and Iraq campaigns, where the integration of contractors into the fight was historic.

In war zone areas, the U.S. outsourced many war and reconstruction duties that by 2004–2005 there were almost as many contractors (120,000) as U.S. troops (135,000) (Roberts 2007, 1). Contractors had never represented such a large portion of the U.S. presence in a war zone nor accounted for so many security and military-like jobs (Roberts 2007, 2). The size of the contractor force was 10 times the estimated number of contractors that deployed during the 1991 Persian Gulf War (Merle 2006, D01). Unlike previous conventional wars where battle lines were defined, the fighting in Iraq and Afghanistan did not have clear zones of conflict (Miller 2006, 76). Contractors were integrated throughout the region and within conflict zones and faced a similar battle environment as military members.

Many of the contractor functions were critical to the deployed mission and were embodied in the Army Logistics Civil Augmentation Program (LOGCAP) contract. The American military has been dependent upon Halliburton, Kellogg, Brown and Root (KBR), and other contractors to provide services critical to bedding-down the force and providing an environment for the military force to effectively operate and exist in the war zone. It built dozens of military bases across Iraq, small cities housing thousands of people, complete with many amenities found in small towns across the United States (Miller 2006, 72). A good example is Camp Arifjan, a U.S. Army base about 90 minutes southwest of Kuwait City. In early 2002 there was only a small collection of buildings intended as a training base (Baum 2003, 4). On October 11, the day Congress gave President Bush authority to wage war on Iraq, the Pentagon told KBR it had nine weeks to turn Arifjan into a full-blown Army base serving 7,000 people (Baum 2003, 4).

Contractors were also central to providing ground movement for supplies and equipment throughout the country. Other functions/activities such as security, interrogation, prison security, infrastructure repair, intelligence analysis, military convoys security and equipment repair that was once reserved for DoD personnel became the domain of contractors (Merle 2006, D01; Roberts 2007, 1)

The effect of President Bush's neoliberal ideology on the integration of contractors into the U.S. war fighting effort, such that they were integral to it, was significant during the 2001–2005 period. Also, a key part of the Bush administration's plan for Iraq was fashioning the country into a secular, pluralistic, market-driven nation (Chandrasekaran 2003, A01). It evoked neoliberal beliefs in which outsourcing and the business community were major players.

The hiring of senior advisors in the Coalition Provisional Authority (CPA) was settled at the highest levels of the White House and Pentagon, with well-connected Republicans calling on behalf of a friend or trusted colleague (Chandrasekaran 2006, 91). The hiring of the CPA staff was assembled with a White House liaison at the Pentagon who took charge of personnel recruitment, and dispatched queries for resumes to the offices of Republican congressmen, conservative think tanks, and GOP activists (Chandrasekaran 2006, 91). Allegiance to President Bush's vision highlighting the prominent role of market actors in shaping post-war Iraq appeared to be a mandatory requirement for employment.

Senior advisors to the president including Wolfowitz, Feith, Rumsfeld and Cheney regarded economic change in Iraq as an integral part of the American mission to remake the country as a free economy and free society went together (Chandrasekaran 2006, 115). An ambitious plan for economic transformation entitled "Moving the Iraqi Economy from Recovery to Sustainable Growth" called for a market-orientated private sector economic recovery to be achieved by selling off state-owned enterprises through a broad-based mass privatization program run by contractors (Chandrasekaran 2006, 115–116). Consultation with Iraqi leaders or an interim Iraqi government was notably absent from the plan.

Paul Bremer, selected to run Iraq's CPA in May 2003, envisioned a free-market Iraq that was centered on the belief that markets allocate resources more efficiently than politicians. In June 2004 at a special meeting of the World Economic Forum in Jordan, he outlined the administration's vision for a free-market Iraq that aimed at shifting resources from state industries to the private sector and relocating people and resources

from inefficient state enterprises to supposedly more productive private firms (Weisman 2003, 1). In Iraq, no governmental functions were considered core (Klein 2007, 348). All state activities were considered opportunities for the private sector. For example, Bearing Point, an offshoot of the accounting and consulting firm KPMG, was paid $240 million to create a Western-style market economy with privatization as an integral element (Klein 2007, 348).

In April 2003, Peter McPherson, president of Michigan State University, was selected as the CPA economic policy director whose job was to bring capitalism to Iraq (Chandrasekaran 2006, 114–115). A self-described conservative with a strong faith in the power of the free market who had never before worked in the Middle East or in a post-conflict environment, McPherson believed the best way to promote economic development was through a vibrant private sector (Chandrasekaran 2006, 115). His vision for economic reform embraced Washington's plan as he favored recruitment of multinational firms to help develop a robust private sector by reducing government employment and the role of government industry through privatization, eliminating subsidies, lower taxes, promoting foreign investment and enacting pro-business laws (Chandrasekaran 2006, 116–117).

However, McPherson ran into a legal roadblock. Article 43 of the second section of the Hague Convention of 1899, the first set of international treaties that attempted to create laws of warfare, required an occupying power to respect all laws of the occupied country, except when necessary to promote public order and safety (Chandrasekaran 2006, 117). A more practical challenge was that the CPA economic team was composed

of three Americans who didn't have the power to privatize or implement change, since they did not control any assets (Chandrasekaran 2006, 118–119).

Despite the roadblocks to economic development, senior U.S. leadership continued to press for privatization. In August 2003, the administration hired Thomas Foley an investment banker and major Republican Party donor, who was also President H.W. Bush's classmate at Harvard Business School, to lead the CPA's Office of Private Sector Development. His objective was to privatize all of Iraq's state-owned enterprises within thirty days (Chandrasekaran 2006, 126,225). Foley was unsuccessful in this bid. He faced resistance from the CPA's legal department, Iraq's Ministry of Industry and Governing Council, potential Wall Street investors and the forthcoming announcement of Iraqi sovereignty in June 2004 (Chandrasekaran 2006, 225). By December 2003, a senior U.S. official noted that ideology had become subordinate to the schedule for Iraq sovereignty and the administration had backed away from several of its initiatives to transform Iraq's economy (Chandrasekaran 2003, A01).

Assessing Political Ideology's Impact on Outsourcing Activity

In assessing the affect of ideology on outsourcing and competitive sourcing behavior within the DoD during the G.W. Bush administration, it appears that ideology was significant in explaining some outsourcing activity. The Bush administration made great strides to improve outsourcing by increasing opportunities for competitive sourcing and by making the process more transparent and available to the private sector. Putting the competitive sourcing program on the President's management agenda, engaging in a re-write of Circular A-76, and utilizing the FAIR Act inventories to target competitive

opportunities for the private sector were all elements of the President's commitment to incorporate neoliberal economic principles into the management and development of the DoD.

However, strong congressional pushback limited the growth and effectiveness of the competitive sourcing program. Competitive sourcing results in the services were not indicative of the strong commitment of the G.W. Bush administration, as indicated in its presidential management agenda and other actions to increase activity.

Political ideology does appear useful in explaining outsourcing through the procurement of services as exemplified in the Iraq and Afghanistan conflicts. The DoD force size had very little growth despite the fact that the United States was engaged in direct conflicts in Afghanistan and Iraq, with a large expeditionary support infrastructure ranging from Europe through the Middle East and Central Asia. It may be the first time that the country has kept the force size relatively steady, without a significant increase, during a period when the country was involved in two significant military conflicts utilizing a majority of its force.

Instead of growing the force structure, the DoD, in conjunction with Secretary Rumsfeld and the G.W. Bush administration, established contractors as the first option to fill new requirements, increase capability, provide redundancy and replace military in non-fighting positions. Private security firms flooded into Iraq to perform functions that had previously been done by DoD personnel, such as logistics, security for top officials and guarding bases (Klein 2007, 378). Contractors became integrated into the force structure and part of the overall DoD team. Increased contractor involvement in DoD missions was highlighted in the large procurement growth of DoD services, from $70.9

billion to $130 billion between 2001 and 2005. The percent of O&M dollars spent on procured services increased by 3.7 percent during this period.

ORGANIZATION FACTORS 2001–2005

During this period, the DoD budget increased as a result of U.S. military engagements in Afghanistan and Iraq. Threats to core missions were minimal as organization independence and autonomy were limited due to the global joint war fighting effort that put increased demand and expectations on military organizations. The military engagements required an increased capability, especially on the support side of the mission.

The growth of outsourcing in technology and support activities was critical to the success of organization missions while the integration of technology throughout DoD's infrastructure and weapon systems remained a key component to modernization efforts. Contractors were given significant responsibilities for providing support activities at local and deployed locations, including conflict areas, as operations in Afghanistan and Iraq put increased demand on service organizations. Organizations outsourced many support activities at fixed and deployed locations to support mission requirements due in part to limited manning and increased dependency on technologically sophisticated weapons and support systems.

As the budget increased, DoD military and civilian manning remained relatively unchanged despite the country's involvement in two significant military conflicts. Besides the country's Reserve and Guard force capability, contractors became the DoD's supplemental force due to the added mission requirements and increased technological

integration in an environment without growth of the primary defense force. The DoD had insufficient in-house expertise to support modified and new systems. It suffered a 40 percent reduction in manpower in the post-Cold War period despite an increased demand on its capabilities, highlighted by numerous contingency deployments and missions.

Organizations eager to maintain core missions that were either refitted or expanded through the integration of technology required private sector expertise, in many cases, to operate and teach the systems. Procurement of manpower resources and expertise from the private sector were necessary to assist in providing the full complement of support and operational functions necessary for executing the peacetime and deployed mission.

The percent of O&M dollars spent on procured services grew during the 2001–2005 period by about 3.7 percent, with an annual average of 63.3 percent. Outsourcing behavior increased across several activities, with specific emphasis in the growth of technology and professional and management support services. This is aligned with expectations from the organization framework as units had less manpower to perform both peacetime and wartime requirements.

While outsourcing through procurement of services increased, competitive sourcing activities began to decline during this period. Figures 6 and 7 highlight the decrease in DoD A-76 competitions after 2001. Data from Figure 8 supports this drop-off, as announced competitions decreased substantially. The decline in competitive sourcing activity was in stark contrast to the growth in procurement of services as a result of the war fighting effort.

Despite the limits placed on organization independence and autonomy from supporting military war fighting efforts, and external demands from the G.W. Bush

administration to increase competitive sourcing, organization factors appeared to support the decline in activity. Competitive sourcing remained relatively decentralized within the services, as they were local activities as opposed to many procurement services that supported war fighting efforts or new missions. Organizations retained a degree of autonomy in the extent to which these activities were competitively sourced, and they became better at competing these activities against private sector competition. The increased budget did not pressure organizational leaders to reduce personnel, nor was there a viable concern for core missions as they were integral to the war fighting effort.

With the reduced size of many organizations and high operations tempo across the DoD during this period, competitive sourcing activities conflicted with organizational priorities. Competitive sourcing activities were both time and manpower intensive, as noted earlier in the study. As manpower resources declined and missions increased, competing for in-house positions took on a much smaller priority, as competitions won by the private sector shrunk the size of the organization under the commanders direct control. Commanders were already working with fewer in-house resources to accomplish their missions. It appeared unlikely that organizational leadership would want to risk losing more in-house personnel through competition during a period of war. Commanders and military leaders did not share the same sense of urgency and importance about competitive sourcing as the administration, since the conflicts in Iraq and Afghanistan were all-consuming to the services.

The increased level of outsourcing, particularly procurement of support and operational services, led to concerns over transparency, accountability and contract surveillance/monitoring. The likelihood of complex transactions being managed by the

market increased, resulting in a less successful effort to mitigate transaction hazards. These concerns were highlighted by public reports of contract abuses during the U.S. war fighting effort. Mismanagement and ineffective oversight and monitoring of private sector contracts led to torture and prisoner abuse at the Abu Graib prison and the uncontrollable use of lethal force in Iraq and Afghanistan by contractors. These concerns and abuses presented problems for the DoD outsourcing effort. It undermined the U.S. government's ability to control and direct defense activities as the DoD's power was diffused into the private sector. It begins to reveal potential conflicts with core values and interests shared by the American public, and with the conduct of national defense.

CHAPTER NINE

CASE STUDY — INFORMATION TECHNOLOGY (IT) NETWORKS AND DoD OUTSOURCING BEHAVIOR

This chapter will initially provide a background overview of the development of IT and networks in the DoD from 1995 through 2005. It includes how each service envisioned IT and networks, their decentralized growth, and actions by Congress and the Executive to address their rise and management, to include outsourcing options. It will then look at early network development across each service, briefly addressing inherently governmental functions and the distinction between core and non-core activities, how they are determined, and their relationship with outsourcing. It highlights how networks developed as unique and independent systems across the services without a common architecture. The chapter will then examine the Navy's in-house efforts towards network management, the Navy Marine Corps Intranet (NMCI) outsourcing project, and the Air Force and Army Network management approach. My primary focus will be on the NMCI project.

Unlike studies examining IT outsourcing in the private sector, relatively little exists in understanding and explaining the nature of IT network outsourcing within the DoD. Billions of dollars are spent annually on IT outsourcing in the DoD, with minimal formal or academic study to discuss the phenomenon. Since the early 1990s, the DoD has come to rely on a complex array of computer-dependent and information technology resources to protect the security of the United States. The importance of IT in the DoD cannot be overstated. Service networks have evolved into a critical war fighting capability,

providing the physical infrastructure that interconnects DoD agencies across the globe through an intranet.[70] Understanding why each service may or may not seek to outsource network capability is useful in helping us to predict the relevant factors that lead military organizations to depend upon the private sector to perform significant military functions, such as IT, for national defense.

BACKGROUND REVIEW OF NETWORK DEVELOPMENT

DoD Network Review

The rise of computer networking began in the mid-1990s as both a new medium for communications across the DoD, and as a new dimension of warfare. The concept of network-centric warfare took shape in the JCS. Joint Vision 2010 paper released in July 1996 by then-Chairman of the JCS, General John M. Shalikashvili (Brewin 1997, 1). The document put networks, with their ability to disseminate information quickly, at the center of military strategy during the next decade (Brewin 1997, 1). General Henry Shelton, Chairman of the JCS from 1997–2001, focused on the need to transform America's armed forces so that they would be dominant across the full spectrum of military operations in his Joint Vision 2020 (JV2020) (Shelton 2000, 1). An underlying premise was that the IT network would develop into both a weapon system and a source of interoperability and integration across the services to support daily missions in every environment. However, this was not the case when networks were first developed, as

[70] An intranet is a private network within an organization using Internet protocols. Corporate intranets facilitate communication and access to information for employees. They provide a single, secure, reliable access to a company's private information, and improve a company's ability to manage its information. Intranets can result in higher productivity because of better access to quality information Spoolstra, Jean C. 1999. Designing A Corporate Intranet: Georgia Southern University. Both the private sector and DoD rely on IT services such as intranets daily.

they sprung from local organizations, without a central plan to facilitate organizational activities.

Rooted in this JCS vision was the concept of information superiority. Information superiority is defined by U.S. Joint Publication 3-13 as "the capability to collect, process, and disseminate an uninterrupted flow of information while exploiting or denying an adversary's ability to do the same" (Thomas 2000, 13–14). JV2020 suggested that continued development and proliferation of information technologies would substantially change the conduct of military operations, making the information environment a key enabler of the operational abilities of the U.S. military (Shelton 2000, 3). Retired Air Force Chief of Staff General Ronald R. Fogelman characterized the increased importance of information technology and its influence on military forces as a fifth dimension of warfare, alongside land, air, sea and space (Fogelman 1995).

The growth of IT service contracts in the federal government increased from $3.7 billion in fiscal year 1990 to $13.4 billion in fiscal year 2000 (GAO 2002a, 6). The DoD was the largest purchaser of IT services such as desktop support, network operations and software development services throughout the 1990s, obligating more than $6.2 billion on IT services in 2001 (GAO 2003b, 1). While information superiority was an important DoD goal, there were fundamental challenges, including the lack of a physical IT infrastructure interconnecting DoD organizations.

The IT infrastructure within the DoD was not able to support the full implementation of the systems envisioned in JV2020. The services did not have a strategy or coherent plan for developing their IT network infrastructures during the mid-to-late 1990s (Gilligan 2008; Porter 2008). As noted by Dan Porter, the Navy's Chief

Information Officer (CIO) from 1998–2002, IT networks and capabilities developed like weeds across the Navy (Porter 2008). Much the same could be said for the other services as local networks and IT capabilities sprang from local organizations at the lowest levels. Knowledge developed in one system or network was relatively compartmentalized. Whether knowledge was developed in a Navy, Air Force or Army network, it was not necessarily available or compatible with other DoD systems.

The DoD IT network infrastructure consisted of thousands of independent stovepipe (legacy) systems and disparate information networks that were difficult to integrate because they were created at local organizations independent of a central architecture or service guidance.[71] Service parochialism, lack of standardization and the independent evolution of systems were common across service organizations as networks evolved within the DoD. As a result, each service had a rapid growth of local organization IT networks with various degrees of compatibility and configuration standards contributing to the difficulty of DoD organizations to share information. Creating standardization and compatibility across DoD networks was necessary to fulfill the JV2020 vision. It ultimately required network infrastructures to provide seamless communications throughout the DoD in both peacetime and wartime environments. This capability was a first step towards the goal of information superiority.

[71] A legacy system is a term used to highlight a specific-type computer application. Military organizations have used a variety of these unique computer applications that in many cases do not interface with other applications.

CONGRESS AND THE EXECUTIVE

Congress and the Executive established significant IT legislation during the 1990s to help direct federal agencies in conducting procurement of IT resources and services similar to the practices of leading commercial organizations. Concerned that government agencies were not responding to the growth of IT in an appropriate manner, Congress approved the Clinger-Cohen Act (CCA) of 1996. It shaped the DoD's approach to IT acquisition and management, and forced federal agencies to minimize the risk associated with major IT acquisition. It required each agency to establish a chief information officer position having the authority, responsibility and accountability for the agency's information resources and management activities. The CCA required agencies to acquire IT systems in stages while carefully gauging their cost, timeliness and support for the agencies primary mission, and to determine, prior to making an investment in a new information system, whether the function should be performed by the private sector (Ormerod 2001, 14; Verton 1999c, 1).[72]

Despite the procurement reforms requiring agencies to weigh the benefits and costs of IT projects, the DoD did not effectively manage their IT budgets. Systems were not properly budgeted, explained John Hamre, DoD comptroller in 1997 (Brewin 1998b). Many systems, along with contracted support elements, were purchased without a supporting budget to maintain them over the long term, as little oversight existed. Many of these IT contracts were under the financial threshold requiring senior agency and congressional review. The House National Security Committee questioned the Pentagon's overall management of DoD IT and command, control, communications and

[72] The 1996 Clinger-Cohen Act is a combination of the Information Technology Management Reform Act (ITMRA) and the Federal Acquisition Reform Act.

computer (C4) programs in its 1999 report on the Defense Authorization Bill (Brewin 1998b, 2). The committees remained unconvinced that the department made the necessary improvements to manage its $26 billion C4 program, considering the increasing role of IT in the battlefield (Brewin 1998b, 2). The DoD Inspector General rated IT oversight as one of DoD's top 10 management problems (Verton 1999b, 2).

Pressure to Outsource

Coinciding with DoD's budget and IT oversight problems, each service faced increasing pressure from the DoD, Congress and the Executive to use the private sector (outsourcing) for functions considered commercial and not core to the war fighting effort. Beginning in 1995, competitive sourcing took on increased activity within each of the services as Congress transitioned to a Republican majority and legislation limiting competitive sourcing activity (Nichols Act – discussed in Chapter's 5 and 6) was not renewed. The 1997 Defense QDR called for reductions in infrastructure, support functions and personnel through outsourcing and privatization and suggested the DoD largely remove itself from the IT line of work based on precedents in private industry and other parts of government. In 1998, Congress passed the FAIR Act, seeking to have each agency identify their activities as either commercial or inherently governmental. Congress also enacted statue10 U.S. Code, Section 2462, requiring the Defense Department to contract out nongovernmental/commercial functions that could be done more economically by the private sector (Petrillo 1999, 1).

In 2001, the Bush Administration put outsourcing on its management agenda, looking for increased efforts by agencies to outsource through expanded competition

under A-76. President Bush's 2002 budget proposal also directed agencies to open for competition at least half of the positions listed in their FAIR inventories over the next 10 years, while the OMB ordered agencies to compete or outsource at least five percent of their FAIR Act jobs in FY 2002 (Walker 2001, 1). Also, in the 2002 Defense Appropriations Bill, Congress instructed the Secretary of the Air Force to conduct a study comparing different solutions to managing an IT network and provide lawmakers with recommendations, including any lessons learned from NMCI (HOR 2001a, 159).

The pressure to outsource activities within the federal government by the QDR, and the Clinton and G.W. Bush administrations forced the services to differentiate between activities open to competition and those considered inherently governmental, or core to the mission. Comptroller General David Walker noted that one of the most difficult aspects of outsourcing decisions was how to determine what functions remain in-house in order to provide effective government and, in the case of the DoD, effective defense and security (Peckenpaugh 2001b).

Inherently Governmental/Core Activities

An inherently governmental activity is a function that is so intimately related to the public interest as to require performance by federal government employees. Its definition has been broad enough to be interpreted differently throughout DoD organizations. It facilitates the efforts of local organization leaders to choose their desired activities for outsourcing consideration. Guidance on defining inherently governmental activities was included in the Federal Acquisition Regulation, Office of Federal Procurement Policy Letter 92-1 and the 1998 FAIR Act. The Comptroller General cited national defense and

law enforcement as examples of inherently governmental activities where soldiers perform a core function–fighting wars–that is necessary to national defense activities (Peckenpaugh 2001b). Functions *directly engaged* in performing an inherently governmental activity were considered core, while functions *supporting* inherently governmental functions were non-core and eligible for outsourcing (Peckenpaugh 2001b).

Core vs. Non-Core Activities

DoD's definition of core was based on business concepts adapted to the military domain. The definition emerged from DoD's Senior Executive Council which adapted the definition from C.K Prahalad and Gary Hamel's article, "The Core Competence of the Corporation," in the May–June 1990 issue of the *Harvard Business Review* (GAO 2003a, 11). The Senior Executive Council defined core as "a complex harmonization of individual technologies and production (employment, delivery) skills that create unique military capabilities valued by the force employing general (commander in chief)" (GAO 2003a, 10). The Senior Executive Council stressed the importance of senior leadership judgment in identifying core competencies (GAO 2003a, 11).

Despite the definitions provided by the federal government and DoD, inherently governmental and core functions were interpreted differently across each service. Within each service they were broadly defined and subjective, allowing for a significant amount of interpretation and flexibility when applying these definitions to the positions and functions that embodied service activities (Weigelt 2008). This was the norm in the DoD and arguable across the federal government for several decades. Dan Porter, former

CIO of the Navy, provided an example of federal agencies being subjective in identifying core activities across the DoD. He noted how early in his career, the provision of badge services (responsible for providing badges/passes for entry into facilities) within the Navy was considered an inherently governmental activity. Yet, during the same period at the Defense Advanced Research Projects Agency (DARPA), these activities were outsourced (Porter 2008).

Since the development of the FAIR Act and congressional interest in delineating inherently governmental from commercial activities in the federal government, each service was responsible for identifying their core functions. Through 2003, progress had been varied and limited across each service (GAO 2003a, 2). By 2003, the Army and Air Force had made the most progress in identifying core and non-core functions, while the Navy and Marine Corps were at the early stages of determining core functions (GAO 2003a, 3).

There was no oversight authority to compare similar activities across the DoD and challenge the core nature of activities categorized in each service. Thus, the possibility of two similar functions being characterized as both core and non-core by different services existed, based on service independence in defining the nature of the function in relation to its mission. Computer network management and operations was one of those functions treated as a core capability by the Air Force and Army and as a non-core capability by the Navy and Marines.

In the Air Force and Army, the network was considered an integral part (core function) of the service mission. Air Force and Army personnel deployed to forward bases in support of wartime activities while a growing amount of wartime operational

support was being provided from CONUS locations as well. During Operation Enduring Freedom and Iraqi Freedom, the primary Air Force network supporting deployed organizations in the Mid-East was operating from a state-side location (Gilligan 2008). Installation networks provided an integral communications medium to support Air Force and Army wartime activities. Whereas in the Navy, the land-based network was considered a garrison, support resource (non-core). Its core functions were associated with its expeditionary, forward-deployed activities embodied in its fleet (Barnett 2007, 28-30).

Defining IT networks as a utility or weapon system was directly linked to whether the activity was considered a core or non-core activity. Utility systems (non-core) refer to a distribution system and infrastructure, such as an IT network, that connects an installation with the commodity supplier (Renshaw 2002, 2). The purpose of categorizing a commodity as a utility and outsourcing the entity was to allow defense components to focus on core defense missions and functions by relieving them of management activities that could be done more efficiently and effectively by others (Renshaw 2002, 2). The Navy, independent of the DoD and Congress, decided that their shore-based IT would be considered a commodity based on its support mission. It exemplified how some leading organizations in the private sector treated IT, while being a benchmark for the military services and the ease of establishing utility contracts in the DoD without congressional oversight.

In comparison, IT networks defined as weapon systems were considered core activities and integral to the mission. Outsourcing was limited and in-house resources maintained ownership while controlling the operations and management of the network.

As noted above, the distinction was controlled at each service, where core and non-core activities were broadly defined and usually determined subjectively. The cost to outsource an IT network for a military service over a period of several years was estimated to be in the billions of dollars, and would require congressional oversight and approval.

EARLY NETWORK DEVELOPMENT IN THE SERVICES

As noted above, with the growth of IT during the 1990s, each of the services found themselves operating within a fragmented IT environment, where IT infrastructure within each service resembled a patchwork architecture based on local area networks created at the lowest levels of the organization. It was not uncommon for IT to develop in this manner, as service organizations had traditionally operated within a relatively decentralized command structure. The DoD did not centrally manage the development of IT-based capabilities within the department, allowing each of the services to determine how to implement IT into their daily processes and missions. Based on service parochialism, each took a separate approach in developing their IT infrastructures.

Initially, upon the inception of IT capabilities in the DoD and the emerging IT revolution, the decentralized nature of how IT was being managed and procured at the local organization level did not contribute to the full integration and sharing of information within each service or across a joint DoD effort (Wait 2002b, 3). It proved problematic in accomplishing the long-range goal of a homogeneous network and fulfillment of the JCS vision. A homogeneous network across the DoD required a

standardized network infrastructure to integrate organizations and support operations within and across each of the services.

Navy

The Navy's decentralized approach to IT infrastructure was based on local organizations seeking IT to support their daily missions. Local organizations developed their own capabilities and ultimately created an infrastructure of diverse networks and computer software programs across the Navy. In the late 1990s, the Navy had 28 separate commands that budgeted and managed their own IT systems, where each command had an IT support staff (Jordan 2007, 2). The Navy's IT network infrastructure was based on decisions at local bases and commands as compared to a DoD or Navy-led enterprise design. The Navy's enterprise network was constructed through a patchwork of legacy systems created to meet unique functional requirements with a relatively narrow scope, without integration or interoperability interests (Onley and Wait 2005b, 3). The Department of the Navy (DoN) had little to no central control, accountability or visibility within the departments multiple networks (Porter 2008).

The Navy accumulated legacy applications at a staggering rate. Each organization wanted their own computer infrastructure and applications based upon the subjective interests of unit leadership. This led to an IT environment marked by an uneven distribution of IT resources across organizations. Some commands would see the benefits of IT and had sophisticated networks while others were starved for technology (Porter 2008). For example, the Navy's Sea Systems Command and Air Systems

Command saw the importance of IT for their engineering requirements and created sophisticated networks and capabilities, while fleet commands spent less on IT. IT decision making at the lowest levels led to a disparity in capability, with no minimum standard requirement across Navy organizations (Porter 2008). Organizations developed and maintained their IT networks subjectively, with computer knowledgeable employees handpicked by leadership. There was an unequal and insufficient amount of technical manpower dedicated to daily IT support and development across Navy organizations. An IT manpower plan to support the growth of a homogenous and standardized network did not exist. IT manpower expertise was limited. The Navy used seamen from a variety of disciplines who were between sea tours to support their shore-based IT missions (Porter 2008; Wait 2002b, 3).

By the late 1990s, the Navy's shore establishment had almost 1,000 diverse networks operated and maintained by separate organizations. The legacy systems were not designed, in most cases, to integrate with other legacy systems. This created e-mail distribution problems, inadequate collaboration capabilities across naval and marine organizations, and reach-back limitations for forward-deployed forces, affecting for example, responsive logistical support (Jordan 2007, 2).

The Navy also lacked an objective mechanism to ensure compliance with computer security or other network requirements because each command was both the provider and the oversight authority for its own IT network (Onley and Wait 2005b, 3). The IT environment that was defined by unique legacy systems developed across Navy organizations, without a centralized plan or common architecture, and led to increased opportunities for security breaches and malicious intruders seeking to exploit Navy

networks and their users. In 2001, the Navy experienced as many as 16,000 attempts to access their networks, of which 400 gained entry and 40 traveled the networks (Munns 2003).

In summary, during the mid-to-late 1990s, the Navy did not have much control over the development of its shore-base network. The service had an uneven growth of networks developed without a standard set of service guidelines at local organizations. Security parameters were designed locally, resulting in an increase level of network breaches and intrusions. Navy leadership lacked visibility into the amount being spent at each organization for their network management and security. The ability to transition their in-house infrastructure to a secure, homogeneous network, accessible across all Navy organizations and using in-house resources appeared extremely remote, if not impossible (Porter 2008).

Air Force

The Air Force and Army faced similar issues as the Navy, in the 1990s, with the loss of overall control of their network infrastructure development due to the growth of heterogeneous networks, across each service and managed at local installations. The results produced a wide variety of legacy systems and software procurements, creating disparate networks with large integration and interoperability challenges. In 1998, senior Air Force IT officials detailed the service's shortcomings in developing networks needed for the Air Force's mission in the future.

Lt. General William Donahue, the Air Force director of communications, noted that the Air Force was doing more damage to itself than hackers through a lack of standards

and professionalism in its network development (Brewin and Verton 1998, 1). John Gilligan, the Air Force Chief Information Officer from 2001 to 2005, noted the Air Force's problem with the large number of independent technical communities developing their own unique IT systems and networks within the service. Many bases had multiple wide-area and local-area networks supporting connectivity requirements for specific, independent organizations (Gilligan, 2008). Application and infrastructure programs were not well-integrated nor was there a mechanism to integrate these programs (Brewin and Verton 1998, 2).

Army

The Army moved at a slow pace in accepting the network-centric approach to warfare (Slabodkin 1998, 1). Through 2001, the Army IT function was decentralized, with each of its major commands having ownership and authority to develop an IT infrastructure that met their own local organizational requirements. IT was funded separately through each command, similar to the Air Force and Navy organization structures, while outsourcing actions were based on local organization interests. Though Army leadership espoused the importance of IT for its future mission effectiveness, the Army had not yet embraced the role network technology would play in their traditional war fighting missions.

The Army was not spared from similar problems faced by the Navy and Air Force, such as locally configured networks and hundreds of legacy applications without a standard architecture. Kevin Carroll, the program executive officer of the Army's Enterprise Information Systems noted that controlling applications and creating an

enterprise software solution was an Army priority, as it had 925 logistics systems and 330 personnel systems across the service (Wakeman 2002, 1).

OUTSOURCING THE NAVY-MARINE CORPS NETWORK

In 1999, the Navy decided to consider private contractors to develop and manage its shore-based network infrastructure and shift from being an in-house engineered and managed system to a procured service. As noted by Dan Porter, the Navy Chief Information Officer (CIO) during this period, outsourcing was not an automatic choice but rather one reached through a meticulous process where senior leaders from across the Navy discussed IT, network infrastructure objectives and how best to operationalize their objectives (Porter 2008). In-house efforts for network management of shore based missions were not, however, insignificant.

In-House Efforts at Network Management in the Department of the Navy

Navy - Prior to concluding that private actors were the primary choice to develop and operate a service wide network, the Navy had developed an in-house network infrastructure plan, while the Marine Corps had already developed a service-wide network integrating its organizations both at shore-based and deployed locations. The Navy led all services in the move to networks through its Information Technology for the 21st Century (IT-21) project (Brewin 1997, 1–2). Conceived by Admiral Archie Clemins, then Commander in Chief of the Pacific Fleet, IT-21 defined a standard networked computing environment based on commercial technology for its ashore and afloat units (Brewin 1997, 2). IT-21 focused on equipping its Atlantic and Pacific fleets' facilities on

ships and ashore with network capabilities, while its shore-based infrastructure would be supported under a separate but concurrent project (Slabodkin 1997).

Rear Admiral John A. Gauss, Commander of the Space and Naval Warfare Systems Command (SPAWAR), was charged with development of the Navy's intranet when taking command in March 1998 (Brewin 1998a, 2; Brewin 1999, 1). He wanted the Navy to own its voice, video and data networks (Murray 2000b, 3). His network architecture was based on a series of local area networks linked into larger metropolitan-area network where the network was considered a utility (Brewin 1998c, 1). The network procurement was initially known as the Navy-Wide Intranet, and Gauss wanted his command to charge the rest of the department to use the network through a fee-for-service arrangement (Murray 2000b, 3).

Both Rear Admiral Gauss and Admiral Clemens initially expected the Navy to build and own its intranet, based on its IT-21 and shore-based modernization program to encompass all of the Navy missions through the Navy's SPAWAR (Murray 1999a, 1). While Admiral Clemens did not initially envision an NMCI-like contract, over time, as senior Navy leaders discussed their options to develop and sustain a secure and homogenous network architecture across the Navy enterprise, outsourcing the IT service became the clear choice (Porter 2008). Navy budget and manpower limitations combined with an organization and funding structure that gave lower organizations a primary role in IT decision making, and questioned the ability of a successful in-house approach for providing and sustaining the desired DoN network goals of a secure and homogeneous enterprise-wide network (Murray 1999a, 2; Porter 2008).

Marine Corps - In February 1999, prior to the Navy decision to incorporate the Marine Corps into a new network project, the Marine Corps kicked off an 18-month $226 million project to develop worldwide, high-speed networks and a new approach to delivering and managing network services through its Marine Corps Enterprise Network (MCEN) (Verton 1999d, 1). The MCEN was a global plan to upgrade base telecommunications, network infrastructure and a new regional services concept that would establish eight networked self-contained intranets (Verton 1999d, 1). Debra Filippi, deputy chief information officer for the Marine Corps during this period, noted that the service developed its strategy in harmony with the Navy by embracing the Navy's IT-21 standards, which provided a common computing environment based on commercial products for Navy systems on ships and on shore (Brewin 1998d, 1). By 2001, the Marine Corps was well ahead of the Navy in developing a standardized network across their internal organizations. The MCEN was operational and the Marines had merged their garrison and tactical command, control, communications, computers and intelligence systems to integrate communications across their support and operational units (Murray 2000b, 4).

The Navy's Pre-NMCI IT Environment

Prior to Dan Porter becoming the Navy CIO, the Navy began a process to design an integrated IT network across the Navy enterprise as if it was designing it from start-up with seventy of its smartest engineers and technologists (Porter 2008). Upon becoming the Navy CIO, Dan Porter noted how the working group's vision and design for a homogenous Navy IT network, accounting for the growth of both network and Internet

technology, had created excitement and interest with the Secretary of the Navy and other senior leaders (Porter 2008). Though the Navy's future IT network had a vision and design, it did not have an operational implementation plan.

The Navy established a working group of 75 to 150 senior executive civilians and flag (general) officers to look at operationalizing and implementing this enterprise-wide network at the earliest possible date (Porter 2008). The group was led by Admiral Archie Clemens, the Pacific Fleet Commander, who saw the importance of IT to the Department of the Navy and was the key driver in establishing the Navy's IT-21 program for outfitting the Navy's fleet with technology. He was joined by other key Navy leaders to include the CIO Dan Porter, Assistant Secretary for Research, Development and Acquisition H. Lee Buchanan III, and the Assistant Secretary for Financial Management Charles Nemfakos to create an operational plan (Porter 2008). Over the course of one year, the group met periodically, examining issues such as how to get the infrastructure established, who should do it, and how to manage manpower and costs (Porter, 2008).

From a manpower perspective, the Navy had a workforce that performed IT functions, but senior leaders were concerned they did not have the right balance of expertise to develop and sustain their envisioned network. The cost constraints appeared to be the central factor in the leadership decision to outsource their network. The cost of establishing the envisioned enterprise network appeared to be approximately $1–2 billion. The Navy decision to outsource the network was less about the private sector being able to do the job cheaper, but more closely aligned to a lack of funding. The Navy had not programmed for an enterprise network, leaving organizations to use operations and maintenance and base operating funds to pay for their IT capability (Porter 2008).

Also, given how the Navy's patchwork, legacy-based network infrastructure was developed and managed in a decentralized environment, Navy leaders did not think they could establish their new network solution through an in-house implementation (Porter 2008). As noted above, there was an uneven implementation of network architecture across Navy organizations with little probability of changing to an in-house implementation, no matter how articulate the new network plan was conveyed. Funding for the network was through local dollars, where leaders subjectively weighed network requirements against their functional mission, that was always going to be a higher priority than the network (Porter 2008).

Navy leadership began to see outsourcing as a more realistic option, especially considering their interest in having the network created immediately under one design, with one provider accountable for maximum performance at the desktop across the Navy enterprise. Using a contract mechanism that treated IT as a utility, the Navy would buy IT as a service, similar to energy and water. In 1997, the DoD launched its utility privatization initiative (DRID No. 9) (Renshaw 2002, 1).

Utility privatization is the sale of government-owned on-base utility distribution systems to a private entity that will operate the systems and provide utility services to the base's buildings and activities (Renshaw 2002, 2). The contractor buys the systems and is responsible for their operation and maintenance(Renshaw 2002, 2). Using this approach, the Navy didn't need up-front funding to build a network, as it would be bought and provided for by a contractor who would lease their IT infrastructure service to the Navy (Porter 2008). Though this contractual approach for buying utilities had never before been utilized in the government for purchasing IT, Navy leadership believed there

was no reason to consider IT any different than existing utilities used daily for conducting business.

In the private sector, interest in IT outsourcing largely resulted from a shift in business strategy in which companies abandoned diversification strategies to focus on core competencies (Lacity, Willcocks, and Feeny 1996, 13). The Information Systems (IS) function was considered by IT directors, such as Henry Pfendt at Kodak and Elliot McNeil at Southland, as a commodity service that was best managed by a large supplier (Laity and Hirschheim 1993, 73). Many leaders in the commercial IS arena began to view technology as a non-core commodity or utility as compared to a system offering a business advantage. In the private sector, efforts at harnessing IS as a competitive weapon shifted to providing IS services at the lowest possible cost (Laity and Hirschheim 1993, 74). Utility services were more efficiently acquired through specialized vendors who could achieve economies of scale, allowing executives to focus on nurturing their company's core competencies (Laity and Hirschheim 1993, 74).

The NMCI Project

Navy leadership did not consider its shore networks as a core part of the their war fighting mission, but as a utility, similar to the private sector categorization of IT networks, giving the department the ability to compare and leverage capabilities with private sector IT experts (Munns 2003).[73] The Navy decision to consider outsourcing its

[73] The Naval shore establishment includes facilities and activities for repairing machinery, electronics, ships, and aircraft; providing communications capabilities, training, intelligence, meteorological support and medical support; storing repair parts, fuel, and munitions. It consists of the Naval Sea Systems Command (which includes shipyards), Naval Air systems Command (which includes aviation depots), Space and Naval Warfare Systems Command, Navy Personnel Command, Naval Education and Training Command, and the Office of Naval Intelligence (GAO 2006a, 7).

network infrastructure operations, central to facilitating communication across all organizations of the service, was groundbreaking, as nothing of this magnitude or significance had ever been initiated within the DoD. Warren Suss, a telecommunication consultant, described the structure of the Naval Intranet as an enormous change for the Navy. The massive scale of the project would present potential bidders with challenges they have rarely encountered before in the federal arena (Brewin and Verton 1999).

The NMCI system aimed to encompass the Navy's Information Technology for the 21st Century Project and the Marine Corps Enterprise Network to achieve an end-to-end capability across the department for both shore-based and afloat units (Brewin and Verton 1999). The NMCI system would consist of a single, secure, enterprise-wide network to support the Naval and Marine Corps shore establishments and tie them to the forces at sea by interfacing with the at-sea network. The initial plan was to link 360,000 onshore desktops into one seamless and secure intranet, sharing voice, video and data systems (Jordan 2007, 1). The NMCI would replace more than 1,000 diverse legacy networks of the Navy and Marines across 28 separate commands, and eliminate local control of networks.

The Navy initiated the NMCI project in 1999 and the contract was awarded to EDS on October 6, 2000, valued at $9.9 billion, including a seven year base and three year option that was exercised in March 2006 (Jordan 2007, 3; Perera 2009, 1). It was one of the largest desktop outsourcing, seat, contracts ever carried out, and the largest federal IT contract ever awarded (Jordan 2007, 3). With NMCI, the Navy gave EDS a mandate to supply IT services to 700,000 onshore users, mostly in the United States (Perera 2009, 1).

GAO. 2006b. Information Technology: DoD Needs to Ensure That Navy Marine Corps Intranet Program is Meeting Goals and Satisfying Customers: GAO.

EDS was responsible for managing and operating the system, which included providing all IT hardware and software, operations, training, maintenance, and systems upgrades, while the Navy was charged a fixed monthly price per desktop system (seat) throughout the life of the contract, consistent with EDS meeting specified service levels (Jordan 2007, 3).

THE AIR FORCE AND ARMY NETWORK MANAGEMENT APPROACH

Air Force

The development and management of IT in the Air Force paralleled how the Air Force organization structure evolved, where the primary focus of responsibility was centered at the HQ Air Force level, as opposed to the Navy where lower level organizations were responsible for their IT capability and service (Gilligan 2008). Initially, through the 1980s and early 1990s the Air Force wing level of organization (lower level) had much autonomy and was the center of power for outsourcing and A-76 competitive sourcing actions (Gilligan 2008). As the nature of how the Air Force executed its war fighting mission changed with the introduction of the Air Expeditionary Force concept for deploying forces, the focus on the wing as the primary source of power shifted to the base, then to the command, and finally to the HQ Air Force level, due to the priority placed on standardizing and rotating war fighting units and resources, to include IT, in the war zone and across the Air Force enterprise. IT evolved into an essential plug-and-play capability, where the war fighter, regardless of unit, could bring their computers to a deployed environment and have instant network capability (Gilligan 2008).

Air Force leaders recognized that their IT network would be a central element in the service's evolving war fighting mission and defined it as a core capability. The characterization of the network by Air Force leaders provided a fundamental difference in the nature and extent of network outsourcing, as compared to the Navy. The Navy characterized its shore-based network as a utility, where it attempted to buy IT services in the same way it bought energy products. The Air Force characterized its network as a weapon system, core to its mission. The Air Force CIO, Mr. John Gilligan noted that in defining IT as a weapon system, Air Force leaders were trying to set an expectation of rigger/discipline for managing IT, as with a weapon system, and that the network was part of the war fighting effort, as well (Gilligan 2008).

The Air Force justified the core nature of their network based on their mission, which called for personnel to use a common network for both deployed and home base operations. In order to allow deployed service personnel to connect to other military agencies and organizations in support of the wartime mission and their home base network, the Air Force saw the need to treat their servers as a weapon systems and certify and manage them centrally while retaining blue-suit or uniformed (in-house) positions in communications and network operations (Murray 2002, 1; Temin 2002a).

The distinction between the two networks is significant, as the Navy network was characterized as a commercial entity having the opportunity for IT competitive sourcing. As noted earlier, the Navy's essence was fundamentally captured in an expeditionary, forward-deployed culture that was central to defining its wartime missions, as opposed to shore-based activities central to the NMCI. The Air Force network was as an inherently governmental function with limited outsourcing potential. By controlling the

development of its network infrastructure, Air Force leadership maintained a multi-billion-dollar IT budget and skilled personnel with the technical capability to build and maintain its network infrastructure worldwide.

Air Force officials noted that they were unlikely to outsource many of the blue-suit and uniformed positions in communications and network operations because of how critical they were to war fighting (Temin 2002a). While Navy communications personnel, deployed at sea, were critical to the war fighting mission, many shore-based communication facilities were manned, in part, by non-IT type sailors who were between sea rotations, due to the indirect role of shore based missions to the Navy war fighting effort (Porter 2008).

Senior leaders across the Air Force shared a similar message in describing the vital nature of networks in supporting the Air Force mission. In 2000, USAF Lt. General Harry Raduege Jr., director of the Defense Information Systems Agency (DISA), who managed the National Communications System, suggested that IT networks were weapons providing command and control and information, an intrinsic element to winning wars (Walker 2000a, 1). USAF Brig. General Bernie Skoch, principle director of DoD network services for DISA under General Raduege, underscored the importance of networks as the lifeblood of the military, similar to supply lines, air bridges and shipping lanes (Walker 2000a, 5).

An NMCI type network infrastructure and service was not appealing to Air Force leaders. In December 2000, General Patrick Gamble, Commander of Pacific Air Forces noted that despite being a topic of interest among fellow four-star generals, the Air Force rejected a service-wide procurement of desktop outsourcing (seat management) because it

could compromise combat capabilities (Murray and Seffers 2001, 1). Colonel William Cooper, the Air Force director of missions, noted that the Air Force had not come close to considering an NMCI approach since the Air Force relies too much on fixed stations, as a whole, to perform its mission (Murray and Seffers 2001, 1). In 2001, Colonel John W. Maluda, director of communication and information for U.S. Air Forces in Europe, identified IT as being at the heart of information superiority and reiterated the Air Force position of managing its IT infrastructure as a weapon (Freeman and Suddarth 2004, 214). The Air Force established and controlled its service-wide network using a combination of in-house and contracted resources.

The Air Force was receptive to some IT outsourcing so it could use its uniformed and government civilian IT personnel in network-centric war fighting positions, both in the U.S. and abroad. However, its primary objective when initiating a consolidated network approach in 2000 was to retain control of its in-house network capability and related IT personnel experience.

Army

Network and information technology had their roots in the Army at the local level supporting primary missions with no central governance authority. During the mid-to-late 1990s, IT outsourcing became more prominent throughout the Army based in part on local units being decision-makers for A-76 activities and IT not being considered part of the Army's traditional conventional wartime activities. Organizations increased their A-76 activity and subjectively considered activities such as IT and other support functions

for competitive sourcing and contracting. IT activities did not compare equally with operational activities such as infantry, armor and artillery.

James Buckner, Materiel Command's Chief Information Officer, noted that many organizations in his command had begun plans to outsource PC operations as the command was deciding on an additional 57,000 desktop PCs to outsource (Murray 2000a, 1). Coinciding with plans to outsource PC operations were A-76 reviews at 62 Materiel Command locations to determine whether 2,000 civilian jobs in the information management area could be outsourced leading to addition desktop PC contracting decisions (Murray 2000a, 1).

In 2001, as technology became a key enabler in the Army war fighting effort, senior Army leaders set upon a strategy to centralize their IT management and create a governance structure for its network, similar to the approach taken by the Air Force (Onley 2001a, 1). The Army's Chief Information Officer (CIO), Lt. General Peter Cuviello, noted how the Army was getting all of its leaders to understand that there was only one enterprise responsible for Army IT (Onley 2002b, 1). The Army centralized its systems management at about two dozen major commands under the CIO's office (Onley 2001b, 1). The Army's IT transformation was driven in part by Navy's NMCI, as leaders recognized the need for modernization and an enterprise approach to IT from the top to the bottom of the Army organization (Onley 2001a, 2).

Unlike the Navy, where the EDS contractor developed and standardized the NMCI infrastructure, the Army, like the Air Force managed its IT transformation in-house, beginning with a consolidation of its systems into a single service-wide enterprise. The Army did not see the benefit of creating and outsourcing an NMCI-type system. In 2002,

when asked whether the Army would follow a similar path as the Navy, Carroll noted that they were not ready to outsource their entire infrastructure (Wakeman 2002, 1). Carroll suggested that a combination of fear of being tied to one prime contract, losing the benefits of competition, and the Army's belief that IT was a core function to support its missions were factors that made the Army hesitant to follow the NMCI model (Wakeman 2002, 1). The evolving development of IT and networks and increasing significance and integration in mission execution was central to networks being considered a core capability. Similar to the Air Force, the Army installation network was integral to global activities and its wartime missions.

CHAPTER TEN

ANALYSIS OF SERVICE IT NETWORK MANAGEMENT

The disparity between the Navy, Air Force and Army in establishing their network infrastructures is considerable despite the commonality of the network and the need for each service to have interoperability in support of war fighting missions, per the JCS vision. As discussed in Chapter Nine, IT implementation was initially decentralized to local organizations that created several competing network architectures with disparate software and security problems. Yet, service leaders recognized the need for a homogeneous network in their respective organizations and took different paths towards that objective.

This chapter evaluates the effectiveness of each of the three frameworks in explaining the outsourcing behavior of each service towards their network infrastructure management and development. Understanding why the Navy chose to launch the largest network outsourcing effort in DoD history compared to the Air Force and Army approach of maintaining control of their network capabilities offers further insight into explaining the DoD outsourcing phenomenon over the past few decades, and why contractors have been incorporated into service missions and its impact on public interests. While this chapter evaluates the methods that services used to provide IT network capabilities, the overall findings point to the importance of organization factors in explaining outsourcing behavior and actions. In each service, outsourcing decisions were based on factors that included whether the network was a core capability and integral to an organization's primary mission, budget, budget authority, and the extent of in-house expertise.

STRATEGIC EFFICIENCY

In this section, strategic efficiency will be evaluated to determine its significance in explaining NMCI outsourcing by testing the hypothesis that DoD leaders are motivated to maximize mission effectiveness by getting the greatest value possible from military, DoD civilian or private contractors at the most competitive cost. I'll provide empirical evidence to support or refute the hypothesis. Within the private sector, in the early part of the IT boom in the late 1980s and early 1990s, many practitioners, academics, and consultants advised executives to outsource information systems (IS) services where expected savings ranged from 10 to 50 percent off their IT expenditures (Laity and Hirschheim 1993, 73). Noting the effects of IS outsourcing in the healthcare industry, outsourcing vendors took over all information systems functions, similar to an outside company managing a food service or laundry (Laity and Hirschheim 1993, 73).

At work in this framework is a cost advantage calculation constantly evaluating where efficiencies can be found. They will attempt to get the greatest possible IT benefits at a competitive cost. Outsourcing can be a viable DOD strategy when the cost of having a contractor perform an activity is less than the cost of having an in-house resource perform the same activity. Yet, its usefulness is also affected by the type of transaction/outsourcing activity and whether its potential hazards can be mitigated within the private sector. The initial assumption is that service leaders are rational and they seek to reduce their costs and maximize the potential from both public and private resources to accomplish their objectives. Yet, because of their bounded rationality, all complex transactions are unavoidably incomplete and parties will need to adapt to unanticipated disturbances that arise by reason of gaps, errors and omissions in the original contract

(Williamson 2002, 174). As noted by Williamson, replicating public administration of defense related activities by a private firm will not be successful (Williamson 1999, 332).

Implicit in a strategic efficiency explanation of outsourcing is that private actors can perform public services equally good or better than public employees at a competitive cost. We can expect to see the service leaders seeking private sector means to provide the network services when the government cost of providing each desktop service increases as compared to private sector costs performing a similar function. While an organization may have marginal financial gain and newer resources from outsourcing a particular capability or service, the gains are counterbalanced by any increased risk that occurs as a result of contracting an activity. The theory predicts that the services will outsource their network/intranet capabilities when they can save money and continue to meet mission objectives. Inefficiencies resulting from assumed risk and transaction costs hazards did not appear to be measured in the organizations competitive sourcing decision making process.

Navy

In this framework we expect to see the Navy utilizing a rational process and cost advantage calculation to quantify costs for its network capabilities, and determine whether costs for outsourcing are comparatively better than providing the service in-house. Strategic efficiency suggests that if the cost analysis of providing the NMCI service through the private sector provides a lesser degree of savings than comparable in-house resources, there is less likelihood of the private sector being chosen as compared to

a greater degree of savings where the private sector is likely to be offered a contract for service.

Strategic efficiency does not appear useful in explaining the Navy's NMCI outsourcing process effort for its shore based network, as cost efficiencies through consolidation were not realized and the overall risk to the Navy was arguably greater than the benefit. The complex nature of the transaction led to disturbances and inefficiencies arising from gaps, errors and omissions in the analysis and ex post governance of the contract. The Navy evaluated single and multi-vendor approaches through six months of market research and determined a single point of contact (whether it be in-house organization or vendor) for accountability and responsibility was critical to network viability and cost-effective. Centralized control through a single point of contact was achievable through in-house resources, as demonstrated in the Air Force. However, the Navy environment proved more challenging and difficult. Due to the limited role of the CIO to direct and enforce change and the cost burden to lower echelon organizations for making network changes, it was unlikely that an in-house solution would be effective. Units had great latitude in IT purchasing decisions, while enforcement of how units spent their budgets was not practical or effective as demonstrated in earlier A-76 competitive sourcing activities. In addition, The DoN had not programmed or allocated additional financial resources to create an enterprise network (Porter, 2008).

Outsourcing the Navy and Marine Corps computer networks into a centrally managed, single, secure, enterprise-wide service was not as cost efficient as some had expected. Financially, while it appeared negligible that NMCI was a better dollar value than an in-house solution, the overall cost to the Navy for their NMCI network

architecture was greater. In a 2002 study conducted by Booz Allen Hamilton, the average cost per desktop computer system before NMCI was $3,545 per year, while the cost of an average NMCI desktop computer system was $4,179 per year (Dorobek 2002).[74] While the NMCI cost was 18 percent more, the NMCI computer system cost included capabilities not available in the pre-NMCI network environment, including interoperability, regular technology refresh and compliance with security upgrades standardized across the network (Dorobek 2002). When taking these costs into account in the pre-NMCI environment, desktop computer system costs increased to $4,286, two percent more than the NMCI computer system cost (Dorobek 2001). This appeared to be an insignificant amount of savings to be a factor in choosing a private actor to implement NMCI and outsource the network operations and support activities.

In addition, while the difference in cost for computer systems appeared negligible, the NMCI customer support environment appeared more costly than the pre-NMCI environment. In the NMCI environment, Navy network users were charged for customer support (Porter 2008). EDS offered a menu of customer support options where organizations paid for a particular level of support. These costs did not appear to be factored into the computer system cost. In the pre-NMCI network environment, customer support was integrated into the services provided by in-house personnel.

Funding for legacy computer systems from the pre-NMCI environment that were required in combination with NMCI, due to technical difficulties with merging the systems, was an additional cost not included in the NMCI contract or competitive sourcing costs. These costs ran into the tens of millions of dollars. Other costs difficult

[74] Desktop computer system costs included all software, security, network management and customer support.

to quantify included project management risks. The DoD had minimal experience with this type of desktop system outsourcing arrangement. It had never been tried or tested by the DoD and the initiative did not fit into the standard DoD acquisition program oversight format (Dorobek 2002, 2). Scheduled delays were likely and produced increased costs that were not factored into cost-effectiveness comparisons.

Finally, in looking at DoD utility privatization, in general, privatization programs generally increased military utility costs well above historical levels because the program leverages private sector capital to achieve utility system improvements (GAO 2005a, 34). To pay for these improvements over time, the GAO suggests that DoD's funding obligations are likely to increase, not decrease, by hundreds of millions of dollars, and that operations and maintenance budgets will need to be adjusted as necessary (GAO 2005a, 34).

The 2002 GAO review of six agencies using desktop computer system management approaches for their IT management (not including DoD) indicated that agencies did not perform sufficient up front analyses of the baseline and projected costs and benefits, similar to the pattern set by the Navy's NMCI actions (GAO 2002a, 3). This resulted in agencies being unable to determine whether they were achieving expected costs and benefits.

The Navy had a limited approach to establishing a baseline of productivity for internal services before making the final sourcing decision (GAO 2003b, 36). For its baseline, it performed an analysis at sample representative locations and relied upon their Year 2000 inventory without including an assessment of the DoN's vast amount of diverse legacy applications (GAO 2003b, 36). The Navy determined that it had

substantially underestimated its legacy applications from an initial projection of a few thousand to at least 100,000 (Jordan 2007, 6). This contributed to increased costs and an extra year to the transition process expanding from 2.5 to 3.5 years (GAO 2003b, 36; Jordan 2007, 6). The exclusion of tens of thousands of legacy systems from the DoN's decision making process was an indication of a more general pattern of missed technical requirements when choosing to outsource and award the network contract (Jordan 2007, 2).

The Navy also accepted a level of risk in its NMCI decision that appeared much greater than the potential benefits.[75] Initially, risk was increased with the Navy's inconsistencies in its competitive sourcing approach. Navy decision-makers never fully understood the magnitude of the effort required to carry out implementation of NMCI (Jordan 2007, 6). The GAO concluded in their 2000 report on NMCI that the Navy developed and issued its request for proposals without developing a formal analysis of program alternatives nor completing a business case analysis to determine an appropriate acquisition strategy for the intranet (Li, Brock 2000, 2–3).

The Navy's financial plan for funding the network leasing arrangements proved shortsighted and incomplete. Congress was not pleased with the Navy's decision to use utility privatization for its IT network without getting congressional approval. Congress also received conflicting, vague and unsupportable funding data on the NMCI program that put the program at risk (HOR 2001b, 296). The cost of the system ranged from $6.9 billion to $16 billion over 10 years and the DoN's plan to redirect operations and maintenance funds from both the Navy and Marine Corps, already earmarked for other IT

[75] It's argued that increased risk could translate to increased costs if problems or delays resulted from the risk factors. Thus, the greater the amount of risk, the greater the potential cost for the service.

systems, was unacceptable to Congress. It was not a stable funding source considering the growth of legacy systems and the incomplete nature of identifying all requirements to support the vast network with at least 350,000 users.

Program management added an additional layer of risk, as the Navy appeared most interested in appeasing DoN organization leaders when establishing the NMCI management. The Navy created multiple leadership roles split between seven entities across the Navy and Marines that were in opposition to documented best practices from the private sector, which stressed the utilization of a single program office and manager able to direct actions across the entire agency (Rozier 2002). Due to the relatively short life cycle of IT, the large and diverse leadership structure introduced an increased element of risk when making timely decisions and actions regarding ongoing configuration management and IT upgrades to meet contracts service level agreements was problematic. IT was more efficient under a single leader and Congress directed the Navy to establish an NMCI directors office in February 2002 (GAO 2003b, 41).

Finally, the scope of the NMCI system invited considerable risk for the Navy. The transaction hazards were considerable and appeared to outweigh any efficiency that would be gained from utilizing the private sector. The system was the backbone of their shore-based communication infrastructure, supporting 700,000 users (Perera 2009, 1). The Navy was relying heavily on the system for facilitating daily communications across the service among both support and operational units. Accepting the option to privatize the system did not leave room for failure. The Navy did not have many options if the contractor failed to perform satisfactorily.

It was unclear as to the type of bargaining position the Navy had if the contractor failed to perform, considering the contractor owned the network and was the only game in town. In relation to treating IT as a utility, there were no clear procedures for how military installations would regain ownership of privatized utility systems should that ever become necessary (Renshaw 2002, 15). In the case of the NMCI, Navy activities would be significantly degraded without network operations. Contractor default would cause an unacceptable communications shortfall. The Navy would have to either pay a significant financial bill to construct a new network architecture, attempt to purchase the system back from the contractor, or institute legal actions to reacquire the system.

Dan Porter, CIO of the Navy, noted that the Navy Secretary, along with many Navy leaders, were not focused on the most cost-effective way to produce and support NMCI. They wanted a consolidated and secure network immediately. The main objective was to do it right by using the best available resources to standardize operations across an enterprise network as quickly as possible (Porter 2008).

In comparison to the private sector, efficiencies gained from outsourcing networks appeared to be diminishing. In a 1997 survey by Deloitte and Touché of 1,500 CIOs in the United States and Canada, 31 percent believed that their outsourcing generated significant cost savings, while 69 percent where disappointed in their outsourcing results because expected savings did not materialize when long-term contracts did not take into account new organization requirements (Washington 1999, 197). Private sector case studies and analysis demonstrated how IT executives began to realize that IT was not homogeneous and could not be easily handed over to a vendor. IT usually compromised a wide variety of activities and in many cases was felt across the processes of the entire

organization, integrating product design, logistics, sales and customer service (Lacity, Willcocks, and Feeny 1996, 16).[76] Outsourcing IT was difficult because it wasn't a discreet entity and vendors did not always understand the implications that IT had on other business processes (Lacity, Willcocks, and Feeny 1996, 16).

Air Force

The effectiveness of strategic efficiency in explaining the Air Force approach to IT network outsourcing is examined by determining whether cost value influenced Air Force decisions to retain or outsource its network capability. From a strategic efficiency perspective, the biggest driver toward outsourcing DoD networks was the potential to reduce labor cost while obtaining the expertise needed to maintain the systems. However General Donahue, who directed Air Force communications during this period, argued against potential efficiencies from the private sector.

In an effort to retain the in-house IT network capability contrary to the assumption that government IT operations were more expensive and inefficient, General Donahue challenged DoD officials to reconsider the decision to outsource and privatize IT functions. He stressed the view that government employees were very effective at their jobs and cost savings were not guaranteed with the private sector (Freeman and Suddarth 2004, 210–211). He argued that the private sector was actively recruiting military IT professionals (Freeman and Suddarth 2004, 214). While there could be cost savings in some areas of outsourcing IT, he noted there was no guarantee that private sector firms

[76] Based on results of case studies by Mary C. Lacity, Leslie P. Willcocks and David F. Feeny, "The Value of Selective IT Sourcing" Sloan Management Review, Spring 1996; and multiple-case analysis of fourteen Fortune 500 service and manufacturing companies that faced outsourcing decisions in Mary C. Lacity and Rudy Hirschheim, "The Information Systems Outsourcing Bandwagon" Sloan Management Review, Fall 1993.

would offer greater IT expertise or do a better job (Freeman and Suddarth 2004, 214). He suggested that the Air Force had no intention on simply outsourcing jobs on a one-for-one basis to replace a $50,000-a-year enlisted man with a $150,000-a-year contractor (Brewin and Verton 1998, 2).

Donahue questioned why the DoD would pay contractors to provide the same service for up to $150K per year when DoD paid $35K to $60K a year for its IT positions (Freeman and Suddarth 2004, 210). Donahue's figures did not factor in other costs associated with government salaries. Yet, a 1997 RAND study of five DoD activities that had been outsourced on actual costs of implementation versus expected cost cited during the competition found that cost-savings, if attained, may not be as significant as expected due to discrepancies in the competitive process having an adverse affect on the government in-house bid (Freeman and Suddarth 2004, 210-211).[77]

Confirming the findings in the RAND study, Colonel David Schreck, former Deputy Director of Communications and Information at the Air Force Space Command, noted in 2002, "After several years following A-76 competitions and a blue-suit reduction of 65 percent, savings are up to a third less than promised by vendors" (Temin 2002a). Results from previous outsourcing efforts of critical components through A-76 studies produced mixed results.

Considering the nature of the capability and its importance in providing a platform for communication across the Air Force, the potential hazards and inefficiencies from

[77] These factors included: 1. Civil service personnel transferred to a lower position due to A-76 actions do not take a cut in pay. These costs are not included when evaluating the costs of contracting or when calculating the savings generated by outsourcing 2. Contract costs increase over time as with the expansion of the scope of work to be performed 3. Installations lacked personnel with experience in developing performance work statements and in-house bids 4. During the competitive process, the contractor and the government do not use the same labor schedules. The contractor uses the lowest local Department of Labor (DoL) rates; the government is bound by the Federal Wage System that tends to exceed DoL rates (Freeman and Suddarth 2004, 211).

outsourcing IT were mitigated by retaining control of the network within the Air Force. Strategic efficiency was useful in explaining some Air Force actions in relation to using outsourcing to support aspects of its network operations. In 2003, the Air Force established the Information Technology Commodity Council composed of IT leaders from throughout the service. Their objective was to provide an enterprise approach to managing Air Force IT objectives through common standards for system architecture and IT purchasing (Tiboni 2003, 1). They were the primary source for determining where the service spent IT money and the justification for purchases (Tiboni 2003, 1).

The Council helped to dismantle inefficiencies, throughout the service, stemming from independent IT groups that had created local networks without a standard system architecture resulting in interoperability, integration and security problems. In addition, the Air Force established Network-Centric Solutions (Netcents) in 2004, a comprehensive contract with four large vendors and four small businesses used to purchase equipment and services for standardization and configuration management of their IT communications infrastructure (GCN 2005, 5; Thormeyer 2006, 1). Netcents offered the Council the ability to leverage its buying power on IT products and services. The Council helped to increase the IT purchasing power of Air Force organizations by more than 20 percent (Gaylord 2004). From the inception of the Council through 2005, the Council saved the Air Force more than $34 million (Berube 2005). Outside of the Council's ability, in conjunction with Netcents, to leverage IT purchases for the Air Force, strategic efficiency was limited in its ability to provide a useful framework to explain the actions of the Air Force to retain in-house resource control and management of its network capability.

Army

The effectiveness of strategic efficiency in explaining the Army's approach to outsourcing its IT network is evaluated by examining the extent to which cost was a factor in their decision making. The Army and Air Force had similar approaches to managing their IT networks. In general, cost savings from contractors in past A-76 studies did not prove to be the financial windfall that Army officials expected. Prior Army A-76 and outsourcing efforts produced mixed results that did not provide evidence of clear cost savings or improved performance by using contractors (Allen 2001, 14).

Though the Army Enterprise Infostructure Transformation Program (AEIT) and Army Small Computer Program (ASCP) were aimed at reducing costs of acquiring IT solutions, cost savings did not appear to be a driver in the Army's slow approach to addressing and consolidating its heterogeneous network environment. The Army maintained control of its network operations and consolidation efforts in-house through the Network Enterprise Technology Command (NETCOM). NETCOM was not established to save money but to get soldiers back into units with active missions by creating an enterprise approach to managing the network as opposed to diverse networks (Caterinicchia 2002b, 2). Its decision to use contractors in network support positions was primarily based on its lack of sophisticated technology and technical expertise as compared to seeking cost savings.

Summary of Findings

Navy - Strategic efficiency does not offer a useful explanation for Navy outsourcing effort. Cost savings were not realized between pre-NMCI and NMCI desktop systems. NMCI desktop systems were arguably more expensive due to the additional cost of customer service. Costs related to pre-NMCI legacy systems and interfacing with NMCI were not included in projected expenditures. There were also many areas of risk that undermined conditions for a successful procurement, primarily a result of the Navy's attempt to complete the outsourcing process without meeting all procurement requirements.

Finally, the Navy accepted a significant level of risk that appeared greater than potential benefits for its privatized network. The transaction costs associated with outsourcing NMCI were complex and significant. The market as a governance structure to mitigate potential transaction hazards appeared questionable as the GAO found the DoD monitoring and contract surveillance processes unsatisfactory. Accepting the option to privatize the system did not leave room for failure, as the Navy did not have a backup plan and its activities would be significantly degraded without network operations. Without a backup and not owning the network infrastructure, the Navy had little to no leverage with the contractor over the price to provide network operations and services, especially after the initial lease arrangement expired.

Air Force - Strategic efficiency was not significant in the Air Force's decision making regarding whether or not to outsource their network infrastructure. The Air Force maintained primary control of its network with in-house resources while utilizing outsourcing for technical skill sets and areas of technical sophistication not available

across the service. Strategic Efficiency offered a limited explanation for other Air Force IT outsourcing decisions facilitated through the Air Force Commodity Council and Netcents that gave leverage to Air Force purchasing power for both goods and services providing greater value in return for their purchases.

Army - Similar to the Air Force, strategic efficiency was not a useful lens to explain the Army's outsourcing decision making for its network infrastructure. The Army centralized its network operations under NETCOM, maintaining operational control of its network assets while utilizing outsourcing for skill sets and technological sophistication that were not available in the service. Strategic efficiency offered a limited explanation for other Army IT outsourcing efforts facilitated through their AEIT and ASCP programs that helped provide reduced costs when procuring IT goods and services.

POLITICAL IDEOLOGY

This section seeks to determine the extent to which political ideology was a factor in explaining outsourcing decisions of network IT services. For each service, I'll evaluate the hypothesis that outsourcing of service network systems is a consequence of a politically conservative Congress and President and provide empirical evidence to support or refute the hypothesis. Based on the nature of the Executive and Congress from the late 1990s through 2005, political ideology appears to be a useful explanation for outsourcing activity.

The political environment surrounding the network infrastructure development in each of the services consisted of a Republican Congress that was relatively friendly to outsourcing. Examples include legislation (Clinger-Cohen Act and FAIR Act) that

facilitated outsourcing efforts and the growth of competitive sourcing (A-76) activities in the late 1990s, similar to the period of the Reagan administration.

The actions of the Clinton and G.W. Bush administrations appear to have supported the neoliberal efforts. These actions included the Clinton administration's efforts at increased government efficiency through a reduction in government and an increase of the private sector role throughout the federal government with its reinvention efforts and the focus on competitive sourcing; and the A-76 program as a top priority in the G.W. Bush Presidential Management Agenda. The outsourcing of government services grew faster than outsourcing in any commercial segment between 1990 and 2000 (Wait 2002a, 1).

Navy

This section seeks to examine whether political ideology was significant in explaining the outsourcing of the NMCI system based on the actions of senior civilian leaders, appointed by President Clinton, and those of Congress and the Executive. My findings suggest that while a relatively supportive environment towards outsourcing existed in Congress and the Executive, there is no indication that a neoliberal agenda influenced the Navy in its decision making. Rather, Congress was not informed of the Navy decision to launch the largest IT service contract in government history until after the Navy made its decision and chose a contractor (Porter 2008). While senior civilian leadership, Secretary of the Navy and Assistance Secretary of the Navy for Research, Development and Acquisition, appointed by President Clinton, were significant actors in the Navy process to establish and sustain the Navy's desired network architecture, there

was no indication that neoliberal beliefs significantly shaped their actions or the network outsourcing decision (Porter 2008).

Navy Civilian Leaders

In 1998–1999, 75–150 Navy senior executive civilians and flag officers established a working group to determine how to implement and sustain their envisioned network architecture for their shore based organizations (Porter 2008). Key leaders in the group included Admiral Archie Clemens, Pacific Fleet Commander, H. Lee Buchanan, the Assistant Secretary of the Navy for Research, Development and Acquisition, Charles Nemfakos, the Navy's Senior Budget Director and Financial Manager, and Dan Porter, the Navy Chief Information Officer. The group had flexibility in determining whether military, federal or civilian contract workers were the best choice for developing, building and operating its shore-based network, since it was not considered a core part of the Navy's primary mission (Munns 2003, 1). In comparison, networks on ships had been considered core due to their integral role in the mission of the deployed vessel. Core Navy functions were those integral to the Navy's expeditionary (forward-deployed) mission.

In examining whether political ideology was a factor in the Navy's decision making process, I'll examine the actions of two key political appointees involved in the outsourcing decision, Under Secretary H. Lee Buchanan and Secretary of the Navy Richard Danzig to evaluate whether neoliberal ideas influenced the final decision to outsource the Navy and Marine Corps shore IT network.

Secretary Buchanan

The Honorable H. Lee Buchanan was selected by President Clinton to become the Assistant Secretary of the Navy for Research, Development and Acquisition in October 1998 and served through January 2001. He was considered one of the founding fathers of the NMCI (Anderson 2004, 5). Buchanan's background was primarily in government R&D, focusing on keeping the military on the leading edge of technological capability (LeBoeuf 2000, 9). Buchanan's appointment as Navy Acquisition Executive was a direct result of DoD's effort to increase the pace of acquisition reform (LeBoeuf 2000, 9).

Buchanan served as an officer in the Navy in the 1970s where he became disillusioned with the Navy's substandard DoD communication systems (Murray 2001, 1). Aligned with neoliberal beliefs that private sector actors offered quality, cost and manning advantages to the government, Buchanan became an advocate for using private industry experts to provide both equipment and services to support Navy objectives. Buchanan's main strategic concern was the desire for increased competition and acquiring the benefits of competition (lowering costs and creating new ideas for doing business) in procurement and acquisition (Buchanan 2000, 4). Buchanan sought to infuse the techniques of commercial business management into Navy acquisition (LeBoeuf 2000, 3). He argued that technological superiority was the Navy's long-term strategy for success. Yet for too long the Navy relied on their own in-house production for their most critical technologies failing to construct an efficient process for turning results into war fighting capability (LeBoeuf 2000, 6).

Secretary Buchanan's belief was that the military was no longer in the forefront of development and implementation of IT, as the commercial sector had outpaced military

developments in both microelectronics and IT (LeBoeuf 2000, 9–10). In a 2000 interview, Secretary Buchanan noted, "There are technologies such as microelectronics and most information technologies that are too important, and the Navy can't risk developing them in-house because it would take too long and ultimately take the wrong direction" (LeBoeuf 2000, 11). He argued that these technologies were moving too fast for the Navy to expect to remain competitive with the private sector as the time scale for technological evolution (18–24 months) for computers and microelectronics was much shorter than other pertinent time scales such as 10–15 years for acquisition of DoD systems and 40–50 years for a ship's life (LeBoeuf 2000, 6). He suggested that the Navy needed to follow the example of the commercial industries', where constant refreshing of technology, routine upgrades, and changing configurations were the norm and not the exception (LeBoeuf 2000, 6).

Secretary Buchanan supported the Navy's acquisition of cutting-edge technologies from the commercial sector in areas such as advanced information management systems where the commercial customer had become the driver for computer technology. An efficient process of bringing technology into the DoN from the private sector provided the Navy with the capabilities to maintain technological superiority. It also required an increased dependence on private sector actors to support, maintain and even operate some of these advanced systems.

Buchanan argued that "the Navy had to get beyond its preoccupation with sunk costs, money already spent on systems, which the Navy used all too often to justify additional funding for systems with outdated technology" (Murray 2001, 1). In a 1999 meeting, Ronald Turner, the Navy's Deputy CIO for Plans, Policy, Performance,

Infrastructure, Systems and Technology, noted that Buchanan argued that the Navy had to figure out a way to capitalize on the huge investments industry was making (Murray 2001, 1). "If we built or bought the things we would need to implement (NMCI), we'd forever be in the technology upgrade mode in order to keep abreast of the changes that industry made to hardware, software and communications technologies" (Murray 2001, 1). Dan Porter, the Navy's CIO noted that about $1.5 billion was spent annually on maintaining the Navy's nearly 200 different local area networks without producing increased security or easier network access across the Navy enterprise (Porter 2008).

Secretary Buchanan was the first to conceptualize an enterprise-wide portal combining voice, video and data for the Navy and Marine Corps, and developed the original contract for NMCI (Onley 2006, 2). Aligned with established IT leaders at private sector firms like Kodak and Southland, among others, he led support for the radical strategy to build a mammoth intranet by acquiring systems and networks as a service from a vendor, similar to a commodity, rather than build similar systems (Murray 2001, 1). He noted that executive leadership had already discussed outsourcing IT services as the only way the DoN could reduce costs, get a handle on its IT spending and provide a secure enterprise network (Anderson 2004, 6).

Ron Turner, Deputy CIO for the Navy, believed there was no organization or entity within the Navy that was able to provide an end-to-end network across the department (Lunney 2007, 2). Arguing that the Navy needed to remain focused on its core missions, he noted that, "laying cables was not the Navy business; it's a function to doing our business" (Lunney 2007, 2). As noted by the Navy's CIO Dan Porter, SPAWAR would have been the lead organization to implement an in-house network architecture.

However, due to the significant role local Navy organizations had in IT decision making and funding, it was not deemed realistic to expect local organizations to act in a standardized manner to create an in-house network solution considering the diversity of their primary/core missions that remained their first priority (Porter 2008).

Secretary Danzig

Secretary Richard Danzig served in both the Carter and Clinton administrations, as Deputy Assistant Secretary of Defense from 1977–1981, Assistant Secretary of the Navy from 1993–1998, and as Secretary of the Navy from 14 November 1998 through 20 January 2001 (Peckenpaugh 2001c, 1-3). He was an ardent advocate of IT and its usefulness for the future of the Navy mission (Danzig 2000, 10). With the groundwork provided by the Navy's research team envisioning a Navy IT network, along with key leaders as Admiral Archie Clemens, Secretary Buchanan and Navy CIO Dan Porter, Secretary Danzig became personally engaged in supporting the creation of the enterprise network (Porter 2008).

NMCI was clearly ambitious, being the largest IT service proposal ever within the federal government. In supporting the NMCI project, Secretary Danzig compared the network to a commodity, noting that, "we need to stop trying to create it an (intranet) ourselves and move to buying it like we do our electricity" (Orr 2000). As a commodity, large suppliers in the private sector who specialized in IT services were considered a better choice in providing resources and expertise to operate and manage intranet services than trying to provide the service in-house. Private sector IT providers offered better infrastructure security, centralized management, interoperability, more frequent

technology refreshes and financial savings through central procurement, network management and system administration (Orr 2000).

Once Navy leadership decided to outsource their network services, Secretary Danzig orchestrated a behind-the-scenes lobbying campaign to win over each of the constituencies with a stake in the project (Peckenpaugh 2001c, 5). Understanding the Clinton interest in supporting federal unions, Danzig allayed union concerns after they initially mobilized against the deal for fear of losing jobs. Illustrating a successful agency-union agreement, he authorized a compromise to let any potentially displaced workers transfer within the Navy or become employees of the contractor designing NMCI, Electronic Data Systems Corporation (Peckenpaugh 2001c, 5). The contractor agreed to pay a three percent signing bonus and 15 percent increase in base pay to any Navy personnel joining the company along with three years of guaranteed employment (Mayo 2001). The NMCI contractor received financial incentives to hire Navy civilian workers who performed activities that the vendor will use in the project (GCN 2000). The former Chief of Naval Operations, Admiral Jay Johnson noted how Danzig led the charge for NMCI both inside and outside the Pentagon (Peckenpaugh 2001c, 5).

Despite some differences among senior uniformed leaders within the DoN on how the Navy and Marine Corps shore based computer infrastructure should be established and operated, they chose against Admiral Gauss' initial proposition of owning the network and decided to entrust their IT enterprise plan to the private sector. They named Joseph Cipriano, a career government civilian, the program's executive officer. In the spring of 1999, in what the Navy called a "sweeping shift in its infrastructure and management," Navy officials changed the name of the project from the Navy-wide

Intranet to Navy Marine Corps Intranet to better reflect the inclusion of the Marine Corps (Murray 2000b, 1). On October 6, 2000, the Navy awarded EDS a $6.9 billion, eight-year contract, one of the largest IT contracts in the history of the federal government, to manage the service's shore-based computing enterprise (Brewin and Verton 1999; Murray 2000b, 1–2).

As noted earlier, Congress and the Executive expressed interest in outsourcing commercially available activities in the DoD to support modernization efforts. Top navy officials, however, avoided the use of the word outsourcing in making its announcement, for fear of political opposition. Considering the size and nature of the outsourcing effort, opposition would likely be centered in the government civilian sector with unions and Congress concerned with potential job losses. Instead, Navy leadership highlighted the shift from building and owning its IT infrastructure to buying a service and leasing infrastructure (Brewin and Verton 1999). However, Congress, unions and those close to the process could see that the Navy was involved in an outsourcing effort. Union opposition never materialized due in part to the effort of senior civilians in the DoN to allay union concerns and arrange job opportunities within government and through the contractor.

The contract sold the Navy's existing intranet infrastructure to EDS, who took ownership and operating responsibility, while Navy technology workers were assigned other high-tech duties aligned with the Navy's primary missions (Orr 2000). In making its decision, Naval senior leadership, led by Secretary Danzig, decided that the private sector was their best choice to leverage the expertise and technology necessary to engineer, construct and manage its vast network.

Challenges to Political Ideology

While the actions of both Under Secretary Buchanan and Secretary Danzig appear to offer a neoliberal influence on the resulting NMCI outsourcing actions, other factors appears to negate the impact of a neoliberal agenda as the explanatory factor for the NMCI project. Secretary Danzig's speech at the Navy War College graduation ceremony in June 2000 exemplifies his beliefs conflicting with decision making based on ideological principles. Secretary Danzig appeared to be motivated by critical, unbiased thinking in planning and problem solving, as opposed to basing actions on ideological beliefs.

In his speech, Secretary Danzig challenged the future leaders of the Navy to question their beliefs and assumptions. He emphasized the importance for leaders to recognize how deeply held values and strengths shape their thinking and decision making, and that they need to find the weaknesses inherent in those strengths (Danzig 2000, 11).

He suggested that the strengths of the Navy professional were commitments to professional identify, an ideology or commitment to values of the market, democracy and the nation-state, and a day-to-day focus on getting the mission accomplished. The Secretary challenged the graduating class to use their strengths as a starting point to consider how they thought about issues and strategy, and to debate and look more closely at their strengths (Danzig 2000, 5,13). The overall context of his message was to not assume that if A (markets, democracy, etc.) were good, that B (efficiency, cost-savings, peace, etc.) and other good things would necessarily follow. His message to future

Naval leaders was the antithesis of decision-making based on purely ideologically reasons.

The impact of senior Navy uniformed leaders was significant in the NMCI decision making process as well. As noted by the Navy CIO Dan Porter, Admiral Archie Clemens played a leading role in advancing the Navy's IT enterprise vision. Navy CIO Dan Porter noted that, "action-orientated four star admirals from the field, such as Admiral Archie Clemens, had a voice with the Secretary and Congress who listened and respected their inputs" (Porter 2008). Admiral Clemens emphasized the importance of "doing it right," i.e., implementing the enterprise IT network in a professional and effective manner, where outsourcing had become the option of best choice (Porter 2008). The Admiral's actions in establishing IT-21 for the Navy Fleet, and his ultimate support for the outsourcing arrangement only reinforced the importance of the land-based network project to the Navy Secretary.

As opposed to neoliberalism's call for the reduced size of government, Dan Porter noted how Navy leadership did not view the NMCI project as an attempt to reduce positions or cut the budget. An example of this was the Marine Corps concern that the NMCI would result in troop reductions. The Marine Corps Commandant, General James Jones, approached Secretary Danzig regarding the inclusion of the Marines into the network and whether it was a sophisticated way to reduce his force structure (Porter 2008). The Secretary reassured the Commandant that reductions would not happen, as Marines affected by the project would remain in the service in war fighting positions (Porter 2008). Navy leadership wanted the capability provided by a robust, enterprise-

wide IT network as soon as possible, and believed they could not accomplish this feat if it was attempted by an in-house solution (Porter 2008).

As noted earlier by Navy CIO Dan Porter, 75–150 senior military, government civilian and political leaders within the Navy worked as a group in deciding on how the enterprise network would be created and managed. Establishing the primacy of a neoliberal agenda in the decision making process of these diverse senior leaders was not forthcoming and difficult to test. Rather, it was clear that while the Secretary and Chief of Naval Operations (CNO) supported the project, there was concern with the extreme risk involved to the Navy and the credibility of senior leaders (Porter 2008). This was heightened by the lack of communication and coordination between members of Congress and senior Navy civilian leaders (Secretary Danzig and Undersecretary Buchanan) prior to and during the Navy decision deemphasizing the role of a neoliberal agenda in the decision making process.

The initial unhappiness of Congress with the Navy's stealth approach to NMCI was not representative of a partisan neoliberal body. Following their outsourcing announcement, the Navy spent a tremendous amount of time between 2000 and 2002 explaining their outsourcing decision and proposed network solution to Congress and their staffs (Porter 2008). Congress imposed several requirements while taking incremental steps and funding over the next few years as the Navy sought to prove its solution was legitimate. The Navy and contractor EDS lost nearly a year in the network development and implementation process due to these requirements, leading to a financial loss for EDS, where its stock price plummeted, its chairman was ousted and bankruptcy loomed (Gilligan 2008; Onley and Wait 2005b). The extent of requirements

imposed by Congress on the Navy and EDS, along with its partial funding approach and threats to slash funding were not conducive of a neoliberal agenda as the primary factor in shaping the Navy's NMCI outsourcing effort.

Irregular Procurement Actions

The following section highlights irregular procurement actions that focused on streamlining and advancing the NMCI acquisition process at an accelerated pace. The actions reflected the interests of senior naval leaders to complete the procurement process without congressional oversight and avoid potential setbacks if the contracting approach was modified and new funding was required. As opposed to ideological motivations, the procurement actions are more indicative of organization factors shaping outsourcing activity. Navy actions represented a quick solution to an unsatisfactory IT environment, where the Navy needed a reliable and secure network to accomplish daily operations. Factors working against the Navy fielding an in-house IT infrastructure included budget constraints that limited their options, limited IT expertise, and an organization structure where lower echelon units were the power center for the Navy's network configurations.

The Navy's approach to launching the NMCI project was marked by a highly irregular and accelerated effort that appeared to circumvent the established procurement actions for outsourcing an activity. It publicly announced its decision to outsource its intranet in the summer of 1999, awarded a contract in October 2000, and attempted to provide a level of initial operational capability by December 2001. The aggressive, service established goal, was not the result of specific mission needs (Li, Brock 2000, 3). Yet organizations were becoming more dependent on network capabilities for daily

communications across the Navy, and DoD-wide where increasing security breaches threatened the integrity of the information, networks and supporting missions.

In order to avoid delays and congressional budget battles that could have threatened the project, the Navy chose to skip standard procurement practices, including congressional review, and requests for new funding for the project in its FY 2000 and 2001 budgets. The system was never tested to determine its viability over in-house alternatives, the acquisition plan was incomplete and, as noted above, the Navy attempted to bypass Congress for funding and approval.

Given these irregularities, a Memorandum of Agreement (MOA) was created between the DoN and OSD to complete unfinished procurement requirements and legal requirements of the 2001 National Defense Authorization Act. It requested the DoN provide incomplete data on the NMCI system (revised business case analysis, operational testing and evaluation, compliance with DoD information assurance architecture and user satisfaction data). Despite irregularities and the MOA request, the Navy signed a $6.9 billion contract with EDS in October 2000 that did not incorporate these requirements (HOR 2001a, 158; Johnston 2000).

Bypassing Congress

To implement the network contract quickly without the necessary funding, Joseph Cipriano, the NMCI project manager, in combination with Secretary Lee Buchanan (Acquisitions) and Charles Nemfakos (Financial Management) created a multi-year contract for services to procure NMCI under 10USC.2306G of the federal code, suggesting that it was an ongoing expenditure for services (Orr 2001, 2). This contract

vehicle permitted the head of the Navy to enter into multi-billion dollar contracts for certain services without congressional review and authorization (Li, Brock 2000, 8). Standard multi-year contracts for the acquisition of property greater than $500 million required congressional authorization. However, Navy officials argued that the nearly $7 billion intranet contract represented an acquisition of services, not property, alleviating them of the requirement for specific oversight and authorization (Li, Brock 2000, 8).

Non-Compliance with Federal Law

The Navy procurement approach for NMCI was marked by several other shortcomings that failed to meet criteria of the Clinger-Cohen Act of 1996, based on a 1999–2000 review conducted by the GAO at the request of the Chairman of the Military Research and Development Subcommittee. GAO reports have been useful authoritative critiques in studying and evaluating government actions and decisions, such as outsourcing within the federal government. The GAO review of the NMCI project highlighted incomplete compliance with the Clinger-Cohen Act. It required the Navy to provide performance measures, return-on-investment data, alternative systems analysis, an information assurance strategy, and an effectives process for managing the network (Verton 1999c, 1).

The report also pointed to the Navy issuing its request for proposals (RFP) for the NMCI system without completing a business case analysis and testing its approach. The Navy's proposed network relied on a set of untried performance measures and inadequate compliance data to determine an appropriate acquisition strategy and desired level of service (Li, Brock 2000, 2). The Navy was unable to demonstrate the viability of its

approach and the superiority of its private-sector solution over other alternatives (Li, Brock 2000, 2). Finally, the Navy's ability to provide large cost savings was questionable due to conflicting, vague and unsupportable funding data for the contracted service, as compared to an in-house alternative (HOR 2001b, 296).

Reaction to NMCI from Congress and the Executive

The initial congressional reaction towards the NMCI project did not support a neoliberal agenda to advance the role of the private sector in the federal government. Their initial reaction was a combination of surprise and hostility, followed by gradual support (HOR 2000b, 346). Congress gradually supported the Navy system, despite inconsistencies in the procurement process, based on a slow one–to-two year incremental approach to show proof of their concept. As discussed in this section, actions taken by Congress were primarily focused around making the Navy prove it could establish and manage its enterprise network infrastructure, which supported up to 700,000 personnel, through a contractor. The Executive branch had little involvement in the day-to-day contract implementation process, and with the approval of Congress supported funding for the contracts continuation.

In Spring 2000, as expected, Congress reacted with concern and chastised the Navy for not treating the NMCI like a major acquisition. As noted by Dan Porter, the Navy's CIO during this period, "Congress was miffed that the Navy did not see fit to brief them on their network intentions and thought we were trying to pull a fast one" (Porter 2008). Dan Porter notes how the Navy did not see it that way, but rather was moving at Mach speed and wanted to operationalize their network vision in the present (Porter 2008).

Congress did not appreciate what looked like a Navy shortcut to acquire a significant system and capability without going through the government's financial gatekeeper (Porter 2008).

Specifically, the Navy planned to spend billions of dollars on acquiring IT services without congressional oversight, or approval and without the specific requirements established by the 1996 Clinger-Cohen Act (Orr 2001, 1). Congress questioned how the Navy was going to provide the new funding to pay for its multi-billion dollar project; also, how the service would ensure the funding would not be misused or wasted since the magnitude of the contract constituted a major acquisition. The Navy did not have a plan for new funding or cost oversight. Rather, in combination with its creative contracting approach discussed above, it assumed the NMCI cost would be consistent with expenditures for its current IT structure.

Throughout a two year period while Congress demanded the Navy rectify its shortcomings and treat NMCI as a major acquisition, it gradually supported the Navy's approach to outsource their vast shore-based intranet architecture based on an incremental process marked with testing requirements to validate the network design. Congressional actions during this period demonstrated strong oversight and it was clear to Navy leadership that Congress would withhold funds if their requirements were not satisfied accordingly (Porter 2008). The House Committee on Armed Services initially reacted to the IT acquisition by prohibiting the Navy from using FY2001 funds for the NMCI (and the payment of a long-term contract for comprehensive end-to-end information services) until supporting documentation was provided to Congress including specific funding requirements for the NMCI contract (HOR 2000b, 345–346). While the

House Committee supported the Navy's initiative, they questioned the Navy's ability to provide large cost savings due to conflicting and unsupportable funding data (HOR 2001b, 296).

The Senate Committee on Armed Services' 2001 Defense Authorization Act Report recommended that the Secretary of the Navy provide a report to Congress on NMCI financing and its impact to the existing civilian workforce (Senate 2000, 326). They supported the Navy's effort to address their IT problems despite the many questions regarding the effectiveness of the Navy's NMCI contracting approach (Senate 2000, 326). The committee encouraged other military services to address their IT infrastructures in an equally comprehensive manner (Senate 2000, 326). Both the House and Senate requested the program be implemented in accordance with the Clinger-Cohen Act so that the impact to federal employees be mitigated (HOR 2000a, 145; HOR 2000c, 828; Senate 2000, 325–326).

The 2001 Defense Authorization Act authorized a phased implementation for the NMCI (HOR 2002, 298). It allowed for an initial fielding of 15 percent of the desktop service units required in the contract, while the Navy was expected to complete testing and evaluation and comply with IT guidelines established by the DoD (HOR 2001a, 158). The House DoD Appropriations Bill Report for FY 2001 highlighted concerns associated with the Navy's actions and still supported their efforts to seek innovative solutions to their existing IT challenges. The House Committee on Appropriations was willing to consider the NMCI program outside the normal budget process due to its private sector (innovative) approach to managing the network (HOR 2000a, 144). The Committee also directed the Secretary of the Air Force to conduct a study and provide recommendations

comparing different solutions to managing an IT network and how they could be implemented, including lessons learned from the NMCI effort (HOR 2001a, 159).

Lawmaker support for the Navy NMCI acquisition remained strong in the 2002 Defense Authorization Act, which granted the Navy the authority to order 250,000 more desktop service units, over half the program, before operational testing of the original 15 percent from the FY2001 authorization was complete (HOR 2002, 298). Additionally, in October 2002, with congressional support, President Bush signed HR 5647 extending the NMCI contract from five to seven years because delays in getting the infrastructure built as a result of problems converting complex legacy systems (Onley 2002a). The extension authorized an additional $1.96 billion for the contract giving EDS a longer period of time to recoup its investment costs (HOR 2002, 298; Onley 2002a).

Through 2005, the NMCI system was plagued with several shortfalls including ineffective integration between the Navy's tactical ship-borne networks and deployed DoN forces (an initial requirement of the network), limited communications between some Navy and Marine communities and Air Force and Army networks, a lack of integration strategy to incorporate legacy networks still prevalent throughout DoN organizations, and questionable satisfaction of customers (Jordan 2007, 9–10). Despite these issues, Congress and the Executive continued to provide funding for the NMCI system and extended the contract through 2010, adding $3 billion to the contract value (Thuermer 2008, 1).

Air Force and Army

Ideology did not appear to be a factor in explaining the Air Force and Army decision regarding its network management and development. Despite interest from Congress and the Executive in increasing outsourcing of commercially relevant activities, and pressure from the DoD to find savings through competitive sourcing activities, the Air Force and Army chose to retain control of their network infrastructure in-house. In comparison to the Navy, where senior leaders from across the DoN supported outsourcing the Navy's network solution, top leaders in the Air Force and Army did not voice similar interests, nor did civilian leaders have a similar hands-on approach, as the Navy, with regards to the network development process.

John Gilligan, CIO of the Air Force during this period, was active in shaping IT management. As a lifetime government civilian and member of the Senior Executive Service, he worked across several different administrations. He was not a political appointee and there was nothing to identify or distinguish Gilligan's ideological beliefs or whether they affected the network related actions taken by the Air Force. In the Air Force, the Air Force Secretary and other political appointments (assistant secretaries) with potential impact on IT policy did not appear to weigh in on outsourcing of networks or how Air Force leaders managed IT resources and potential outsourcing opportunities.

In the Army, there was no indication that the Secretary or other civilian leaders within the service attempted to use their own beliefs and interests or those from members of Congress or the Executive to affect the Army's approach to establishing and operating its IT infrastructure and the extent of outsourcing to support its requirements. Rather, the Army chose Major General James Hylton to lead the newly created NETCOM, their

primary organization for delivering information technology services and operating and defending the Army's network (Tiboli 2005, 1).

Summary of Findings

While neoliberal beliefs and ideas were popular in the Executive branch and Congress during the second Clinton Administration and G.W. Bush Administration, they did not appear to be causal factors in the NMCI outsourcing project or in the Air Force or Army network actions. The Navy process for choosing an enterprise network solution was driven by a working group of 75–150 senior leaders that started with the assumption that the network would be provided and managed in-house by the Navy's SPAWAR organization (Porter 2008). As noted by Dan Porter, the priority was not to save money or reduce manning positions, but to field an enterprise network.

Outsourcing NMCI was less a result of political ideology and more a reflection of organization factors including Navy budgetary limitations and local organizations being the power center for IT procurement and network development. The Navy's lack of coordination with a friendly neoliberal Congress, in combination with a highly innovative and risk-prone funding approach that appeared to elude congressional review, suggested a measure of organization expediency and a distrust of members of the House and Senate in terms of expecting a favorable review and approval.

While a neoliberal-leaning Congress and Executive appeared helpful in the passage and follow-on extensions of the Navy's monumental IT service contract, it was clear by the tone of Congress and the actions of the Navy that a neoliberal agenda was not the key driver in explaining the initial outsourcing decision. As Navy civilian leaders

failed to communicate with Congress in regards to the biggest IT outsourcing deal in the history of the federal government, Congress appeared ready to withhold required dollars for the network unless the Navy addressed several irregularities and instances of incomplete data surrounding the network contract (Porter 2008). In addition, meeting congressional requirements to ensure the network project was capable of supporting Navy objectives and federal government requirements in the Clinger-Cohen Act factored into funding and support for the network contract.

There was no indication within the Air Force or Army that political ideology factored into the decision making of leaders in shaping their network development actions. Both services retained control of network management and operations primarily with in-house resources, despite efforts of the administration with the support of a Republican Congress to increase competition and the role of the private sector in performing government activities.

ORGANIZATION FACTORS

By examining the significance of the organization framework in explaining the outsourcing of network infrastructures in each service, this section will evaluate the hypothesis that organizations are more inclined to outsource activities not associated with their primary mission, when budget reductions impact the primary mission, or new activities with limited in-house expertise.

The Army, Navy and Air Force represent different service cultures and missions. The expectation is to find each service demonstrating a unique approach to IT transformation and the development of IT networks based, in-part, on their culture, mission and

independence/autonomy. I also expect to find the organization framework useful in explaining outsourcing behavior for the NMCI due to its non-core nature in relation to the Navy's limited budget; and to find limited outsourcing activity in the Air Force and Army, due to the network's integral role in its war-fighting mission.

Navy

Organization factors offer a useful explanation for the outsourcing of the NMCI, considering the significant attention and commitment given this non-core function by Navy leaders. The shore-based network was considered non-core and thus a candidate for outsourcing, based on the nature of the Navy mission. As opposed to the Air Force and Army, naval forces were not considered garrison but rather, expeditionary, forward-deployed forces, fully mobile and ready for offensive actions at all times (Barnett 2007, 28). The Navy's essence was fundamentally captured in the expeditionary, forward-deployed culture embodying individual initiative and freedom of action (Barnett 2007, 28–30). The Navy's "Sea Power 21," its strategic concept for the 21st century, emphasized three fundamental areas central to the Navy's operational effectiveness: Sea Strike, Sea Shield, and Sea Basing capabilities (Clark 2002, 3).[78] The shore-based network was not integral to these expeditionary, sea-based missions.

Based on a combination of independent variables addressed below including Naval budget constraints, local organization autonomy in budget execution and IT purchasing power, senior leaders saw outsourcing as their only method of attaining the desired network infrastructure without delay. The decision resulted in a rocky transition as local

[78] Sea Strike is the ability to project precise and persistent offensive power from the sea; Sea Shield extends defensive assurance throughout the world; and Sea Basing enhances operational independence and support for the joint force (Clark, 2002, 3).

organizations lost control of their network resources, while new standards and procedures produced dissatisfied customers.

Within the Navy, lower echelon organizations were the center of power for IT and network development. As noted by Navy CIO Dan Porter, lower echelon organizations maintained budget execution control and responsibility for purchasing IT capability. They purchased IT subjectively based on their mission and developed their own processes to establish a rudimentary network capability at each organization. This was aligned with the Navy's cultural aspect of adaptability, characterized by individual initiative and freedom of action(Barnett 2007, 29).

This environment resulted in uneven network distribution and a patchwork development of IT and networks causing increased security breaches and diminishing the overall effectiveness of the Navy. Network resources competed against operational requirements for budget allocations. Organizational leaders had a direct effect on IT resources since the Navy did not have a central source selection organization for procuring IT equipment and services (Murray 1999b, 2; Porter 2008).

The vacuum in IT standardization led each major Navy program to compete against the others for IT funding and fulfill their own local stovepipe requirements, that created IT have and have-nots (Murray 1999b, 2; Wennergren 2003). Once an IT program was in the budget, organizations were set up to be funded annually to support these programs for as long as they could be justified (Wennergren 2003). Thus, organization leaders within each command dominated the control of IT funds– $1.5 billion for the Navy in 1999. The Navy's budget and organization structure allowed leaders to establish their own IT infrastructures and networks (more than 140) to meet functional mission requirements; it

also had the effect of increasing the breadth, capability and influence of their organizations (Murray 2001, 1). The result was an extensive assortment of different IT systems owing to the lack of an enterprise network architecture and central IT procurement process (Porter 2008).

Senior Navy leaders faced both financial and organizational challenges in establishing a Navy enterprise network that addressed security and connectivity difficulties in their preexisting networks. Financially, the Navy did not budget for a new $7 billion network, and budget autonomy rested at the local organization level where unit purchases were based on each unit's operational mission, as opposed to the overall needs of the Navy. Navy senior leaders were not confident that they could orchestrate an in-house solution given their constrained and inadequate budget, and the autonomous purchasing environment with their organizations (Porter 2008). There was no way for Navy leadership to ensure effective standardization and development of a homogeneous network given this organization structure and constraint (Porter 2008). Unlike the Air Force, where the CIO had leverage in centralizing and standardizing IT purchases and network requirements with budget authority, this did not exist with the Navy CIO (Porter 2008).

The problems associated with depending on local organizations to provide the required funding for the new network were highlighted, in part, by past experiences with A-76 competitive sourcing practices within Navy organizations. In 1995, the Navy bought into A-76 competitive sourcing practices and programmed $5 billion in budget savings from expected A-76 competitions into its future budget (Porter 2008). As a result of Navy organizations not participating at expected levels to reach their projected

financial savings and produce the expected A-76 results, and Navy leadership not having a process to hold organizations accountable to participating and producing their expected savings, it did not produce its $5 billion budget savings (Porter 2008). It created overall budget problems and led to dissatisfaction with the overall A-76 process. It also helped to color the decision making of the Navy leadership team in regards to how the NMCI would be created and sustained.

As noted by Halperin, organizations are vigilant about their absolute share of the budget (Halperin, Clapp, and Kanter 2006, 57). Organizations with expensive capabilities are concerned about budget decisions and the budgeting implications of policy decisions (Halperin, Clapp, and Kanter 2006, 26). In May 2000, Navy organization leaders became concerned that the DoN would reprogram part of their budgets to support NMCI after Congress threatened to withhold money due to the Navy's attempt to bypass congressional approval and irregularities in their procurement requirements. Senior admirals met with the Navy's CIO Dan Porter, Vice Chief of Naval Operations Admiral Donald Pilling, and other officials to discuss the Navy's reprogramming efforts and how to pay for its originally estimated $7 billion intranet (Verton 2000b, 1).

Navy and Marine Corps commands required $2.1 billion yearly to support their ongoing network system, higher than the $1.52 billion originally estimated. The Navy could only account for $1 billion in available assets (Verton 2000b, 1). Exemplifying the independent nature of organizational leaders, the Navy's senior group of admirals was not ready to divest their funds for a new IT initiative. Admiral Vern Clark, Commander of the Atlantic Fleet, told the Navy Secretary that it was unacceptable to ask

commanders to cut money from their operating forces to pay for NMCI (Verton 2000b, 2). The Navy found itself in a tenuous situation. Ultimately, the Navy needed the support of Congress for funding to support NMCI.

Organization Resistance

The NMCI was not an easy sell to its users as it went against the culture of the military organizations to turn over the reins of internal communications to an outside industry (Onley 2001c, 1). Additionally, organizational budgets were depleted of resources once used for IT, and a degree of independence and autonomy was removed through external intervention. The Navy's deputy CIO, Dave Wennergren, noted that his biggest challenge was the cultural change within units. He spent much of his time with personnel addressing the change, getting buy-in and process reengineering (Walker 2002, 3).

Dissatisfaction became apparent as organizations began to adjust to the private sector actors developing and managing a new network system. Many organizations were reluctant to relinquish control of their network capabilities due to their growing dependence on them as a primary conduit to support their missions. Many users were dissatisfied, arguing that is was too costly, that network performance had deteriorated, and the migration of old applications to the new platforms did not run smoothly, as acknowledged by top Navy officials (Onley 2003, 2; Onley 2001c, 1).

Part of the organizational dissatisfaction rested with their limited control and flexibility in the system. Organizations were limited to a particular type of network

capability and paid for support through the contractor, as compared to the support provided by in-house Navy personnel prior to outsourcing at no additional charge. While EDS developed, maintained and serviced the Navy shore-based network, the DoN provided a menu of both levels of service capability and support options that EDS would provide to organizations. Organizations chose from these service and support options and agreed to pay the established price (Porter 2008). For example, there was a set cost for the basic level of service and support required by all units. Increased levels of service and support for organizations that wanted greater capabilities and quicker support for service outages, software glitches and other problems came at a higher cost (Porter 2008).

DoN leaders established a minimum level of service and customer support in the NMCI contract that all users had to procure, while security was standardized across the entire network. The NMCI outsourcing contract gave Navy users the opportunity to purchase upgrades to the basic level of service and support. Some users could have an increased level of service capability and quicker customer support response times to address problems and network outages than other users in different organizations. This, to some degree, maintained the system of those having the maximum and minimum amount of IT network support across the Navy. It dissatisfied some personnel who were accustomed to a standard customer support protocol facilitating all users in the same manner, when IT was managed in-house.

The IT network management was transformed from a local set of networks to a common, enterprise-wide solution that affected business processes in all organizations across the service. Users were no longer able to design their own desktop, use their own logos, and install their own applications (Jordan 2007, 7). Personnel and organizations

were required to conform to stringent rules, forego installing personal applications and be dependent upon enterprise management to load, maintain, and upgrade certified applications resulting in user dissatisfaction (Jordan 2007, 7–8). For example, the network/IT help desk process changed from Navy users calling a collocated in-house IT help desk and getting relatively immediate assistance to calling a regionalized contractor operated help desk, not collocated, having a much longer service response time (up to a few days) and a fee-for service charge (O'Boyle 2008). In addition, moving a computer from one desk to another required contractor permission and had a service charge fee as well (O'Boyle 2008).

Despite the potential benefits offered by a centrally managed network system, organizational resistance to the outsourced intranet also resulted in a slower than expected conversion and elimination of legacy systems across the department. Organizations had become dependent upon specific software and network infrastructure capabilities and were unwilling to relinquish control of those systems until an adequate replacement and transfer could occur. As of 2005, many commands were still using legacy networks and applications with no overall strategy to resolve technical interface issues and facing contractual problems regarding who would pay for legacy applications and the servers hosting these applications (Jordan 2007, 9–10).

The Marine Corps network faced increased degradation by the Navy outsourcing effort despite initial support from their military leaders. Senior Marine Corps leaders initially voiced public support and eager participation in the new system. Despite language in the House version of the 2001 Defense authorization bill that would let the Marines opt out of NMCI, Marine Corps leaders had no plans to leave the program and

planned to begin using it in 2002 (Dorobek 2001, 1). Yet, as a component of the Navy, and with senior DoN leadership committed to building the intranet, Marine Corps leaders had little choice but to agree to participate (Onley and Wait 2005a).

There were concerns within the Marine Corps as to the NMCI's ability to support their requirements and activities. Navy Colonel Michael Albano, Commander of the Marine Corps Tactical Systems Support Activity, noted that the Marine Corps Enterprise Network (MCEN) had provided excellent service to all Marine Corps units and it remained unproven whether EDS could be as responsive to Marine Corps needs as in-house resources (Murray 2000b, 4).

For example, the Marines were already using a secure central network control center and standard network architecture with their MCEN, which the Navy lacked (Murray 2000b, 4). In addition, the Marines had merged their garrison and tactical command, control, communications, computers and intelligence systems in 1997 to integrate their support and operational units. Outsourcing NMCI caused the Marine Corps to backtrack in advancements they completed for integrating IT across their missions. Since the Navy contract was only for the shore-based intranet, the Marines needed to separate their garrison and tactical systems. Instead of offering additional efficiencies and savings, NMCI presented the Marines with a new challenge of ensuring they continued to provide seamless connectivity between both networks (Murray 2000b, 4-5). In addition, whether the Marine Corps would see a savings dividend remained questionable, as NMCI had the potential to cost more than the MCEN and adversely impact other Marine programs (Murray 2000b, 5).

In 2004, senior military leaders began to publicly voice their frustration and disappointment with the system. Lt. General Edward Hanlon, Commanding General of the Marine Corps Combat Development Command, argued that the slow roll-out and transition efforts for the system had been rocky and problematic, and criticized EDS for not being prepared to implement the contract (Webb 2004, 1). Rear Admiral Anthony Lengerich, a senior vice commander with the Naval Sea Systems Command, warned that the services would lose their workforces if the Navy and EDS didn't better manage the transition to NMCI and produce the same efficiencies that the workforce had before the integration (Onley and McLaughlin 2004, 1). Representative Mark Kirk (R-Ill.) a Navy reserve officer, called NMCI "a very customer unfriendly system," suggesting that members were unwilling to discuss problems with NMCI that were widespread (Onley 2006, 2).

Air Force

Organization factors are useful in explaining the Air Force approach to outsourcing and managing its network operations. The hypothesis denotes that new activities and those outside the scope of an organization's normal wartime specific mission are likely to be privatized in periods of budgetary decline. While networking was a relatively new activity and overall service budgets were decreasing, networks became integral to Air Force missions and budgets increased for IT and network development. The network was considered a weapon system where service leaders maintained control and an inherent capability.

Independent variables affecting Air Force decision-making included leadership's desire to keep control at the highest level of the Air Force, limited autonomy within organizations, and the budget. Initially, networking was a relatively new activity developing from within organizations as a communications resource and outside the scope of the Air Force wartime mission. However, unlike the Navy, the Air Force embraced the network as a core function, maintaining in-house control of the network infrastructure and management. The Air Force was also more of a garrison force where the nature of their mission called for personnel to use a common network for both deployed and home-base operations.

As noted earlier, the Air Force managed its Middle East network operations from a stateside location for Operation Enduring Freedom and Operation Iraqi Freedom (Gilligan 2008). Outsourcing was however used to support varied aspects of network operations, per the guidance of Air Force IT leadership, in areas lacking IT expertise and for sophisticated and complex network functions.

Opposition towards outsourcing in support areas like IT showed up at the highest levels of Air Force leadership. Outsourcing was discussed at the Air Force Corona conferences (periodic meetings between senior Air Force service leaders – General officers and equivalent federal civilians). For example, the former Assistant Secretary of the Air Force for Manpower Reserve Affairs, Michael Dominguez, pushed for outsourcing in the personnel specialty career fields (Gilligan 2008). However, addressing potential outsourcing of established career fields and capabilities was difficult to accept for senior Air Force leaders (Gilligan 2008). There was a reluctance in making a very big change to the way of business with little insight into its long-term impact on the force and

mission (Gilligan 2008). Even if they agreed that it was something the Air Force could do, getting started and undertaking the change appeared as a significant challenge to the standard operating procedures that some felt were better left alone (Gilligan 2008). Air Force leaders were reluctant to give up control of traditional support capabilities such as personnel, communications/IT and logistics.

The influence of senior Air Force IT leadership on organization IT activities with the support of major command leaders led to the retention of network management in-house, providing the foundation for developing the Air Force IT enterprise. As opposed to the Navy where autonomy at lower echelon units was marked by their influence and independence in budget related activities, the center of power in the Air Force organizational structure during this period was at the Headquarter (HQ) level. This was facilitated by the growing involvement of the Air Force in expeditionary type activities in the 1990s. The implementation of the Air Force's Air Expeditionary Force structure, used for deploying forces in support of wartime operations after 2001, moved the HQ level leadership into direct oversight of their organizations by planning and deploying units for activities supporting conflicts in Iraq and Afghanistan.

The Air Force Air Staff took a central role in directing IT and network development. Unlike the Navy, the Air Force CIO was able to centrally budget and procure IT resources that supported strategic planning and the development of an enterprise network. As noted by Air Force CIO John Gilligan, he was able to direct the centralization of network assets in building the Air Force enterprise network by using the chain-of-command approach and giving the responsibility to major command leaders to

have their subordinate organizations comply with the Air Force CIO's network objectives (Gilligan 2008).

Additionally, despite DoD budget constraints, growing network requirements provided a new resource for funding as the Air Force received billions of dollars to support their IT requirements. This was highlighted in 2005 when Senator Carl Levin (D, MI), ranking Democrat on the Senate Armed Services Committee, noted that IT spending was one of the fastest growing parts of the DoD budget (Tiboni 2005, 1). In 1996 the Air Force IT budget was approximately $2.47 billion and grew to more than $6.3 billion in 2005 (DoD 1997, 7; GCN 2005, 5). The Air Force became the first service to request more than $7 billion for IT spending in 2006 (Tiboni and Brewin 2005, 1). The significant increase in funding for IT was an attractive feature in maintaining in-house control and management of network operations and development. It provided flexibility and greater choice for Air Force organizational IT leaders responsible for consolidating organization networks and creating an enterprise approach to managing the network as a weapon system.

Retention of skilled IT personnel was a key factor for Air Force leadership in maintaining control of their IT network capability with in-house resources. In April 2003, Air Force CIO John Gilligan testified before the House Armed Services Committee, noting the challenge of retaining IT personnel to support net-centric operations (Freeman and Suddarth 2004, 208). Yet, competition from higher paying private sector IT firms, along with the decreasing size of the military force structure led to a shrinking of the IT force structure. In an effort to maintain the Air Force's military and civilian IT professionals for core war fighting IT missions, Air Force leadership

began to evaluate commercial-like information technology functions for possible outsourcing (Freeman and Suddarth 2004, 208).

John Gilligan noted that outsourcing efforts, where appropriate, could help to overcome the 30,000-person shortfall the Air Force faced in its war fighting mission (Tiboni and French 2003, 1). The objective was to redeploy critical IT skills in the war fighting mission and outsource back-end IT operations, such as maintaining networks through the consolidation of servers into farms at a central network control center at each base (Murray 2002, 2–3; Tiboni and French 2003, 1). The Air Force used outsourcing as a vehicle to fill voids in its capability and in areas where skilled personnel were either limited or the skill-set was nonexistent.

In an effort to build a secure enterprise network, the Air Force had begun to centrally manage and consolidate its network computer servers into large scale server farms, rather than locally maintain them at Air Force locations (Brewin and Verton 1998, 3). As noted earlier, this was accomplished from the CIO's office with implementation directives to each of the major commands. The Air Force was able to avoid many of the problems faced by the Navy because its network reorganization actions were done in-house as military organizations took control over all necessary changes (Gilligan 2008). Air Force efforts at consolidating their computer servers and networks and standardizing desktop computers with consistent hardware configurations across the service produced an estimated savings of $200 million annually. It allowed service officials to move approximately a thousand personnel in the IT community from administrative back-end IT functions to war fighting positions (Tiboni 2004b, 1).

Air Force leaders could not avoid the DoD's large scale outsourcing and privatization effort that began in 1998, seeking $7.5 billion annually for modernization efforts, as noted earlier (Suss 1998, 1). The Air Force decided to test small samples of network outsourcing in organizations that did not deploy resources and affect core mission activities (Murray and Seffers 2001, 1). For example, the Air Force concentrated its outsourcing studies on noncombat commands running pilot desktop outsourcing (seat management) programs (Brewin and Verton 1998, 2). An example of this approach came in 1999 with a small pilot network at Wright-Patterson Air Force Base, Ohio. While the Navy was at the beginning stages of competitively sourcing its entire shore-based network, the Air Force awarded a small desktop outsourcing contract to Federal Data Corporation to support 220 Special Operations Forces personnel serviced by a self-contained network (Verton 1999a, 2). The contract provided a good test bed for the Air Force to evaluate the support and management provided by the private sector.

In 2004, the Air Force began to consider outsourcing the management and support of its digital imaging and printing equipment that were not Air Force core competencies. From an organization perspective, outsourcing these functions was aligned with the nature of the organization, as functions considered external or non-pertinent to its primary mission consumed resources and personnel that could be used for primary missions. Organizations were more interested in providing personnel and spending resources for operations/activities supporting the conflicts in Afghanistan and Iraq.

In support of retaining the network capability within the organization, Air Force leadership continued to make efforts to prioritize networks as a fundamental element in their current and future war fighting effort. This was emphasized in the 2004

consolidation of three information technology offices ensuring the current and future IT projects were integrated into the service's war fighting operations (Tiboni 2004a, 1). The Office of Networks and War fighting Integration provided the Air Force with the structure to build an enterprise approach and ensure networks and IT policies coalesced to support the war fighting effort.

Army

Evaluating the effectiveness of organization factors in explaining the Army approach to outsourcing its IT infrastructure, the hypothesis being tested is that new activities and those outside the scope of an organization's normal wartime specific takings are likely to be privatized in periods of budgetary decline. Many of the actions taken by the Army regarding network management and infrastructure development paralleled efforts taken by the Air Force in establishing their IT network infrastructure.

This section will evaluate Army actions in the 1990s, when networks were decentralized, through 2004, when network management was consolidated under NETCOM and recognized as a core war fighting capability. In 2001, the Army identified its network as a core capability retaining control over the development of its network infrastructure and the budget associated with it. The Army's organizational essence was primarily a garrison force that deployed to contingency and wartime locations as needed. Its early network, which developed similarly to the Navy and Air Force at the local unit level in a decentralized environment, became integral to their operations as networks increased in capability and became a dependent resource for most unit leaders. Deployed soldiers used the Army's global network from worldwide

locations to communicate and assist in daily operations. It was integral to its wartime and peacetime missions. The Army, however, continued to use outsourcing as an avenue to attract skilled IT personnel to fill voids in capability.

IT actions taken by the Army's Materiel Command represent how organizations across the Army addressed IT when local organizations developed their own networks. In 2000, James D. Buckner, CIO of the Army Materiel Command, understood the importance of IT and the network, but saw it as a peripheral function to his organization's primary mission. Though networks were a conduit to accomplishing command objectives, Army Materiel Command was spread across 40 states and 24 countries and responsible for delivering all support and operational requirements to the soldier (Buckner 2000).

Being responsible for requirements associated with managing a global network and its peripherals took manpower and resources away from primary missions. The rapid change of technology resulting in updating IT products every two to three years along with ongoing maintenance and updates to the network infrastructure was a full-time challenge for any organization. Buckner, like other Army organization CIOs, preferred a desktop outsourcing contract giving ownership and responsibility of the network and its peripherals to the contractor (Buckner 2000). The support for IT outsourcing can be linked to the subordinate role of IT, and it not being the primary objective of his organization's traditional mission. As suggested in the private sector and in the Navy, desktop outsourcing had become a convenient approach for organizations unwilling to embrace the integral role of IT and networks in their primary mission.

For example, Buckner's subordinate command, the Army's Simulation, Training and Instrumentation Command (STRICOM) had completed a pilot desktop outsourcing contract for the management of their thousand PCs (Murray 2000a, 1). Litton PRC Incorporated managed the network and help desk, and took ownership of the computers while also refurbishing and replacing all PCs while in-house IT personnel were utilized at other organizations in core mission activities (Buckner 2000; Murray 2000a, 1).

In 2001, the Army began to recognize the importance of treating networks as core capabilities integrated into their wartime missions. Key to the Army's IT centralization and efforts to treat networks as core and war fighting capability was the realignment of its IT infrastructure management and control into the newly established NETCOM. NETCOM, which had been Army Signal Command, had technical control over the information management directors at all Army installations. The Army commitment to standardizing and controlling its networks was demonstrated in an effort to standardize software across the Army. NETCOM established a software-blocking policy to ensure that Army organizations ran similar versions of all software (Temin 2002b). These actions exemplified the Army interest in managing and controlling its infrastructure as an enterprise and core capability.

Similar to the Air Force Netcents solutions to address IT requirements and purchases, the Army IT transformation enlisted the assistance of the private sector for guidance and IT acquisitions through multiple large requirements contracts and vendors (Wait 2005, 1). While NETCOM assisted with helping to determine candidates for outsourcing, it was also the focal point for all Army IT equipment and service purchases, the Army established the Army Enterprise Infostructure Transformation (AEIT) program

to reduce the costs of acquiring IT solutions through a selection of contractors to support its IT needs (Caterinicchia 2002b, 1; McCarter 2003, 1–2). The Army also established the Army Small Computer Program (ASCP) based on the success of the Air Force Commodity Council to gain benefits through consolidating IT purchases (FCW 2005, 1).

The Army continued to use outsourcing as a vehicle to assist with filling capability gaps in network tasks due, in part, to the reduction in qualified IT and digital soldiers/specialists.[79] As the DoD force was reduced by more than 30 percent in the 1990s, qualified IT manpower within the Army were sought by the private sector with greater salaries than those received within the military, resulting in an attrition problem of qualified personnel. Shortage of qualified personnel, in combination with increased deployments, reduced the capability of the Army to support complex IT technologies with in-house resources. It led Army officials to outsource technical areas of their network mission that lacked sufficient in-house expertise.

Lack of abundant, technically proficient soldiers was evident at the Army's Task Force XXI exercise in 1997. It was the first digitized ground force exercise where the tactical internet was the central feature and key element of the exercise at Fort Irwin, CA (Hanna 1997, 1–2). Building the tactical internet required integrating the efforts of contractor personnel and soldiers, and the Army needed to rely on contractors to train and equip forces with state of the art technology (Hanna 1997, 4).

From Task Force XXI to the conflicts involving Army forces in the post-2000 era, many of the Army's deployed operations used contractors to augment and assist in the IT network mission. In Afghanistan and Iraq, the tactical network was complex,

[79] Digital soldiers are those members trained in IT skills to intuitively operate complex systems (Toomey 2003, 43).

maintenance-intensive, and built around static, line-of-sight nodes that go off-line during movement (Toomey 2003, 44). Maintenance of the network and sustainment of digital systems continue to rest primarily with an expansive cadre of civilian contractors; establishing the network and keeping it running is a highly specialized talent (Toomey 2003, 44).

Summary of Findings

Navy - The hypothesis that organizations are more inclined to outsource activities not associated with their primary mission, when budget reductions impact organizations, or new activities with limited in-house expertise, is useful in explaining the Navy outsourcing effort. Lack of funding for the NMCI was one of the Navy's major impediments to creating an in-house solution. The DoN did not strategically budget or program for an enterprise-type network and DoD budgets steadily decreased throughout the 1990s. Without a programming plan or approved congressional budget line for NMCI, Navy leaders were left with the options of either funding the project through existing IT funding with an in-house solution, requesting immediate funding from Congress, or developing a creative solution through outsourcing to provide the network requirements. The Navy was left with outsourcing the network since its other options did not meet its network objectives. The in-house solution faced a continuation of their decentralized IT environment with network control at the local level and insufficient funding. Requesting immediate funding from Congress would slow the delivery of the network due to its size and acquisition requirements and there was no guarantee of congressional approval.

A second factor supporting the proposition was the nature of budget execution dynamics across the Navy that resulted from an increased level of independence and autonomy at the local organization level. Budget execution was centered at lower echelon organizations that made it very difficult to accomplish an in-house solution. These lower echelon organizations were the center of power for the Navy's IT and network development. They subjectively prioritized purchases based on their operational missions. The Navy CIO did not have budget authority (Porter 2008). Shore-based IT support was developed inconsistently across the Navy as each organization prioritized IT differently and based it on local operational requirements. Some leaders prioritized IT higher on their shopping list than others. Yet, with only one budget to support all organization requirements, operational needs remained higher on the list than IT services.

As noted by Navy CIO Dan Porter, the Navy did not want to take budget execution power away from lower echelon organization leaders. They were, in effect, like business Chief Executive Officers (CEOs), responsible for running their daily mission and deciding on how their budget was spent (Porter 2008). As Porter noted, "Though they may believe in the information revolution, they were in essence, business men who needed to optimize resources at the local level to deliver their mission requirements" (Porter 2008). In addition, as noted earlier, the DoN was unsuccessful at holding organizations accountable for producing A-76 competitive sourcing savings in the 1990s. Attempting to hold units accountable for implementing a plan to revamp the network infrastructure, using their own budget, without additional resources, was unlikely.

Finally, considering that NMCI was not central to the Navy essence (as suggested by Navy leaders) Morton H. Halperin's observation that an organization is often

indifferent to functions not seen as part of its essence or as necessary to protect its essence was not consistent with the NMCI study (Halperin, Clapp, and Kanter 2006, 39). NMCI was considered a non-core function and not integral to the Navy's primary sea-based mission, or expeditionary in nature, yet the Navy was not indifferent towards NMCI. As discussed earlier in chapter seven, while outsourcing was not an automatic choice initially, the decision to outsource was reached through a meticulous leadership process consisting of 75–150 senior leaders from across the Navy from 1998 through 2000. The Secretary of the Navy assumed a very risky position by not having a fallback plan if Congress disapproved the outsourcing effort or if the contractor could not produce the intended results.

Considering this environment, the Navy engagement in the NMCI project highlights the importance of some non-core activities in the overall mission of an organization and its commitment to ensuring those functions are maintained and supported, regardless of who performs the service. It could also indicate that the Navy shore-based IT was more than just a non-core activity and Halperin's observations remain true.

Air Force - Organization factors appear useful in explaining the Air Force approach towards IT outsourcing and its decision to retain its network capability in-house. Though IT network operations were a new capability, Air Force leadership defined the network as a weapon system, integral to its wartime mission and retained control of the network infrastructure. Lt. General Harry Raduege Jr., director of the Defense Information Systems Agency and manager of the National Communications System from 2000 through 2003 noted, "Networks carry information and information is an intrinsic

element of winning wars. Information, information processing and communication networks are at the core of every military activity" (Walker 2000b, 1). It was considered a weapons system because of its ability to operationalize data for leaders and as a mechanism to control cyberspace.

The Air Force embraced the network as it would a fighter or bomber aircraft, making the case that its war fighting activities were becoming net-centric. Per the hypothesis, outsourcing would not be expected for an activity considered core to an organization's mission. The budget appears to be an additional factor in retaining the capability as funding for IT-related missions increased by billions of dollars over the period between the late 1990s and 2005. Also, the Air Force was structured to allow the CIO the authority to centralize network assets, increase the IT budget and make purchases to standardize networks and create an enterprise-wide system.

John Gilligan, CIO of the Air Force, was successful at initiating centralized control and an enterprise-wide approach to network management through an in-house solution. By using the chain of command, Gilligan communicated his request for consolidation of network assets through major command leaders who in turn tasked their organizations to take action on the request. Organizations were quick to follow the orders of four-star general officers, military-to-military direction, that minimized the cultural resistance to changing the locally controlled environment of network management (Gilligan 2008).

Unlike the Navy NMCI system, personnel, funding and resources attached to the network mission were retained by the Air Force. Maintaining control of the network with in-house personnel was central to not only integrating Air Force activities across the globe, but also, for provided a training and proficiency enhancing environment for

military and government civilian IT personnel. This capability was necessary to develop and maintain the skills and capability to install, operate and maintain the network worldwide. The outsourcing of IT related network activities were supported by the Air Force when it was considered non-core to the war-fighting mission or for technically complex elements of the network system where in-house resources and capability were either limited or nonexistent.

Army - Organization factors appear useful in examining the hypothesis that new activities and those outside the scope of an organization's normal wartime specific taskings are likely to be privatized in periods of budgetary decline in the Army's network development during the 1990s. Traditionally, the Army had not been as IT-centric as the other services (French 2003). This was demonstrated in the Army's late start (post 2000) in assessing their IT network environment. In the 1990s most Army units remained organized and equipped to fight Cold War-type battles (Verton 2000a, 1). In the Cold War era, Army IT was never centrally managed and funded (FCW 2004). To remain relevant, transformation to a leaner, smarter and quick-to-respond force was required to address the new post-Cold War threats and conflicts. Lt. General William H. Campbell, Director of Information Systems, Command, Control, Communications and Computers, U.S. Army, argued that IT was a fundamental piece of the Army's transformation plan (Verton 2000a, 2).

Unlike the Navy, the Army identified the network as a core war fighting capability and by 2001 moved to centrally manage its global resource by reducing the autonomy of local units to maintain their own systems. The Army put its CIO in charge of tens of

millions of information technology dollars with one organization in charge of operating and maintaining its infrastructure (Seffers 2001). Similar to the Air Force, the Army network was a global entity based on the nature of its mission and organization. It was integral to both peacetime and wartime missions. The risk of losing control of the enterprise network architecture plan and having the private sector manage and operate its network capability was too great when considering the critical role of information in the Army's numerous missions.

In 2004, the Army consolidated its IT resources and desktop support services under a single organization and put one person in charge of IT operations at each of its bases and installations in an effort to build an enterprise info-structure (FCW 2004). The Army's centralized IT leadership orchestrated outsourcing efforts for network operations and development where Army capabilities were either limited or nonexistent (Caterinicchia 2002a). Maintaining in-house control of network operations afforded the Army flexibility and leverage in how it would spend its increased IT budget and how to employ its infrastructure. Maintaining control of its infrastructure gave the Army greater leverage and options in choosing contractors for a variety of requirements to meet Army and DoD mission needs.

CONCLUSION

This chapter evaluated the approach of each service in addressing the management of their network technology and infrastructure from the lens of strategic efficiency, ideology and organization factors. The findings suggest that organization factors offered the most value in explaining the approach of each service towards outsourcing its

network management and development. Organization factors offered significant value in explaining network outsourcing decision making in all three services. A key factor in the decision of both the Air Force and Army to not outsource control and management of their networks was defining it as a core organizational capability. Considering the network a core capability or weapon system prioritized its value and importance and demonstrated the commitment of the Army and Air Force to retain the asset. Also, increasing IT budgets over the period appeared to be an incentive to keep networks within the realm of service organizations, as it provided billions of dollars to organizations responsible for network operations, security and development.

Organization factors are effective in explaining the Navy's NMCI outsourcing effort. Network activities were a fairly new capability and Navy leadership qualified the NMCI as a non-core function since it was not integral to their war-fighting mission. As noted earlier, the Navy considered itself an expeditionary force, with its primary wartime mission centered in the deployed environment. Its fleet and shore based organizations were separate entities, and integration through network technology was not standard. The lack of funding and the Navy's internal organization structure with lower organizations being centers of power in IT development were additional factors helping to shape the outsourcing decision.

The Navy CIO during this period noted how the Navy did not have an organization ability to fund the IT network infrastructure from a central source (Porter 2008). Rather, each organization was responsible for its own IT and used its budget to build its IT domains. Budgets were prioritized subjectively at the local levels where IT was not necessarily the top priority. The Navy leadership team working on its network plan

realized they could not create their new network from the current infrastructure, with in-house resources, due to the power of lower organization leaders to align IT priorities and funding according to their mission requirements as compared to DoN requirements (Porter 2008). Private sector IT professionals provided the most effective option for the Navy because they became the only source of networking for all Navy organizations. Lower echelon organizations had to go through the contractor for network connectivity. It provided the Navy with an ability to create network homogeneity across its organizations with increased security.

Though Navy and Marine leaders publicly supported outsourcing NMCI, respective organizations within each service did not appear to share the same support. In response to NMCI operations and service, customer satisfaction decreased, network performance suffered and conversion of legacy systems were delayed or did not occur due to inadequate integration efforts. Marine Corps leaders eventually voiced their dissatisfaction publicly, as a seamless exchange of information between units worldwide was still a problem four years and two contract extensions after the initial outsourcing decision was completed. The organization discontent appears to suggest that the network was more than a utility, but an integral part of the organization that affected their ability to conduct primary mission functions.

While neoliberal beliefs and ideas were popular in the Executive and Congress during the second Clinton Administration and G.W. Bush Administration, they were not causal factors in the network management actions of each service. The Navy process for choosing an enterprise network solution consisted of a working group of 75–150 senior leaders for whom the priority was not to save money nor reduce manning positions but to

field an enterprise network. The Navy's lack of coordination with a neoliberal-friendly Congress, in combination with a highly innovative and risk-prone funding approach that appeared to elude congressional review, suggested a measure of organization expediency and distrust of members of the House and Senate for a favorable review and approval.

While a neoliberal-friendly Congress and Executive appeared helpful in the passage and follow-on extensions of the NMCI service contract, Congress was ready to withhold required dollars for the network unless the Navy addressed several irregularities and incomplete data surrounding the network contract (Porter 2008). The Air Force and Army network decision making did not appear to be affected by political ideology. Both services maintained primary control of network management and operations with in-house personnel.

Strategic efficiency was not useful in explaining the Navy's NMCI outsourcing as negligible savings and areas of uncertainty from the incomplete nature of the outsourcing process created an increased level of risk undermining conditions for a cost-efficient contract. The potential for increased service costs appeared greater than the cost-saving benefits being provided by the contractor. Private sector desktop computing management costs did not offer significant savings when compared to Navy costs. Costs for both the private sector and Navy systems appeared to have a negligible difference while costs for customer support and converting legacy systems to the NMCI were not included when comparing pre-NMCI and NMCI costs. Risks associated with giving ownership and control of the network to a private sector contractor were significant but not include in its cost savings process.

In the Air Force and Army, strategic efficiency had limited usefulness in explaining the outsourcing decision making for their network management and control, offering insight into explaining some outsourcing decisions facilitated through organizations and programs such as the Commodity Council, Netcents, AEIT and ASCP. They allowed the Air Force and Army to leverage their size and buying power to procure resources and services at a competitive cost.

The findings from the study highlight why private actors have become an integral component in establishing and supporting the DoD's IT capability. The Navy's NMCI project, the largest DoD IT desktop outsourcing contract to date, highlights how the influence of internal organizations and budget constraints remain pertinent in outsourcing actions. It highlighted the independent and subjective nature of service organizations when comparing the NMCI project with similar network management decisions in the Air Force and Army.

The independent nature of each service points to the value of organization factors in understanding the network phenomenon. It provided the widest span of explanation in understanding service outsourcing actions. Air Force and Army actions focused on maintaining control of their network capabilities while using outsourcing in specific areas where services had limited-to-no capability to provide expertise when lacking personnel with in-house technical ability. As noted, the Air Force and Army chose different approaches than the Navy to address similar network development requirements despite unique differences in mission. These choices were linked in part to service discretion in defining the core or non-core nature of the network towards the performance of its mission and to the nature of the organizational structure of each service.

The findings suggest that outsourcing has become an important instrument, as discussed in this study, for using private sector expertise in complex and challenging technical areas in support of the evolving DoD mission. How outsourcing is implemented within the DoD will likely continue to be subjective and marked by a service parochialism manifested in service control over what they identify as core activities in executing the mission. While the services are on the pathway towards the JCS vision of information superiority across a joint network architecture, reaching the final destination may prove to be elusive.

CHAPTER ELEVEN

FINDINGS AND CONCLUSION

In this study I've examined the usefulness of three theoretical frameworks of state behavior to explain the outsourcing phenomenon of defense services in the DoD. The case studies of DoD outsourcing activity during periods of high and low activity between 1970 and 2005, along with IT network development in each military service, have served as a vehicle to test the frameworks against one another for their explanatory power. It's also provided the opportunity to examine the extent of political contestation and identify the likely winners and losers in the nature of defense outsourcing. A comprehensive view of the theoretical frameworks, predictions and outcomes of outsourcing behavior in the case studies is provided in the tables - Strategic Efficiency, Political Ideology, Organization Factors and Overview at the end of this chapter.

The analysis of DoD outsourcing of defense services in each of the case studies has been useful in establishing a general account of the outsourcing phenomenon between 1970 and 2005, highlighting commonalities in outsourcing behavior and providing a better understanding of its nature and its political impact. The study finds that strategic efficiency and political ideology offered limited usefulness and DoD outsourcing was primarily an instrument for service organizations to further solidify their core mission requirements and to adapt to new and changing requirements. Also, as will be discussed in this section, DoD outsourcing of defense services diffused control over defense activities among non-state (private sector) actors, threatening the states collective

monopoly over the control of force, limiting public accountability of national defense actions and challenging the effectiveness of defense organizations.

In my judgment, organization factors offered a more persuasive and comprehensive explanation than either strategic efficiency or political ideology propositions for most DoD outsourcing behavior. In the broadest sense, organization factors suggest increased outsourcing for new capabilities/activities enhancing the overall mission. They are also more inclined to outsource support activities when budget constraints threaten primary missions and when required expertise is beyond the capability of the organization. The six case studies suggest that organization factors are significant, as DoD's decentralized, independent approach to outsourcing for support services gives primary control to an array of military organizations. These organizations have dictated, to a large degree, the scope and extent of outsourcing activity throughout the period to support their missions and requirements.

Procurement activity provided organizations with new services to support mission objectives, as budget reductions, new technology and global conflicts reduced available in-house resources. While competitive sourcing practices were designed for cost-savings, organizations did not appear motivated by the A-76 program, as competitions were inconsistent and not always viewed with favor by organizations. DoD organizations subjectively used the A-76 program to compete primarily low impact support services without affecting primary/core missions and without severely affecting their in-house manning authorizations.

The result of DoD organization autonomy and independence in the outsourcing of support services was reflective of service autonomy and independence at the highest

level of leadership in each military service. Each military service procured systems and services to support its own primary service-centric missions, while deemphasizing the integrated joint mission. Interservice competition for resources reduced civilian control in budget matters, limiting the ability to establish joint capabilities and reduce similar weapon systems unique to each service. Procurement activity centered around the objectives of each military service and its organizations, as compared to focusing procurement activity around the national interest and joint combatant war fighting missions. For example, there are still four tactical air forces and each service has their own versions of the Unmanned Aerial Vehicle (UAV). It reinforces the unique identity and survival interests of each service. As Samuel Huntington pointed out nearly 50 years ago, "the castles of the services will remain in existence, battered but untaken, long after the decisive battles, both political and military, have shifted to other fields" (Huntington 1961, 52).

Defense and senior government leaders appear to be the winners in acquiring the private sector services to support their defense mission needs. As suggested by Deborah Avant, the use of market alternatives for military service through government contracts generally gives the advantage to executives relative to legislatures, reduces transparency, and reduces the mobility required to send public forces abroad (Avant 2005, 260). The market option can further enhance the relative capacity to project military force and interests abroad, as in the Balkans, Somalia, Kosovo, Afghanistan and Iraq, and make it easier to undertake adventurous foreign policies or actions without widespread support in the polity (Avant 2005, 259).

While DoD outsourcing offers individual states the ability to enhance the capacity of their forces, military commanders, civil service personnel and the American public, represented by democratic principles, stand to lose as a result of DoD outsourcing and its integration into national defense. The growth of the market for services engaged in military/security activities diffuses control over violence among a variety of non-state entities, undermining states' collective monopoly over the control of force and enhancing the role for non-state actors in shaping decisions about the use of force (Avant 2005, 228,253). Avant's argument can account for a range of outsourced tasks and activities aimed at enhancing and contributing to the defense mission. Organization autonomy in the defense outsourcing realm within an environment of ineffective oversight, monitoring and limited transparency reduces the public accountability for national defense activities, as control of activities becomes diffused across non-state actors.

The expectations of the American public for accountability and transparency in the execution of national defense must now be tempered by the increased growth and dependency on the private sector in national defense activities. This partnership, created through outsourcing, has put increased stress on democratic principles and values, as exemplified in the notorious abuses at Abu Graib prison in Iraq during the U.S. Iraqi Freedom campaign. Contractors acting on behalf of the United States military have not been held to the same standards as military or DoD civilian personnel with regards to legal infractions and wrongdoing. This jeopardized the integrity and effectiveness of the military organization as well as our democratic principles.

Commanders have seen their authority and flexibility to accomplish the mission diminish while the in-house capacity of military organizations has decreased. The

increased outsourcing of personnel providing support for sophisticated technological activities, many integrated into operational tasks, has begun to limit the ability and power of commanders to lead their organizations. They are unable to independently override contracts and realign contractors for time-sensitive issues where necessary.

Military and civil service personnel have seen many of their positions eliminated or converted to private sector contracts. The current outsourcing phenomenon calls into question the ability of the DoD to attract and retain a future in-house workforce with a broader set of skills providing the necessary services and requirements to satisfy the national defense objectives of the United States. Outsourcing has diminished the internal/in-house capacity of DoD organizations to perform core missions without being dependent on the private sector. While some dependency via the use of technical representatives has been common throughout the era of major weapon systems procurements, the integration of the private sector in service and operational support activities has expanded dependency throughout the portfolio of military missions.

In the remainder of this chapter, I'll briefly discuss the value and limits of strategic efficiency, political ideology and organization factors in examining DoD outsourcing behavior across the case studies. Then, I'll address the costs and challenges to defense organizations, the American public and democratic principles posed by the DoD's outsourcing behavior.

STRATEGIC EFFICIENCY

The strategic efficiency framework was limited in its usefulness of explaining outsourcing activity. It was inconsistent in predicting results in higher skilled areas that

were outsourced, despite many DoD personnel retaining their cost-effectiveness. It was useful in highlighting differentiated outcomes in the outsourcing process and was consistent in explaining procurement and competitive sourcing activities for lower skilled activities where private sector personnel were more cost effective and provided a cost savings for the DoD. These lower skilled areas accounted for 75 percent of the competitive sourcing activities and about 30 percent of service procurement. These findings supported the transactions cost argument as the market provided an effective structure to support competition and gain efficiency with cost-saving results for these routine/low-impact services.

However, DoD outsourcing behavior was not always targeted towards cost savings and suffered from less than full cost accounting, poor oversight and contract surveillance practices that produced transaction hazards that were not mitigated effectively and contributed to the diffusion of control to non-state entities. While the goal was cost-savings and efficiency, it was questionable whether ex ante and ex post transaction costs were accounted for in procurement and competitive sourcing actions. These included the costs of competition, establishing contracts, administration, monitoring, oversight, dispute settlements and enforcing the contractually promised performance (Alchian and Woodward 1988, 66–67).

In the Navy's NMCI outsourcing case, for example, the transactions cost aspect of the competition suffered as Navy leadership produced incomplete cost comparisons and risk assessments. The risks accepted by the Navy in the procurement of the NMCI appeared to outweigh any potential benefits. In addition, Navy leaders did not appear to include ex post transaction costs, such as those involved with monitoring, oversight and

quality control of outsourced activities, into their cost calculations. The Navy faced endemic problems in these areas that resulted in increased costs for service delivery and the dependency on the private sector for their network capability. The overall findings from the case studies suggest that procurement activity was not targeted solely at activities where the private sector could provide cost savings, and introduced a level of risk and transaction hazard not acceptable in terms of cost savings and efficiency.

Weak administration and management of service contracts also hindered strategic efficiency. Contract management was designated a high-risk area in the DoD in 1992 due to vulnerabilities involving greater susceptibility to fraud, waste, abuse, and mismanagement (GAO 2005b, 5–6). Areas of concern included acquisition workforce shortages, failure to use available pricing information for sole-source contract awards, improper use of interagency contracting, and insufficient surveillance and ex post management actions relative to contract management (Schinasi 2006, 7–13). These concerns and others are highlighted in terms of DoD's personnel reductions during the 1990s and in DoD's Inspector General's (IG) examination of contracting programs.

The effective administration and management of DoD procurement growth to attain efficiency and the best dollar value, was compromised in part by the significant reduction in skilled personnel. Between 1989 and 2002, DoD reduced its civilian acquisition workforce by about 38 percent without ensuring the department had the specific skills and competencies to accomplish future DoD missions (Schinasi 2006, 8). Yet between 1989 and 2002, the cost for procurement of services increased from $81 billion to $92 billion (Table 1). In 2002, 54 percent of DoD spending for goods and services was spent on service contracts (DoD IG 2003, 1).

The DoD IG performed an audit review of 105 contract actions, valued at $6.6 billion, for professional, administrative and management support services between 1997 and 1998, revealing numerous problems in the award and management of contracts (DoD IG 2003, 1). The IG found contracting officials typically did not use past experiences or lessons learned from prior acquisitions of the same services to help define requirements more clearly. Officials continued to award cost reimbursement contracts and accepted the risks of cost overruns despite 39 years of experience in purchasing the same services from the same contractor (Cooper 2001, 5–6). DoD officials did not prepare well-supported independent cost estimates to assess whether the costs that contractors proposed were reasonable. Oversight of contractor performance was inadequate in a majority of cases, as some officials could not show that they actually reviewed the contractors' work (Cooper 2001, 6).

As a result of an increase in expenditures for services, the DoD IG reexamined the area in 2003, reviewing 113 contract actions with an estimated value of $17.8 billion (DoD IG 2003, i). Problems continued to exist in the award and administration of contracts for professional, administrative, and management support services. Contracting officials continued to award and administer contracts for services without following prescribed procedures as noted in 98 of the 113 contracts at 12 DoD locations having one or more problems (DoD IG 2003, i,4). Problems included a lack of utilization of historical information for defining requirements, inadequate competition or questionable sole-source awards, a faulty basis for price-reasonableness determinations and inadequate contract surveillance or non-compliance with U.S. Truth in Negotiations Act procedures (DoD IG 2003, i,4).

In 2000, the GAO reviewed 22 DoD service orders with a value of $553 million and found concerning trends and challenges in contract management practices. A majority of the orders were awarded without competing proposals, work descriptions were broadly defined, and the government was left bearing most of the risk of cost growth (Cooper 2001, 5). GAO also found instances of improper use of interagency contracts and a failure to follow prescribed procedures designed to ensure fair prices.[80] Competition requirements were waived to retain the services of incumbent contractors. It was also not clear who was responsible for describing requirements, negotiating terms and conducting oversight for these contracts.

A key aspect of ensuring efficiency and cost-savings in contracts is the ex post management, or surveillance actions, that include the negotiation of contract adaptations, monitoring, and enforcement. As suggested by Donald Kettl, monitoring may be the most arduous and expensive part of the process, a consequence of the principal-agent conflict (Kettl 1993, 29). While outsourcing doesn't entail the withdrawal of the state from the provision of certain services, it requires extensive administrative and regulatory structures to oversee the delivery of services by contractors. For example, financial monitoring is designed to ensure, through auditing, that contractors are paid only as mandated by the contract (Prager 1994, 179). Technical monitoring involves comparing the quantity and quality of product or service delivered against contract specifications, while quality control requires inspection and review of the delivered service (Prager 1994, 179). DoD's arduous monitoring requirement is further complicated by a lack of control over contractors by

[80] Interagency contracts provide agencies with easy access to commonly needed goods and services. Agencies sponsoring these services usually charge a fee to support their operations. These types of contracts have allowed customer agencies to meet the demands for goods and services at a time when they face growing workloads and a declining workforce (GAO, 2005a, 25–26).

organizational leaders, which is more indirect and subject to the parties' interpretation of the contractual arrangement.

Monitoring problems were highlight by the DoD IG. IG reports noted that DoD contracts were subject to insufficient surveillance to include training personnel in conducting surveillance, assigning personnel at or prior to contract award, holding personnel accountable for their surveillance duties and performing and documenting surveillance throughout the period of the contract (Schinasi 2006, 13). The DoD IG highlighted an insufficient number of trained personnel in place to provide effective oversight of its logistics support contractors in Kuwait and Afghanistan, and inadequate surveillance in 26 of 90 DoD service contracts reviewed.

Many of the problems noted above in DoD contracting procedures highlight significant transaction costs that appear excluded from the cost value in contracts and outsourcing activities. Their exclusion diminishes the effectiveness of the strategic efficiency framework in explaining DoD outsourcing. As suggested by Williamson, given the conditions of bounded rationality and opportunism, people are both less competent in calculation and less trustworthy and reliable in action where no contractual arrangement can specify or account for all possible contingencies (Prager 1994, 178). Given this condition, it's critical for the DoD to develop effective sourcing, oversight and monitoring processes in order to provide a more comprehensive measure of efficiency in outsourcing activities.

While the A-76/competitive sourcing program offered the opportunity for cost-savings for all commercial-like activities, organizational leaders were reluctant in many cases to utilize it due both to the programs complex nature and the negative impact on

personnel. Managers argued that the program was time consuming, difficult to implement, disruptive, and threatening to both managers and employees (Stevens 1995, 2). Cost studies were mostly done by managers and employees who developed detailed work statements and analyses without appropriate training (Stevens 1995, 3). Additionally, the absence of workload data and adequate cost accounting systems contributed to an excessive amount of time being spent to complete A-76 studies and disruption to the workplace (Stevens 1995, 3).

The questionable effectiveness of the A-76/competitive sourcing activities in reducing organizational expenses by 30 to 40 percent was highlighted in cost accounting problems. These problems included cost estimations based only on average salary costs rather than on actual costs, underestimating costs of conducting A-76 studies that were as high as $9,000 per position studied, projecting savings from reduced military positions when these positions were not eliminated but transferred elsewhere, the exclusion of separation pay costs for civilian employees, and added costs for extended studies (Burman 2001).

As suggested by former Secretary of Defense Harold Brown, it is not possible to manage the DoD exactly like a business, i.e., to meet the bottom line that indicates profit, or any other single measurable criterion (Brown 1983, 218). The need to be able to fight a war will always limit the peacetime efficiency of the defense establishment, as will domestic political factors (Brown 1983, 223). To manage the nation's defense efficiently at the lowest possible cost, along the lines of private-sector business management and organization, is a useful standard, but meeting it exactly entails a price the U.S. cannot afford to pay to including the abandonment of democratic control (Brown 1983, 224).

POLITICAL IDEOLOGY

The case studies highlighted the inconsistent nature of political ideology as a factor in explaining DoD outsourcing behavior. In cases where there were strong ideological preferences for increased private sector involvement in the business of government, such as in the Reagan and G.W. Bush administrations, DoD outsourcing activity created political contestation within Congress, federal unions and those seeking to maintain an effective civil-service capability. Federal unions had very little effect on contracting actions, as they had little-to-no power in engaging managers over potential outsourcing decisions, and there was no mechanism for union or employees to appeal a decision. Despite President Clinton's effort to improve labor-management relations in government, his actions had no legal basis and were not adhered to by many managers.

Congress had a limited ability to affect the growth of the private sector in the DoD through procurement of support service activities, since most support contracts were below the congressional review cap. It had a greater ability to affect DoD outsourcing through intervention in competitive sourcing policies through both legislation and debate in Congress and with the administration.

The Reagan administration began with powerful public support for change in the nature of government, and was successful at increasing private sector involvement in performing public duties. It targeted a review of nearly 380,000 commercial-like federal employee positions. The amount spent on DoD outsourcing through the procurement of services rose by nearly 41 percent, from $61.9 to $87.2 billion from 1981 to 1988. In this period, the percent of DoD O&M funds spent on procured services rose by 11.7 percent, increasing from 52.1 to 63.8 percent after a 4.3 percent decline in the first case study.

The growth of military positions in A-76 competitions rose from 5,000 in 1979 to nearly 11,000 in 1983, with a steady annual average between 7,000 and 11,000 through 1988. The amount of completed cost studies for private sector competitions increased significantly as compared to periods before and after the Reagan administration. More than 1,500 cost comparison studies were completed from 1981 to 1988, as compared to 154 studies between 1978 and 1980, and 205 studies between 1989 and 1996.

Democrats in the House and Senate did not attempt to block this change in policy direction, in part, due to Reagan's strong public support. As suggested by political ideology, outsourcing increased with the private-sector friendly administration and weak resistance in Congress. The implementation of several Executive Orders and A-76 reform actions highlighted Reagan's commitment to engaging the private sector in government and infusing open-market ideas into government. Establishing a structured and ongoing competitive process between the government and private sector for the fulfillment of government services through the A-76 process was born, as was increased dependency on the private sector in the procurement of defense services. The substantial growth in DoD's outsourcing activity throughout this period was indicative of Reagan's commitment to the promotion of competition and increasing the role of the private sector in pursuit of public goals.

Yet, as suggested by the third case-study, the Democrat-controlled Congress was not eager to allow the unfettered growth of the private sector in public service highlighted by some very public procurement scandals and abuses that associated a negative reputation with all procurement activity contested by the DoD. Political ideology was consistent in the containment and decline of DoD outsourcing activities,

especially in the area of competitive sourcing. A strong Democratic Congress was successful at supporting legislation that led in part to a significant reduction in competitive sourcing activity.

Considering the job protection interests of constituents who were DoD federal and civil service employees, the Nichols amendment gave the Democratic Congress the ability to put competitive sourcing power at the local organization level. Commanders were reluctant to diminish their organization strength any further than those already incurred through congressionally imposed manpower cuts after 1989. Competitive sourcing was void of any Executive influence or policy actions during the second case study. Between 1988 and 1995, when Democrats controlled Congress, the Nichols amendment had a substantial impact in reducing competitive sourcing activity in the DoD. The total number of positions competed annually declined from 12,000 to 2,128 during this period. Competitive sourcing competitions declined, as well, from 109 to under 20.

As President G.W. Bush embraced market competition for the government sector, a polarized Congress pushed back against the president's management agenda to open to competition more than 300,000 federal jobs. Attempts by the administration to increase competitive sourcing led to an anti-competition/outsourcing environment in Congress, with bipartisan support against the administration's plan to open up federal jobs to private sector competition. Announcements for A-76 competitions dropped from nearly 450 in 1999–2000 to under 100 by 2002, and to under 50 by 2004. A-76 competitions declined by nearly 30 percent, from a high of nearly 220 in 2000 to under 160 by 2003.

Despite congressional efforts and successes at resisting competitive sourcing

activities, they had little effect on DoD's procurement of services. There has also been no interest at extending Congressional powers any further into this area of DoD's budget spending behavior. Outsourcing activity as indicated through the procurement of services has seen an overall increase since the Reagan administration in periods when Democrats controlled the federal government. It prompts the question as to whether outsourcing activity is still subject to ideologically driven actions. The nature of DoD outsourcing behavior during the current Obama administration with the Democratic controlled Congress will be useful in evaluating whether ideology is a factor in shaping the extent of activity.

The combination of conflicts in Iraq and Afghanistan along with a Republican administration helped to fuel the growth of procurement activity. Secretary Rumsfeld advocated a market logic inside the U.S. military as the DoD increased its spending on private contractors to perform mission related services, as opposed to increasing DoD manpower as conflicts in Iraq and Afghanistan took center stage in security policy. Between 2000 and 2005, DoD outsourcing expenditures for support services grew by 73.2 percent, from $75 to $130 billion, while the percent of O&M dollars spent on support services grew by nearly four percent, from 62 to 65.7 percent.

During the same period, military and federal civilian personnel force size did not benefit from outsourcing activities, as their manning decreased from 2.147 million to 2.143 million despite being engaged in the largest military conflict since Vietnam. It was the first prolonged modern U.S. conflict where military force structure was not significantly increased to support operations. Integrating private contractors with DoD personnel across operational and support missions, such as front line units, had become

national security strategy. The utilization of private sector actors for DoD and State Department missions in the deployed environments of Iraq and Afghanistan was arguably greater than in any previous U.S. military campaign.

While contractors provided needed services and in many cases were effective at performing their tasks, the increased outsourcing of defense-related activities in combat zones led to the transfer of power to contractors with lack of accountability and transparency. In cases throughout the areas of conflict, military commanders lacked oversight and control of contract personnel who were from a variety of U.S. agencies performing under different contract standards. Some contractors performing core missions, such as prisoner interrogation, security, logistics, communications, and base defense, were capable of using deadly force without effective oversight or monitoring, and without developed standards of justice. The growing reliance on outsourcing defense activities as a way for organizations to accomplish their core missions does not always benefit the American public. It can have detrimental effects on the states national security objectives and democratic ideals.

ORGANIZATION FACTORS

DOD organizations had relative independence and control regarding their missions. Common throughout the study was a lack of political oversight and enforcement of established procurement and competitive sourcing procedures. It gave organizations the flexibility and tacit approval to conduct outsourcing practices according to their own local priorities and interests. DOD organizations were able take advantage of weak A-76 implementation, monitoring and enforcement practices to resist opening to competition

all commercial activities and selectively compete activities not involved in the primary mission. The large growth in outsourcing during the 1980s benefited service organizations as core missions were supported while budgets and manpower grew.

Between 1990 and 1995, the DoD budget was reduced from $445 billion to $340 billion, and manpower declined from 3.3 million to 2.4 million personnel respectively. External pressure by policymakers, put new demands on service chiefs to find savings within a defense department attempting to redefine its mission. Service chiefs sought the status quo and resisted congressional pressure to diminish Cold War weapon systems, arguing for civilian leaders to buy a new generation of weapons. Outsourcing behavior for the larger, weapons-related procurement issues facing each service was representative of how service organizations approached both weapon and support system outsourcing issues.

The budget decline did not reflect an adjustment to a new strategic environment, as services and defense contractors remained the winners in the procurement process while service organizations acquired the systems and support services necessary to perform their missions. Congressional efforts to minimize constituent upheaval in the defense industry along with service organization interests helped to keep military production capacity relatively unchanged at Cold War levels (Gholz and Sapolsky 1999/2000, 23,51). The percent of O&M funds spent on procurement activity for support services increased from 62.5 to 65 percent, as the O&M budget decline was greater than the decline in procurement spending for support services.

Service organizations utilized legislation such as the Nichols Act to control the DoD competitive sourcing process and limit further personnel reductions and morale

problems in their organizations. This was indicated by the rapid decline in competitive sourcing activity between 1989 and 1995. In this era, DoD completed 202 cost comparison studies as opposed to the 1,744 completed between 1981 and 1988.

Modernization efforts, including the incorporation of sophisticated technologies in a climate of budget reductions during the 1990s left service leaders seeking to find savings in order to support their core missions and weapon systems. Service leaders become more proactive in reducing manpower costs across existing support activities as DoD A-76 competitions increased from under 20 in 1995 to nearly 220 in 2000. The DoD was spending a majority of its O&M budget for support related activities not considered core capabilities. Competition was a means of reducing the size of the support structure to increase dollars allocated for modernization efforts. The assumption was that competition would ultimately provide savings and allow services organizations to maintain their war fighting missions with modern weapons systems.

In the treatment of IT networks during this period, organization factors, such as whether an activity is core to the mission, affected outsourcing behavior. The Army and Air Force considered the network central to supporting their wartime missions, considering it a weapon system. Thus outsourcing was limited and did not involve the management and operations of their IT networks. The Navy did not consider its shore based network integral to its wartime mission. It was utilized primarily for support and R&D missions as compared to the fleet's expeditionary mission with its own internal IT network.

Also, in addition to the core nature of the IT activity, organization structure was important in outsourcing decision making for each of the military services. The Navy's

organization structure was built for an expeditionary Navy emphasizing decentralization, autonomy and a wide degree of latitude in unit operations that drove budgeting and procurement activities. An enterprise-wide IT network using organic resources was difficult to achieve in a decentralized structure that promoted independent decision making. The center of power for network management and development was the Navy's lower echelon organizations where budget control and execution were within the local commander's domain. The Navy CIO did not have funding or budget authority and was limited in directing local commanders regarding their IT purchases. Attempts to reprogram funds from organization budgets to pay for the NMCI were met with strong resistance by Navy admirals.

In the Air Force, by the late 1990s, control of the network was facilitated by an organization structure where power migrated from the Wing, or unit level, to the Air Force Headquarter/Air Staff level. The Air Force considered its network a core capability used in part to support its diverse mission areas. It centralized the role of IT and network development and directed activities across the Air Force organization/enterprise supported by senior leaders in Air Force major commands. Unlike the Navy, the Air Force CIO was able to centrally budget and procure IT resources and make policy that supported strategic planning and the development of an enterprise network by using the military chain of command.

As the Air Force and Army retained operational control of their IT networks, the growth of technology and its integration across all military platforms expanded exponentially. The DoD did not have sufficient training resources or manpower to provide for the volume and level of technology being woven into defense missions.

Outsourcing facilitated the objectives of service organizations to maintain core missions in order to remain integral components of national defense. It led to an increase by nearly 50 percent in Automated Data Processing and Telecom procurement where the average percent of O&M budget spent on procured services during the period was 64.8 percent, an increase of 3.2 percent from the 1989–95 period.

Organizations increased procurement activities during the G.W. Bush administration, as the percent of O&M budget spent on procured services grew from 61.9 to 65.7 percent through 2005. Conflicts in Iraq and Afghanistan, along with the growth of technology, made it difficult for service organizations to perform their missions without additional manpower. Contractors were augmented into organizations to provide mostly support services, but in some cases operational tasks. As the DoD budget grew, service organizations reduced competitive sourcing activities, despite the efforts of the G.W. Bush administration to increase competition within the federal government. The decline in competitive sourcing activity was noted in a drop in A-76 competitions, from nearly 220 in 2000 to 160 by 2003, and announced competitive sourcing initiatives, from 200 in 2000 to fewer than 50 by 2004.

OUTSOURCING COSTS AND CHALLENGES

While defense and government leaders were primarily the winners in DoD outsourcing activities, outsourcing created new difficulties and challenges for defense organization commanders, federal unions/civil service personnel, the American public and democratic principles. When outsourcing did occur, the lack of skill sets at the local organization level to provide accountability, monitoring and oversight of the contracting

force created significant problems. The monitoring and oversight of contracts are not mission essential tasks for most units. As noted by organization factors, tasks that are not defined as central to the mission are likely to be performed poorly and inadequately resourced.

Ineffective contract accountability, oversight, and surveillance/monitoring have led to opportunism, neglect, cost overruns, and the unsatisfactory performance of military functions. These transactional hazards have undermined the DoD's war fighting effort, thrown into doubt whether the DoD can maintain transparency in its operations, and made it easier for its power and control to be ceded to the private sector.

It is predictable from a basic organization theory perspective that contractor monitoring and oversight would be endemic problems in the DoD. In general, the theory suggests that militaries will frequently behave in ways that are inimical to the interests of the state. While efficiency and cost savings were apparent interests of the state, contracts were awarded by a wide array of organizations and there was little evidence that DoD Instruction 3020.41 providing guidance on contractor support issues was being utilized by DoD components (GAO 2006, 12). Despite the increased role of support contractors across the DoD, there was limited contract management expertise and limited training for personnel within units where contracted services were being delivered. Contract management is not taught as a basic discipline in the services and is a skill limited to specialty areas, such as acquisitions.

The flurry of identified DoD contract mismanagement and abuses since 2002 has not been a surprise. As noted by Barry Posen, military organizations are usually closely watched in times of increasing tension and frequently ignored in times of relative calm

(Posen 1984, 241). As the conflicts in Iraq and Afghanistan became the primary national security concern after 9/11, the U.S. Congress and political leaders highlighted the breakdown in contractor accounting data between local organizations and department leadership. This was just a reflection of the larger monitoring and oversight problems that existed in the DoD throughout the study period.

In 2002, then-Army Secretary Thomas White warned DoD leadership that there was inadequate control over private military contractors. Army planners and programmers at the departmental level lacked visibility into the labor issues and costs associated with the contract work force and the organizations and missions supported by them (White 2002). This was highlighted by then-Assistant Army Secretary Reginald J. Brown in an April 2002 memo to Senator Ted Stevens (R-Alaska), the ranking Republican on the Senate Appropriations Committee, putting the figure for the contracted Army workforce at between 124,000 and 605,000 (Lee 2002). Outside of the Army's Logistics Civil Augmentation Program contractor, who routinely provided employee data to the DoD, which was atypical, other contracts provided estimates of the number of personnel assigned to support contracts (Peckenpaugh 2004).

While this was an Army issue, all of the services appeared to face a similar problem of not having credible information on contract labor costs. This was due in part to the decentralized nature of outsourcing and procurement, and to lack of efficiency in the implementation and management of the process across the DoD. A 2006 GAO report on DoD actions regarding the management and oversight of contractors supporting deployed forces noted that while DoD policy since 1990 recognized the importance of visibility/transparency over the size of the contractor workforce, DoD continued to lack

this capability. It could not provide senior leaders and military commanders with information on the totality of contractor support to deployed forces (GAO 2006, 3). The problem continues to exist as the DoD is unable to account for all military contractors due in part to the decentralized nature of government contracting, different accounting procedures in each service and the complexity of the procurement process.

Angela Styles, the former chief of the Office of Federal Procurement Policy at the Office of Management in the G.W. Bush administration, suggested that the number of contractors working on a project is not relevant, as opposed to cost and quality of work (Peckenpaugh 2004). Yet commanders in the field suggested that size of the contractor workforce did matter as it impacted issues such as command and control, logistics and security (Peckenpaugh 2004). Some senior military leaders in Iraq had no data on the number of contractors employed at installations when building their base consolidation plan, contributing to the risk of over-building or under-building the capacity of a base (Government Account Office 2006, 4). The DoD did not aggregate the information and lacked the ability to provide the data to commanders at higher levels (GAO 2006, 15).

Limited visibility of contractor employment affected DoD's management of its missions with the unnecessary risk of increasing contracting costs for the government. For example, a Defense Contract Management Agency official responsible for overseeing portions of the Army's LOGCAP contract at 27 installations in Iraq was unable to visit all locations during a six month tour in Iraq due to limited manpower preventing effective monitoring at those sites (GAO 2006, 4). Collecting and sharing institutional knowledge on the use of contractors and lessons learned from previous and ongoing operations was not developed or shared across the DoD. Also, DoD components provided limited or no

information on contractor support in pre-deployment training (GAO 2006, 5). This contributed to inadequate planning for contractor support and confusion regarding the roles and responsibilities of commanders in overseeing contractors at deployed locations (GAO 2006, 5).

DoD outsourcing has challenged organizational effectiveness and unit leadership. For example, findings from both the IT and 2001–2005 case studies point to how the DoD outsourcing process and its dependency on private sector personnel may become disruptive to an organization and detract from its mission. As noted by S.E. Finer, the military services are marked by the superior quality of their organizations, where even the most poorly organized or maintained of such armies is far more highly and tightly structured than any civilian group (Finer 1962, 6). Finer points to a basic imperative of the military services that still holds true in today's defense structure — to fight as a unit, with centralization through a supreme leader, and orders transmitted from highest to lowest ranks through a fixed hierarchy (Finer 1962, 7). Posen adds that military organizations that have planned and trained together in peacetime are better able to deal with the friction of combat, particularly after an extended period of peace (Posen 1984, 243).

The outsourcing of DoD support and operational services transferred control of military activities to non-state entities and challenged the organizational order imperative to performing effectively as a unit. Contractors have added friction to the organizational environment by operating under a different set of rules, are usually paid more money than DoD personnel, and don't abide by the same code of military justice. Contractors have

also compromised the supremacy of local commanders by not being subject to any orders and actions outside of their prescribed contract requirements.

Contractors don't integrate seamlessly into military organizations, especially in the deployed arena — commanders usually don't have direct control over them and, for many unit members, the first encounter with contractors comes when they arrive at a deployed location. Many leaders have inadequate or no training in working with contractors, and no experience or guidance as to the scope of the local contracts (GAO 2006a, 30). This has created confusion over roles and responsibilities and problems integrating contract support into operational planning efforts (GAO 2006, 29).

It has also created the potential for additional costs, and for unit leadership not being focused on core objectives. Contractors provide services according to the scope of the contract and request additional fees for expanded support, unlike the flexibility provided by organic DoD personnel. Organic personnel can be used for a variety of mission or organizational activities at the direction of the commander or supervisor without increased cost to the organization. The lack of preparation of the contracting environment at a deployed location results in commanders spending additional resources and time away from their primary responsibilities in order to understand the relationships, service deliverables and their extent of authority.

Adjudicating discipline issues and directing punishment for poor performance or for rule/law breaking violations becomes much more challenging as well, as contractors did not fall under the Uniformed Code of Military Justice through the end of the study period in 2005. These issues become even more difficult when contractors are deployed outside the United States. Commanders must spend additional time and resources

becoming familiar with the Military Extraterritorial Jurisdiction Act (MEJA), Defense Contract Management Agency, and Defense Contract Audit Agency to address these type of issues (Kimball 2007, 4-6). The inclusion by Congress of U.S. military contractors operating in combat zones into the UCMJ as part of the FY2007 Military Authorization Act should provide assistance to combat zone commanders in providing good order and discipline.

In addition, as noted by Finer, the military differs in function from the surrounding civil society, and its success rests upon a spirit of unity and solidarity, captured in an esprit de corps — an ensemble of beliefs and sentiments common to all members of the group (Finer 1962, 9). Contractors in general don't share this bond with service members and in many cases are paid better wages, adding to a degree of exclusion within the organization. While the military is grounded in service to a cause — defined by the defense of the state and the protection and support of national democratic values. Contractor participation is primarily grounded in economic interests where participation is predicated on the salary they will earn, especially in conflict prone areas. Finally, the tensions between private contractors and DoD personnel may undermine the loyalty, initiative and fighting power of organizations, and decrease military effectiveness (Avant 2005, 261).

DoD outsourcing also poses challenges to the American public and to democracy itself, as it threatens democratic principles in the performance of national defense. Alexander George suggests that U.S. democratic processes have enhanced policy stability and restraint both domestically and abroad (George 1999, 336–360). Limited transparency in the accomplishment of military activities can undermine the state's

capacity to govern. The outsourcing of military activities central to a DoD mission, along with inefficient oversight, monitoring and contract surveillance, creates an environment for opportunism among contractors where they increase their power and control over these activities.

As Deborah Avant notes, contracting likely affects changes in political control in strong states such as the U.S. Though states retain budgetary control and can choose between contractors, the screening and selection of individuals, and organizational incentives for individuals, are left in the hands of the firms (Avant 2005, 59). This is a political change because the control over individuals authorized to use violence is based on the firm rather than the state (Avant 2005, 59). This phenomenon is also relevant with the selection of private sector personnel to perform DoD support activities, and those central to core missions. When force is privatized, the military is challenged to ensure that the private exercise of power is bounded by public values and controls, as the public accountability function suffers with gaps in oversight and control (Verkuil 2007, 129).

When civilian contractors assume military roles, especially overseas, it changes the political process, as fewer government decision makers are involved in sending contractors, as compared to U.S. troops, abroad (Avant 2005, 132). As suggested earlier, the redistribution of power reduces transparency and opens the way for private interests to affect policy implementation and goals (Avant 2005, 60). It also gives political leadership the ability to use force as an instrument of power with a minimal footprint. Private actors can act in ways and make decisions that may not be in the best interest of the U.S., without being accountable to the public. It gives political officials the

opportunity to make decisions capable of enhancing their own welfare or a segment of the public, rather than the entire community (Avant 2005, 135).

The use of contractors abroad is often regarded as a lower political commitment that reduces the need to mobilize public support for foreign engagement activities. Congressional leaders and the public have not appeared too interested or concerned about sending contractors, as opposed to U.S. forces, overseas in support of contingency/war fighting efforts (Avant 2005, 133). It can also void the need to mobilize and deploy the states military forces for select contingencies and centralizes influence with those in charge of contractor support (Avant 2005, 60).

While lack of transparency may offer benefits to government leaders, it allows for a deficit in democratic principles and a lack of public accountability for national defense activities. The lack of transparency is also furthered by the additional workforce of tens of thousands of private sector personnel who perform support services in military organizations but are virtually invisible to the public. They are not accounted for in manpower statistics and exist only through O&M expenditures and supplemental budgets that don't have congressional oversight as with the procurement of high visibility weapon systems. Dependency on a contractor workforce reduces the role and investment in federal employees and may lead to a potential long-term decline in the capability of the federal workforce and civil service.

The need to weigh the possibility of a larger organic force structure to retain knowledge and skill, and to mitigate transaction hazards created through the outsourcing of complex activities, needs to be addressed by senior leaders and the public. In many cases, short-term services have grown into permanent services provided by a private

sector/ contractor workforce that are relatively hidden and not accountable to the public. The measure of contractor strength and capability is questionable considering the problems in monitoring and oversight.

Organization factors suggest that outsourcing will likely remain relatively decentralized and autonomous across the DoD, presenting a variety of challenges where short term gains may come at the detriment of long-term DoD capacity and development. As suggested by Deborah Avant, every time an activity is outsourced, the DoD invests in a private rather than public capacity. It sends a message to DoD personnel that their activity is not a core mission and well qualified people within the service will be less likely to choose it (Avant 2005, 133).

U.S. leadership and the DoD appear content with the role of the private sector in procurement of services and its integration into defense organizations. Over 57 percent of DoD procurement dollars are spent on defense services, not equipment, a 66 percent increase between 1999 and 2003 (Verkuil 2007, 129). Yet, as of 2009, the House Defense Appropriations Subcommittee members complained that they have been unable to get detailed accounting on DoD contractors in Iraq and Afghanistan and their activities (Kreisher 2009). Nor does there appear to be an effective accounting of contractors supporting DoD activities/missions in the United States.

To accurately assess its ability to provide defense and security missions worldwide it's imperative for senior DoD leadership to be able to account for the capabilities that have been outsourced and those that continue to remain inherent to the organic force structure across each service. Failure to do so may result in the devaluing of the U.S defense capability and the loss of capacity in outsourced areas. It may pose similar

challenges as those recently experienced by nation-states, the global business sector and financial industry from the 2008 devaluing and collapse of major financial firms. The climate of financial uncertainty and realignment appeared to result from inadequate levels of oversight and failure to understand and appreciate the limits and ramifications of a variety of financial instruments central to the industry.

Given its leveraged position with contractors, it is not clear whether the DoD can produce and maintain the required military capability it advertises to support national interests and provide for the well being of U.S. citizens in the future. Without knowing the extent to which DoD missions have become dependent on private sector support for their accomplishments and success, it's difficult to assess the DoD's future capabilities. The use of private contractors opens up the possibility that American forces will not be capable of providing key functional tasks (Avant 2005, 142). In the same way that the federal government had to keep American Insurance Group afloat in 2008 in order to prevent a catastrophic effect on the worldwide insurance and finance industry, the DoD and Congress may likely find themselves in a position where they need to keep private sector defense companies, especially those providing the DoD with its support and technology services from failing in order to maintain its capabilities for national defense and power projection.

To avoid the equivalent of bankruptcy in our defense and security missions, the DoD needs to specifically account for the private sector role in its labyrinth of activities and missions, as well as provide an ongoing evaluation of their capabilities and performance. A bailout of the DoD could prove more difficult, as monetary measures in addition to skilled personnel and resources would likely be required to keep our superior

national defense from faltering. The time has passed when the government and DoD can continue to ignore shortfalls and poor practices in procurement, competitive sourcing, and contract management and their impact on the force structure and security. Outsourcing has become a core process across the DoD for a variety of support services integral to the daily mission of defense organizations. Knowing that organizational factors play a central role in the outsourcing phenomenon, senior government and DoD leaders have a professional responsibility to the American public to address outsourcing behavior and actions pragmatically, in light of the future well being of defense organizations, democratic values and the national security of the United States of America.

Overview of Theoretical Frameworks – Predictions and Performance

Case Study	Theory	Outsourcing Observations	Theory Prediction for Outsourcing	Performance of Hypothesis	Overall
1970–1980	Strategic Efficiency	- Decrease in procured services; - Brief Increase in comp sourcing from (1978–1980)	Low	Pass	Strategic Efficiency – Four cases consistent with theory prediction; Two cases inconsistent; problems with contract management, oversight and monitoring processes limited the usefulness of the framework; also inconsistent procurement behavior for activities not offering expected DoD cost-savings Political Ideology – Two case consistent with theory prediction; three case inconsistent; inability of Congress to intervene in military procurement activities for support services and minimal unilateral influence of Executive limited usefulness of framework Organization Factors – Five cases consistent with theory prediction; one case inconsistent; framework offers most consistent explanation for DoD outsourcing activities
	Political Ideology		Low	Pass	
	Org Factors		Med	Pass	
1981–1988	Strategic Efficiency	- Increase in procured services; - Increase in comp sourcing	Low	Fail	
	Political Ideology		Med-High	Pass	
	Org Factors		Low	Fail	
1989–1995	Strategic Efficiency	- Decrease in procured services; - Decrease in comp sourcing	Low	Pass	
	Political Ideology		Med- Low	Pass	
	Org Factors		Low	Pass	
1996–2000	Strategic Efficiency	- Increase in procured services; - Increase in comp sourcing	Med-High	Pass	
	Political Ideology		Med-High	Fail	
	Org Factors		Med-High	Pass	
2001–2005	Strategic Efficiency	- Increase in procured services; - Decrease in comp sourcing	Med	Pass	
	Political Ideology		Med-High	Fail	
	Org Factors		Low-Med	Pass	
Info Tech/ Networks	Strategic Efficiency	- Navy outsourced network; - Air Force and Army did not outsource network	Med-High	Fail	
	Political Ideology		Med	Fail	
	Org Factors		Low-Med	Pass	

Strategic Efficiency – Theory Prediction
Note: Cost comparisons refers to the A-76 process

1970–1980	1981–1988	1989–1995
Theory Prediction: Low Outsourcing	**Theory Prediction: Low Outsourcing**	**Theory Prediction: Low Outsourcing**
Justification *Pay* – DoD pay for enlisted, officer and federal civilian is more cost effective than comparable private sector personnel; +Private sector personnel at low-skilled/manual labor positions offer comparable cost value with federal or military personnel; *Relative Pay Growth* -Private sector pay growing faster than military and federal civilians; *Medical* No significant impact; *Other* - 65-75% of outsourcing through procurement of services initiatives were primarily in areas where DoD personnel were better cost savings; +75% of outsourcing through competitive sourcing initiatives was in the relatively low-skilled/manual labor type commercial activities of utilities and housekeeping;	**Justification** *Pay* -Military and Fed civilian pay less than private sector for enlisted and mid-senior officer; +Junior officer pay competitive with private sector equivalent between 1980–1985; *Relative Pay Growth* +Parity in military pay with private sector in 1982; - Private sector pay grows faster than officer and senior enlisted pay between 1983 and 1988; junior enlisted pay growing faster than private sector equivalents; +Relative pay for DoD craft, production, operator, laborer activities grew faster than private sector; *Medical* +Military expenses beginning to grow at a faster rate than private sector; *Other* +Private sector personnel at low-skilled positions offer comparable cost value to federal or military personnel;	**Justification** *Pay* - Military and Fed civilian pay less than private sector in most enlisted and officer positions; *Relative Pay Growth* - Officer pay-growth slower than private sector equivalents; senior enlisted pay-growth slower thru 1992 and faster than private sector equivalents in 1993–94; some junior enlisted pay parity with private sector equivalent in 1989 and pay grew faster in 1990–95; +Relative pay for craft, production, operator, laborer activities grew faster than private sector; *Medical* +Military expenses growing faster than private sector; *Other* +Private sector personnel at low-skilled positions offer comparable cost value than federal or military personnel;

Strategic Efficiency – Theory Prediction

1996–2000	**2001–2005**
Theory Prediction: **Medium Outsourcing**	**Theory Prediction:** **Medium Outsourcing**
Justification *Pay* + Military and Fed civilian pay becoming more competitive with private sector; - Middle to senior level enlisted and officer positions remain cost savings to DoD; + Junior enlisted and officer compensation competitive with private sector equivalents; *Relative Pay-Growth* - Officer and senior enlisted pay grew slower than private sector equivalents; +Junior enlisted pay-growth faster than private sector equivalents; *Medical* +Military expenses growing faster than private sector; nearly four times the cost for private sector; *Other* +Private sector actors becoming increasingly cost-effective for some military positions when including medical compensation variables; - Mixed findings on cost savings value of federal employees; +Private sector personnel at low-skilled positions offer comparable cost value than federal or military personnel; +DoD Budget at its lowest levels since 1976;	**Justification** *Pay* +Military and Fed civilian pay approaching parity with private sector in junior civilian, enlisted and officer; -Private sector more costly in middle to senior level enlisted and officer positions; *Relative Pay-Growth* +Congress adjusts military pay to create parity in pay-growth in military and private sector through 2006; *Medical* +Military expenses growing faster than private sector; *Other* +Increase in military compensation; +Military less cost-effective for low-to-mid-level positions; +Private sector personnel at low-skilled positions offer greater cost savings than federal or military personnel; -Military and federal civilian more cost-effective for higher skilled and upper middle to senior positions; -Weak contracting oversight and monitoring processes;

Strategic Efficiency – Outcome of Outsourcing Behavior

1970–1980	1981–1988	1989–1995
Outcome: Medium correlation with theory prediction	**Outcome: Low correlation with theory prediction**	**Outcome: Medium correlation with theory prediction**
Average percent of O&M spent on procured services was 57.8 percent; percent of O&M dollars spent on *procured services* declined by 3.5 percent during case; 25-35 percent of procured services were for low skilled jobs; *Competitive sourcing* activity had significant increase between 1978 and 1980; DoD completed cost comparisons increased from 1-205 by the end of 1980; 75 percent of competitions were for low skilled positions;	Average percent of O&M spent on procured services was 64.2 percent; percent of O&M dollars spent on *procured services* increased by 9.3 percent during case; 25-35 percent of procured services were for low skilled jobs; *Competitive Sourcing* activity was significant; the DoD completed 1,631 cost comparisons between 1981 and 1988 with an annual dollar value average of $279 million; 75 percent of competitions were for low skilled positions;	Average percent of O&M spent on procured services was 61.6 percent; percent of O&M dollars spent on *procured services* increased by 1.2 percent during case; O&M Budget decreased and amount spent on procurement of services decreased; *Competitive Sourcing* activity declined considerable as compared to the 1981-88 period; completed cost comparison studies were reduced to 183 between 1989 and 1994; Total positions studied declined from 12,000 in 1988 to 2,128 in 1995 and was preceded by annual totals of 496, 441, 1623, between 1992 and 1994;

Strategic Efficiency – Outcome of Outsourcing Behavior

1996–2000	2001–2005
Outcome: **Medium-to-High correlation with theory prediction**	**Outcome:** **Medium correlation with theory prediction**
Increased procurement and competitive sourcing activity; Average percent of O&M spent on procured services was 64.8 percent; percent of O&M spent on *procured services* decreased by 3 percent during case; O&M budget increased and amount spent on procurement remained consistent; *Competitive Sourcing* measured through A-76 activities; competitive sourcing initiatives increased; A-76 competitions increased from 20 in 1996 to 210 in 2000; positions competed increased form under 100 in 1996 to 8000 in 2000; DoD competitive sourcing initiatives increased from 50 in 1995 to nearly 450 in 1999;	Average percent of O&M spent on procured services was 63.3 percent; percent of O&M spent on *procured services* increased by 3.7 percent during case; O&M budget increased and amount spent on procurement of services increased; *Competitive Sourcing* activity as measured by the average # of positions competed, A-76 competitions and announced competitive sourcing initiatives decreased; the average # of positions annually competed declined under 14,000 in 2003; A-76 competitions decreased from over 200 in 2000 to 160 in 2003; announced competitive sourcing initiatives declined from 450 in 1999 to under 50 in 2004;

Political Ideology – Theory Prediction

1970–1980	1981–1988	1989–1995
Theory Prediction: Low Outsourcing	**Theory Prediction: Medium-to-High Outsourcing**	**Theory Prediction: Medium-to-Low Outsourcing**
Justification - State intervention prevailed as foundation for economy; - Market-centric ideas have minority position but increase toward end of decade with deregulation efforts; - Using private sector for DoD activities not in mainstream political discourse or strategies; - Nixon admin chose state interventionist approach to economic management; +Ford admin action to incorporate market ideas correlated with deregulation efforts and increased use of private sector; - Carter admin actions to reduce private sector in DoD activities were unsuccessful; +Deregulation efforts support neoliberal aims; +Commercial sourcing activity increased;	**Justification** +Neoliberal/market-centric ideas grow throughout period; + Republican presidency offered support for increased market-centric economic policymaking; strong support for private sector firms performing government functions; + Congress split through first Reagan admin; + Weak House during first term; - Democratic Congress during last half of 2nd Reagan admin offered increased resistance to market-centric designs;	**Justification** + Expect Reagan's neoliberal economic principles to carry forward with Republican admin of G.H.W. Bush; - Clinton admin represents conservative element of the Democratic party; - Democrat controlled Congress increases resistance for further market activity; - Congress initiated legislation having direct affect on DoD; competitive sourcing activities and results through 1995;

Political Ideology – Theory Prediction

1996–2000	2001–2005
Theory Prediction: Medium-to-Low Outsourcing	**Theory Prediction: Medium-to-High Outsourcing**
Justification + Clinton administration moving to the right, increasing market tendencies in policymaking; + Congress (R) outsourcing friendly; - FAIR Act actions by Clinton administration provide limited opportunities for private sector; - Clinton administration alignment with federal unions to limit competitive sourcing activities;	**Justification** + Pres. Bush support for neoliberalism; + SecDef strong market-centric economic policy advocate; - Senate relatively split; + Small Republican majority in House; + President announces PMA supporting federal activities competition as top five priority; + Iraq infrastructure development plan following neo-liberal architecture; - Bilateral Congressional pushback on competitive sourcing objectives and A-76 program;

Political Ideology – Outcome of Outsourcing Behavior

1970–1980	1981–1988	1989–1995
Outcome: Medium correlation with theory prediction Average percent of O&M spent on procured services was 57.8 percent; percent of O&M spent on *procured services* declined by 3.5 percent during case; 25-35 percent of procured services were for low skilled jobs; *Competitive sourcing* activity had significant increase between 1978 and 1980; DoD completed cost comparisons increased from 1-205 by the end of 1980; 75 percent of competitions were for low skilled positions;	**Outcome: High correlation with theory prediction** Average percent of O&M spent on procured services was 64.2 percent; percent of O&M spent on *procured services* increased by 9.3 percent during case; 25-35 percent of procured services were for low skilled jobs; *Competitive Sourcing* activity was significant; annual average of cost comparison studies was 203 between 1981 and 1988; 1,631 cost comparisons completed between 1981-1988; 75 percent of competitions were for low skilled positions;	**Outcome: Medium correlation with theory prediction** Average percent of O&M spent on procured services was 61.6 percent; percent of O&M spent on *procured services* increased by 1.2 percent during case; O&M Budget decreased and amount spent on procurement of services decreased; *Competitive Sourcing* activity declined considerable from the 1981-88 period as indicated by cost comparison studies and annual positions studied; completed cost comparison studies were reduced to 183 between 1989 and 1994; total positions studied declined from 12,000 in 1988 to 2,128 in 1995 and was preceded by annual totals of 496, 441, 1623, between 1992 and 1994;

Political Ideology – Outcome of Outsourcing Behavior

1996–2000	**2001–2005**
Outcome: **Medium-to-Low correlation with theory prediction**	**Outcome:** **Med-to-Low correlation with theory prediction**
Increased procurement and competitive sourcing activity; Average percent of O&M spent on procured services was 64.8 percent; percent of O&M spent on *procured services* decreased by 3 percent during case; O&M budget increased and amount spent on procurement remained consistent; *Competitive Sourcing* measured through A-76 activities; competitive sourcing initiatives increased; A-76 competitions increased from 20 in 1996 to 210 in 2000; positions competed increased form under 100 in 1996 to 8000 in 2000; DoD competitive sourcing initiatives increased from 50 in 1995 to nearly 450 in 1999;	Average percent of O&M spent on procured services was 63.3 percent; percent of O&M spent on *procured services* increased by 3.7 percent during case; O&M budget increased and amount spent on procurement of services increased; *Competitive Sourcing* activity as measured by the average # of positions competed, A-76 competitions and announced competitive sourcing initiatives decreased; the average # of positions annually competed declined under 14,000 in 2003; A-76 competitions decreased from over 200 in 2000 to 160 in 2003; announced competitive sourcing initiatives declined from 450 in 1999 to under 50 in 2004;

Organization Factors – Theory Predictions

1970–1980	1981–1988	1989–1995
Theory Prediction: Low Outsourcing	**Theory Prediction: Low Outsourcing**	**Theory Prediction: Low Outsourcing**
Justification -Outsourcing activities decentralized; -Org autonomy; -Local organizations controlled process for choosing activity and extent of outsourcing; -Organizations selectively followed OMB guidance for competitive sourcing; -minimal oversight; +Vietnam war; +Budget reduced;	**Justification** -Outsourcing activities decentralized; -Org autonomy; -Local organizations controlled process for choosing activity and extent of outsourcing; - Organizations selectively followed OMB guidance for competitive sourcing; -Minimal oversight; - No major conflicts; - Budget increased;	**Justification** - Service leaders reluctant to change practices and missions in early post-Cold War period; - Org autonomy; - Organizations face reduction, seek to maintain force size; + Budget reductions; +Weapons modernization requires increased funding; + Increased dependency on commercial technology; + Increased operations tempo due to Iraq (Desert Storm) and Balkans conflict;

Organization Factors – Theory Predictions

1996–2000	**2001–2005**
Theory Prediction: **Medium-to-High Outsourcing**	**Theory Prediction:** **Low-to-Medium Outsourcing**
Justification +Service leaders more inclined to support outsourcing due to budget reductions and need to modernize force; +limited organization autonomy; +Decreased DoD budget, lowest level since 1976; + Weapons modernization requires increased funding; + Increased dependency on commercial tech; + Increased operations tempo due to conflict in Balkans and post-Iraq (Desert Storm) missions;	**Justification** + Service leaders need to procure support for requirements in Afghanistan and Iraq; + Limited org autonomy; + Increased operations tempo with largest force deployment over extended period of time since Vietnam conflict; + Increased technological maturity and integration in missions; minimal internal expertise and support infrastructure; +Weapons modernization; -Budget increasing; - Organizations have limited control over contractors; - Local organization leaders have interest in protecting employees (military/civilian); - Deployments limit competitive sourcing activities; - Reduced force size in midst of two major conflicts, minimal desire to replace existing force structure;

Organization Factors – Outcome of Outsourcing Behavior

1970–1980	1981–1988	1989–1995
Outcome: Medium correlation with theory prediction	**Outcome: Low correlation with theory prediction**	**Outcome: Medium-to-High correlation with theory prediction**
Average percent of O&M spent on procured services was 57.8 percent; percent of O&M spent on *procured services* declined by 3.5 percent during case; 25-35 percent of procured services were for low skilled jobs; *competitive sourcing* activity had increased between 1978 and 1980; DoD completed cost comparisons increased from 1-205 by 1980;	Average percent of O&M spent on procured services was 64.2 percent; percent of O&M spent on *procured services* increased by 9.3 percent during case; 25-35 percent of procured services were for low skilled jobs; *Competitive Sourcing* activity was significant; annual average for cost comparison studies was 203 between 1981 and 1988; 1,631 cost comparisons completed between 1981–1988; 75 percent of competitions were for low skilled positions;	Average percent of O&M spent on procured services was 61.6 percent; O&M spent on *procured services* increased by 1.2 percent; O&M budget decreased; amount spent on procurement of services decreased; *Competitive Sourcing* activity declined as indicated by cost comparison studies and annual positions studied; completed cost comparison studies were reduced to 183 between 1989 and 1994; total positions studied declined from 12,000 in 1988 to 2,128 in 1995 and was preceded by annual totals of 496, 441, 1,623, between 1992 and 1994;

Organization Factors – Outcome of Outsourcing Behavior

1996–2000	2001–2005
Outcome: Medium-to-High correlation with theory prediction	**Outcome: High correlation with theory prediction**
Average percent of O&M spent on procured services was 64.8 percent; percent of O&M spent on *procured services* decreased by three percent; O&M budget increased and funds spent on procurement remained consistent; *Competitive Sourcing* measured through A-76 activities; DoD competitive sourcing initiatives increased; A-76 competitions increased from 20 in 1996 to 210 in 2000; positions competed increased form under 100 in 1996 to 8,000 in 2000; DoD competitive sourcing initiatives increased from 50 in 1995 to 450 in 1999;	Average percent of O&M spent on procured services was 63.3 percent; percent of O&M spent on *procured services* increased by 3.7 percent during case; O&M budget increased and amount spent on procurement of services increased; *Competitive Sourcing* activity as measured by the average # of positions competed; A-76 competitions and announced competitive sourcing initiatives decreased; the average # of positions annually competed declined under 14,000 in 2003; A-76 competitions decreased from over 200 in 2000 to 160 in 2003; announced competitive sourcing initiatives declined from 450 in 1999 to under 50 in 2004;

TABLES

TABLE 1

Comparison of DoD's Use of Contract Obligations for select Services between Fiscal Years 1996 to 2005 (dollars in billions)

Service Category	Service obligations Fiscal year		Percentage of service obligations fiscal year 2005	Percentage change, fiscal years 1996 to 2005
	1996	2005		
Professional, administrative, and management support	$10.8	$28.3	20.0	161
Information Technology	4.9	10.3	7.3	110
Medical Services	1.6	8.0	5.6	412
Housekeeping Services	2.4	4.8	3.4	98

(GAO 2006c, 5)

TABLE 3

Real Growth/Decline in National Defense Spending
FY 1970 to FY1988

BUDGET AUTHORITY				OUTLAYS		
Fiscal Year	Current Dollars	Constant FY2005 Dollars	Real Growth /Decline	Current Dollars	Constant FY2005 Dollars	Real Growth /Decline
1970	75.3	401.0	-9.0%	81.7	436.2	-7.1%
71	72.7	365.7	-8.8%	78.9	398.1	-8.7%
72	76.4	351.6	-3.9%	79.2	369.6	-7.2%
73	79.1	335.6	-4.6%	76.7	336.9	-8.8%
74	81.5	318.2	-5.2%	79.3	322.4	-4.3%
75	86.2	307.6	-3.3%	86.5	315.0	-2.3%
76	97.3	321.6	4.6%	89.6	305.1	-3.1%
77	110.2	334.5	4.0%	97.2	307.4	0.8%
78	117.2	329.8	-1.4%	104.5	307.5	0.0%
79	126.5	328.1	-0.5%	116.3	316.9	3.1%
80	143.9	333.6	1.7%	134.0	324.9	2.5%
1981	180.0	370.8	11.1%	157.5	339.5	4.5%
82	216.5	410.0	10.6%	185.3	362.6	6.8%
83	245.0	442.7	8.0%	209.9	391.0	7.8%
84	265.2	462.5	4.5%	227.4	406.7	4.0%
85	294.7	493.9	6.8%	252.7	433.2	6.5%
86	289.1	474.9	-3.8%	273.4	455.1	5.0%
87	287.4	460.2	-3.1%	282.0	456.5	0.3%
88	292.0	451.3	-1.9%	290.4	454.9	-0.4%

TABLE 3

Real Growth/Decline in National Defense Spending
FY 1989 to FY 2005

BUDGET AUTHORITY				OUTLAYS		
Fiscal Year	Current Dollars	Constant FY2005 Dollars	Real Growth /Decline	Current Dollars	Constant FY2005 Dollars	Real Growth /Decline
89	299.6	445.5	-1.3%	303.6	456.0	0.3%
90	301.2	435.2	-2.3%	297.9	435.3	-4.5%
1991	296.2	411.5	-5.4%	296.7	417.1	-4.2%
92	287.7	390.8	-5.0%	286.1	389.0	-6.7%
93	281.1	374.2	-4.2%	283.9	376.1	-3.3%
94	263.3	343.2	-8.3%	278.9	360.8	-4.1%
95	266.4	340.0	-0.9%	271.0	345.0	-4.4%
96	266.2	332.5	-2.2%	265.2	331.0	-4.1%
97	270.4	330.3	-0.7%	270.5	328.9	-0.6%
98	271.3	323.1	-2.2%	268.5	318.9	-3.0%
99	292.3	339.5	5.1%	274.9	320.3	0.4%
2000	304.1	344.2	1.4%	294.5	333.5	4.1%
01	335.3	368.9	7.2%	305.5	335.6	0.6%
02	362.1	387.6	5.1%	348.6	372.3	10.9%
03	456.2	476	22.8%	404.9	422.5	13.5%
04	460.5	469.7	-1.3%	453.7	461.1	9.4%
05	448.1	448.1	-4.6%	469.4	469.4	1.6%

(Carter and Coipuram, 2005, 24)

TABLE 4

DoD A-76 Cost Studies by Functional Area from October 1978 through December 1986

Function	Number of Studies	Estimated dollar savings
Facilities/grounds/utilities maintenance	251	$89,073
Custodial	201	26,196
Commissary/clothing store	145	20,170
Motor pool/vehicle maintenance	124	56,283
Multifunction/base maintenance	120	155.515
Supply/warehousing/distribution	109	31,783
Administrative telephone and communications	96	20,924
Equipment maintenance	82	49,475
Management/administrative support	81	8,968
Automated data processing	66	3,677
Audiovisual	65	18,645
Other	59	42,383
Fire protection/guard	54	7,870
Laundry/dry cleaning	50	12,554
Food service	35	27,196
Transport	29	25,993
Library	24	277
Mail and file	18	462
Printing	16	781
Education and training	14	11,402
Data entry	12	2,234
Health services	7	431
Architecture/engineering	2	56
Manufacturing	1	209
Social/community services	0	0
All Functions	**1,661**	**$612,557**

(GAO 1988, 15)

Note: A description of the types of functions included in each of the 25 categories studied is provided in the Appendix.

TABLE 5

DoD Completed Cost Comparisons by Fiscal Year of Initial Decision

Fiscal Year	Total	Annualized Dollars (000s)	Average Annualized Dollars (000s)
1978	1	1,536	1,536
1979	114	152,934	1,342
1980	205	557,934	2,719
1981	186	369,334	1,986
1982	292	428,160	1,466
1983	370	390,584	1,056
1984	171	161,025	942
1985	192	263,502	1,372
1986	184	203,770	1,107
1987	127	239,844	1,889
1988	109	177,548	1,629
1989	70	156,242	2,232
1990	29	35,502	1,224
1991	66	67.945	1,029
1992	9	11,369	1,263
1993	2	7,712	3,856
1994	7	9,063	1,295
Total	2134	3,233,565	1,515

(Keating 1997, 3, 52)

Note: FY78 through 94 data was derived from the FY 94 Commercial Activity Management Information System (CAMIS) database. A CAMIS record is set up every time a function is nominated for A-76 cost comparison.

TABLE 7

Positions Studied in the DoD and Civilian Agencies between the G.H.W. Bush and Clinton Administrations

Fiscal Year	Total FTEs	DoD FTEs	Civilian Agencies FTEs
1988	17,249	12,000	5,249
1989	8,469	6,100	2,369
1990	9,547	6,989	2,558
1991	2,026	1,243	783
1992	564	496	68
1993	509	441	68
1994	1,691	1,623	68
1995	2,386	2,128	258
1996	5,267	5,241	26
1997	25,255	25,255	0

(Grasso 2003, 10).

Note: An FTE is the calculation of staffing levels using staff work time as a factor. As a result of an OMB Circular A-76 competition, the function currently performed by federal agency workers could be transferred to a source outside of the agency, including another federal agency or the private sector.

TABLE 8

MILITARY PAY PERCENTILES

Basic Military Pay as Percentile of Private Sector Pay for Male Enlisted and Officer Personnel

Fiscal Year	E-4, 4 Years of Service (YOS) vs. 22-26 Year Old, High School	E-4, 4 YOS vs. 22-26 Year Old, Some College	E-5, 10 YOS vs., 27-31 Year Old, Some College	O-3, 8 YOS vs. 27-31 Year Old, 4+ Years College, Professional/ Technical	O-4, 10 YOS vs. 32-36 Year Old, 4+ Years College, Professional/ Technical
82	49	49	49	76	66
83	54	42	50	73	64
84	54	52	45	69	63
85	57	48	49	70	61
86	59	51	48	65	61
87	57	51	50	64	58
88	55	48	50	61	54
89	56	50	47	62	53
90	61	54	51	63	55
91	60	55	50	64	54
92	63	60	58	67	55
93	68	63	60	71	55
94	68	63	61	67	54
95	66	62	61	69	54
96	68	63	62	68	57
97	65	61	58	64	56
98	67	63	61	69	59
99	71	65	61	64	58

(Hosek 2001, 75)

Note: Military Pay is measured as basic military compensation (BMC) from 1982–1997 and regular military compensation (RMC) from 1998–1999. BMC includes basic pay, basic allowance for subsistence, basic allowance for quarters, and the tax advantage arising from the no taxability of the allowances. RMC is the same except the basic allowance for housing replaces the basic allowance for quarters. Private sector pay is from the March Supplement of the Current Population Survey. The sample is limited to the previous-year pay for workers who reported at least 35 hours per week and at least 35 weeks in that year.

TABLE 9

Changes in Military Compensation for Average Active Duty Military Personnel, 1999–2005 (Excluding VA benefits) (in FY 2005 Dollars)

Type of Compensation	Dollar Increase	Share of Increase	% Real Change
Cash			
Basic Pay	$5,300	24%	21%
Housing Allowance	$3,100	14%	66%
Subsistence Allowance	$0	0%	0%
Tax Advantage	$200	1%	12%
Other Pays and Allowances	$600	3%	17%
Total Cash	**$9,300**	**42%**	**25%**
Non-Cash			
Immediate Benefits			
Installation-Based Benefits	$1,000	5%	9%
Active Duty Health Care	$2,500	11%	50%
Subtotal	$3,500	16%	21%
Deferred Benefits			
Social Security and Other	$100	0%	3%
Retiree Benefits			
Retirement Pay Accrual	$3,600	16%	59%
Health Care Accrual for Retirees 65+	$4,200	19%	355%
Health Care Accrual for Retirees under 65	$1,700	8%	50%
Subtotal	$9,400	43%	89%
Subtotal	**$9,500**	**43%**	**72%**
Total Non-Cash	**$13,000**	**58%**	**44%**
Total Cash and Non-Cash Compensation	**$22,200**	**100%**	**33%**

(Kosiak 2005, 27)

TABLE 10

1998 Comparison of the Annual Value of Federal and Private-Sector Benefits for Five Hypothetical Employees (in dollars)

Age (Years)	25	35	55	60	50
Service (Years)	2	10	20	20	25
Salary (Dollars)	25,000	45,000	75,000	45,000	50,000
Retirement					
CSRS	a	a	18,770	3,545	8,309
FERS	1,750	5,320	14,435	6,644	8,715
Private sector	1,110	3,516	10,998	5,116	6,227
Health Insurance					
CSRS	a	a	4,091	5,097	3,014
FERS	1,711	2,041	4,091	5,097	3,014
Private sector	2,211	2,538	4,617	5,716	3,459
Retiree Health Insurance					
CSRS	a	a	1,319	1,778	2,059
FERS	493	1,224	1,319	1,778	2,059
Private sector	225	568	648	800	1,002
Life Insurance					
CSRS	a	a	397	479	100
FERS	-55	-64	397	479	100
Private sector	45	101	943	916	423
Sick Leave and Disability					
CSRS	a	a	2,766	1,710	1,371
FERS	409	882	3,352	2,087	1,598
Private sector	367	779	2,793	1,716	1,354
Holiday and Vacation					
CSRS	a	a	10,385	6,231	6,923
FERS	2,212	5,193	10,385	6,231	6,923
Private sector	2,067	4,780	9,158	5,495	6,338
Total					
CSRS	a	a	29,728	18,880	21,776
FERS	6,522	14,596	35,979	22,286	22,409
Private sector	6,026	12,282	29,157	19,789	18,803
Benefits as a Percentage of Pay					
CSRS	a	a	39.6	42.0	43.6
FERS	26.1	32.4	48.0	49.5	44.8
Private sector	24.1	27.3	38.9	44.0	37.6
Difference as a Percentage of Pay					
CSRS	a	a	0.8	-2.0	5.9
FERS	2.0	5.1	9.1	5.5	7.2

SOURCE: Congressional Budget Office using data from Watson Wyatt & Company.

NOTES: Private-sector values reflect practices as of 1996.

CSRS = Civil Service Retirement System; FERS = Federal Employees Retirement System.

a. The two youngest employees would not be eligible for CSRS because the plan was closed in 1983.

(Musell and Holen 1998, viii)

TABLE 11 Composition of Congress
(Majority Party highlighted: Blue-Democrat, Red-Republican)

Congressional Session		Senate				House		
		Dem	Rep	Other	Party Control	Dem	Rep	Party Control
91st	1969–71	57	43	—	D	243	192	D
92nd	1971–73	54	44	2	D	255	180	D
93rd	1973–75	56	42	2	D	242	192	D
94th	1975–77	60	38	1	D	291	144	D
95th	1977–79	61	38	1	D	292	143	D
96th	1979–81	58	41	1	D	277	158	D
97th	1981–83	46	53	1	R	242	192	D
98th	1983–85	46	54	—	R	269	166	D
99th	1985–87	47	53	—	R	253	182	D
100th	1987–89	55	45	—	D	258	177	D
101st	1989–91	55	45	—	D	260	175	D
102nd	1991–93	56	44	—	D	267	167	D
103rd	1993–95	57	43	—	D	258	176	D
104th	1995–97	48	52	—	R	204	230	R
105th	1997–99	45	55	—	R	206	228	R
106th	1999–01	45	55	—	R	211	223	R
107th Jan-Jun	2001–01	50	50	—	R	212	221	R
107th Jun-Nov	2001–02	50	49	1	D	212	221	R
107th Nov-Jan	2002–03	48	50	2	R	212	221	R
108th	2003–05	48	51	1	R	204	229	R

TABLE 12

1993 Variations Among the Services in Using Enlisted Personnel to Fill Civilian Equivalent Positions

Occupational specialty	Air Force enlisted and civilian personnel		Army enlisted and civilian personnel		Navy enlisted and civilian personnel	
	Number	Percent Civilian	Number	Percent civilian	Number	Percent Civilian
Administration, general	39,154	59.6	55,518	76.9	34,445	67.7
Auditing and accounting	4,370	42.7	5,332	88.5	4,396	100.0
Computer operators/ analysts	11,279	16.7	4,663	67.5	5,639	53.4
Construction equipment	1,919	57.5	11,247	78.9	2,277	44.3
Electricians	3,615	41.9	1,906	86.5	7,111	81.9
Electronic instruments	20,027	44.2	8,059	82.7	8,223	77.4
Fire fighting and damage control	8,164	34.5	2,934	92.1	2,880	100.0
Food service, general	6,322	14.1	14,986	18.4	14,198	6.6
Information and education, general	5,038	52.9	5,309	88.7	2,553	76.2
Law enforcement, general	10,229	4.6	17,191	6.4	3,509	72.6

TABLE 12

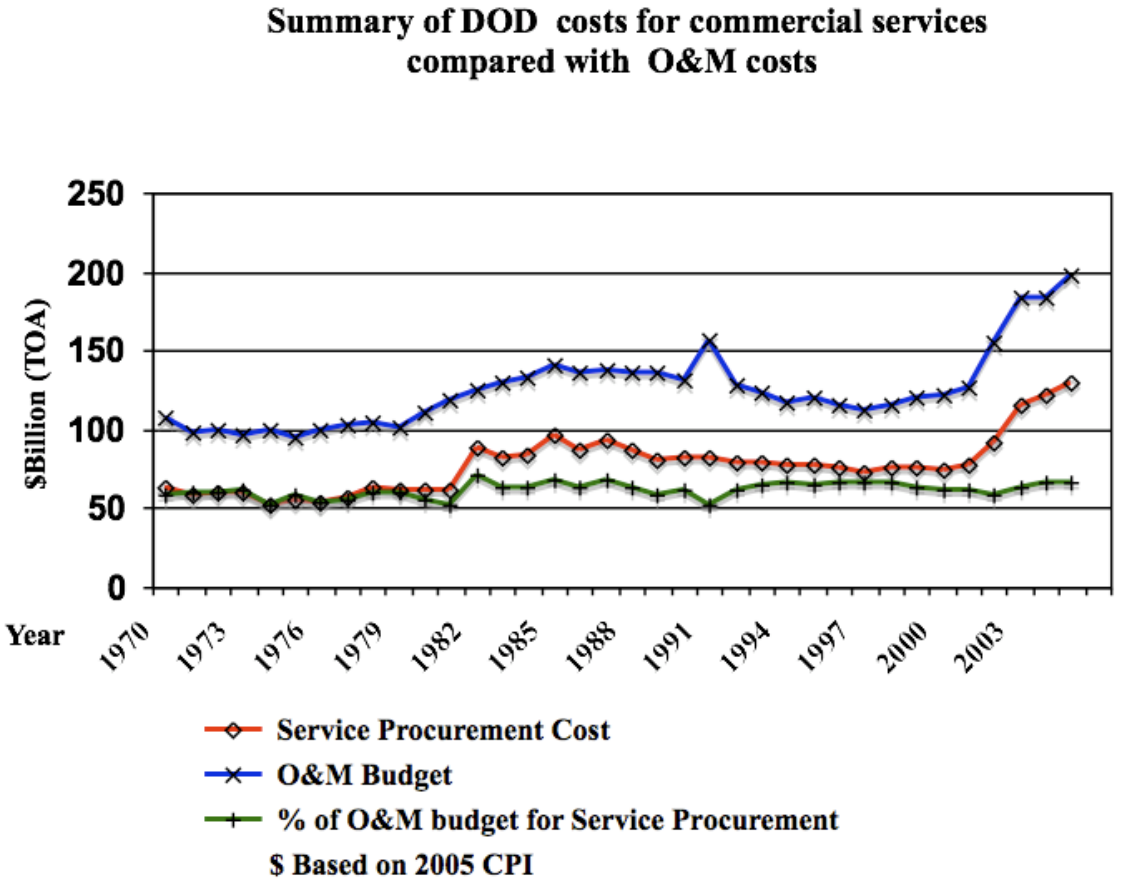
1993 Variations Among the Services in Using Enlisted Personnel to Fill Civilian Equivalent Positions

Occupational specialty	Air Force enlisted and civilian personnel		Army enlisted and civilian personnel		Navy enlisted and civilian personnel	
	Number	**Percent Civilian**	**Number**	**Percent civilian**	**Number**	**Percent Civilian**
Mechanical and electrical equipment	4,590	100.0	5,043	75.0	12,033	85.9
Medical administration and logistics	6,108	19.8	6,626	50.6	1,468	100.0
Motor vehicle operators	5,491	43.3	14,280	23.4	1,929	100.0
Personnel, general	12,082	27.1	21,770	40.0	8,842	44.8
Recruiting and counseling	1,328	9.0	3,934	5.3	1,592	27.5
Security guards	16,782	2.2	1,896	100.0	1,496	57.8
Supply administration	25,109	40.7	42,206	32.3	24,390	45.7
Transportation	9,255	16.0	3,656	59.1	1,894	82.4
Utilities	10,428	42.9	8604	88.8	13,052	73.4
Warehousing and equipment handling	9,026	49.5	9,645	86.6	7.904	100.0
Total enlisted and civilian functions	**491,419**	**27.1**	**674,843**	**28.2**	**603,177**	**27.3**

Source: Occupational specialty data provided by Defense Manpower Data Center (DMDC) (GAO 1994, 21)

FIGURES

FIGURE 1



(DoD Comptroller 2006, 64–67; DoD SIAD 2006)

Note 1**:** Total Obligation Authority (TOA): TOA is a DoD financial term that expresses the value of the DIRECT Defense program for a fiscal year. It includes regular O&M appropriations, any supplemental O&M appropriations, and any funding from other appropriation accounts transferred or reprogrammed into the O&M account during budget execution (DoD Comptroller 2006, 1; GAO 2007, 8).

Note 2: The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a fixed market basket of consumer goods and services (DoD Comptroller 2006, 39).

FIGURE 1 Data

	1970	1971	1972	1973	1974	1975	1976	1977
Annual Cost	12.7	12.2	12.8	13.6	13.1	15.4	15.5	17.8
2005 $ CPI	63.9	58.8	59.7	59.7	51.9	55.9	53.2	57.4
2005 O&M $ CPI	108.2	98.4	99.1	97.3	99.5	94.9	98.9	103.1
% of O&M budget for Contracts	59.1	59.8	60.2	61.3	52.2	58.9	53.8	55.7
O&M ex pay 2005 $$	$61,542	$52,337	$52,136	$51,767	$51,551	$50,718	$54,635	$59,205
	1978	1980	1981	1982	1983	1984	1985	1986
Annual Cost	21.2	25.9	28.8	43.8	42.3	44.6	53.4	48.6
2005 $ CPI	63.5	61.4	61.9	88.6	82.9	83.8	96.9	86.6
2005 O&M $ CPI	105	110.5	118.7	125.5	130.1	132.4	140.9	136
% of O&M budget for Contracts	60.8	55.5	52.1	70.6	63.7	63.3	68.8	63.7
O&M ex pay 2005 $$	$60,096	$64,545	$76,125	$81,131	$86,295	$89,603	$94,844	$89,542

FIGURE 1 Data

	1987	1988	1989	1990	1991	1992	1993	1994
Annual Cost	54.1	52.8	51.3	55.3	57.7	56.8	58.4	59.2
2005 $ CPI	93	87.2	80.8	82.6	82.7	79.1	78.9	78
2005 O&M $ CPI	138.1	136.6	136.4	132.1	157.4	128.3	122.7	117.4
% of O&M budget for Contracts	67.3	63.8	59.2	62.5	52.5	61.7	64.3	66.4
O&M ex pay 2005 $$	$89,186	$86,539	$86,231	$80,956	$109,095	$82,811	$77,658	$71,918
	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Annual Cost	61.1	61.3	60.3	63.2	65.3	66.2	70.9	84.5
2005 $ CPI	78.3	76.3	73.4	75.7	76.5	75.1	78.2	91.7
2005 O&M $ CPI	120.4	116.1	111.7	114.9	120.3	121.1	126.3	155.2
% of O&M budget for Contracts	65	65.7	65.7	65.9	63.6	62	61.9	59
O&M ex pay 2005 $$	$75,115	$73,488	$70,810	$75,479	$81,863	$84,766	$87,897	$115,970
	2003	**2004**	**2005**					
Annual Cost	109.3	118	130.1					
2005 $ CPI	116	122	130.1					
2005 O&M $ CPI	183.3	183.5	197.8					
% of O&M budget for Contracts	63.3	66.5	65.7					

FIGURE 1B

Average Percent of O&M for Procured Services

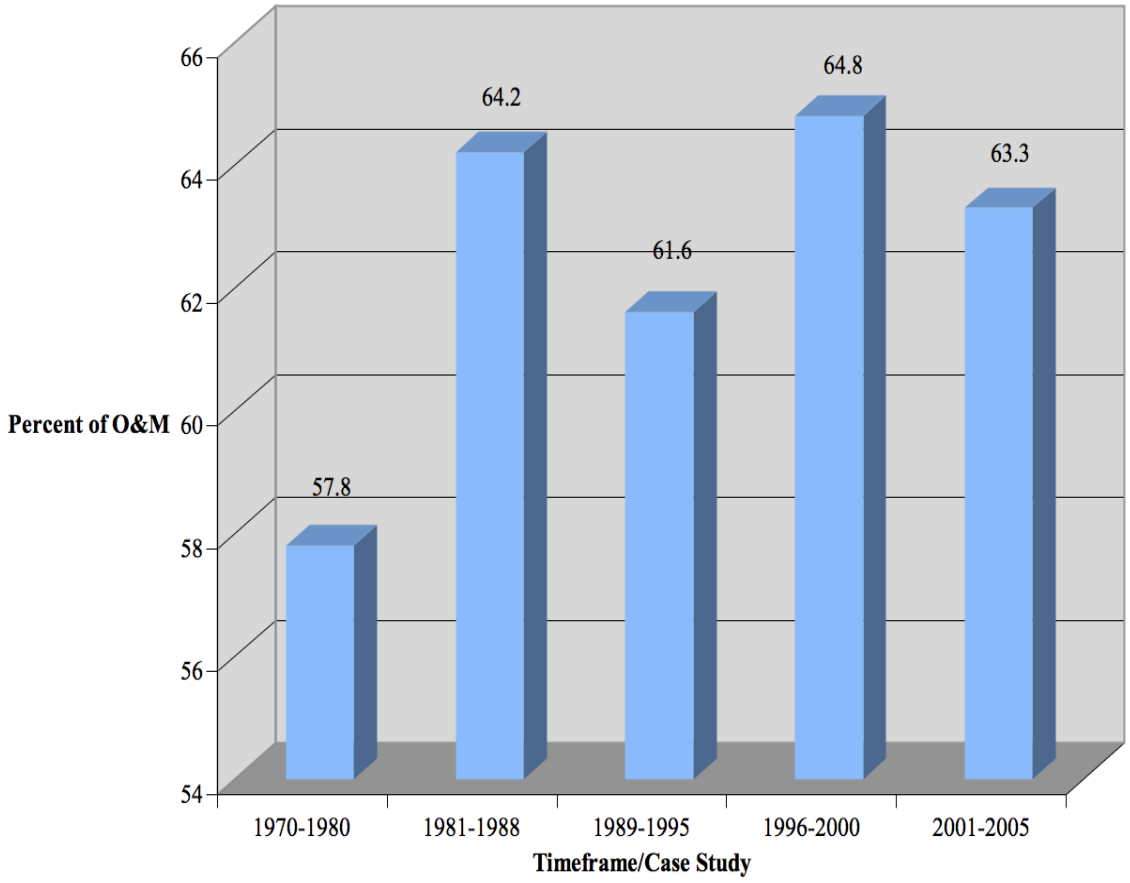


FIGURE 2

Comparison of Military and Civilian DoD Pay with Service Procurement Cost

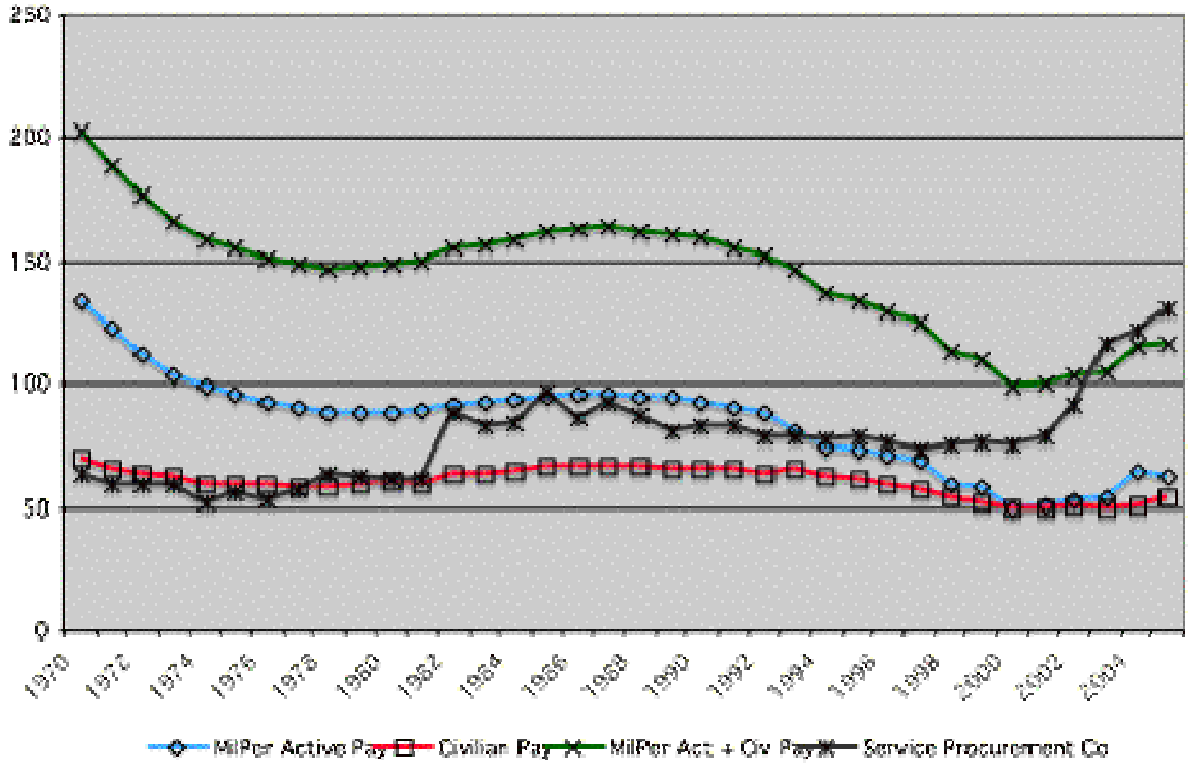
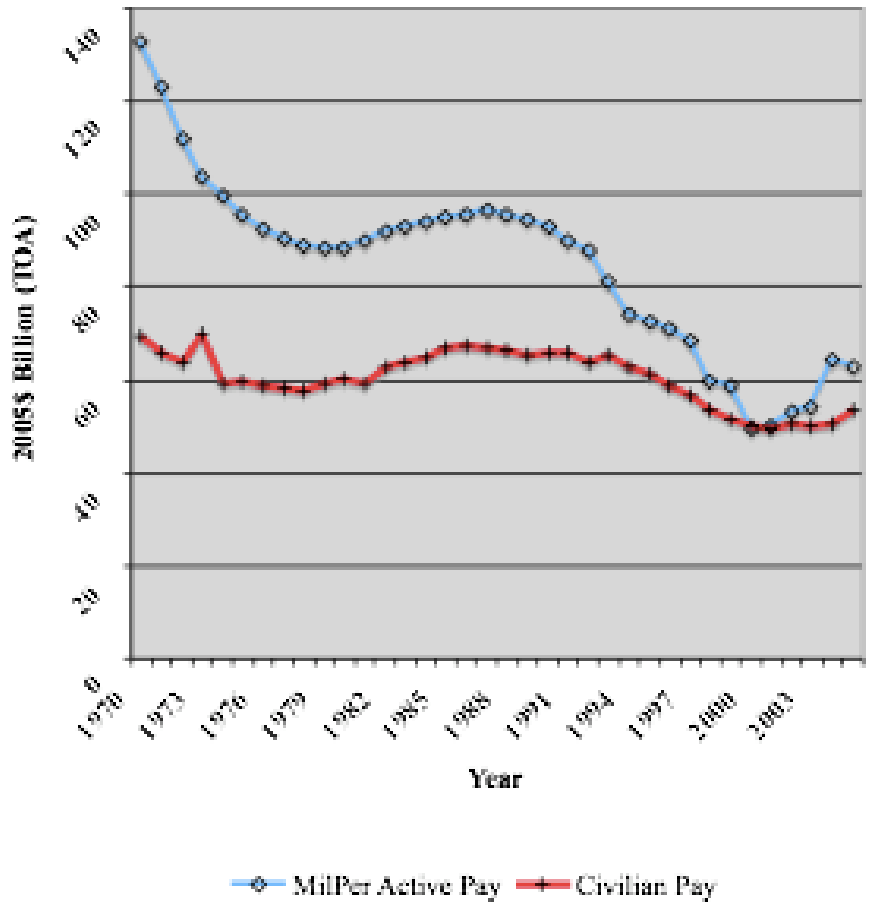


FIGURE 4

Total Annual Pay for Military and DoD Civilians



(DoD Comptroller 2006, 64–67; 70–73)

FIGURE 4 Data 1970–2005

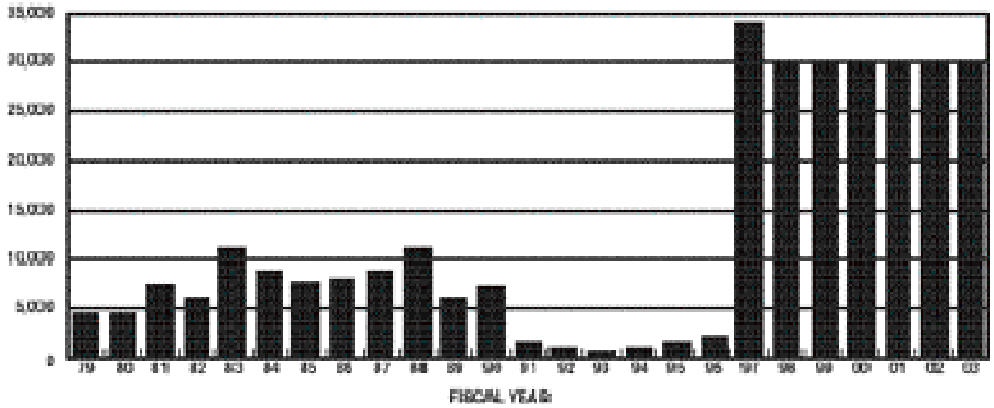
Military vs. DoD Civilian Pay

Year	1970	1971	1972	1973	1974	1975	1976	1977
MilPer Active Pay	133.1	123.3	112.1	103.5	99.4	95.8	92.3	90.3
Civilian Pay	69.7	65.7	64.1	62.1	59.4	59.6	59	58
Retired Pay	15.9	17.1	18.4	19.6	20.9	22.2	23.6	24.9
Retired Pay Accrual	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Year	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**	**1984**	**1985**
MilPer Active Pay	88.9	88.5	88.4	89.7	91.8	92.9	93.8	94.8
Civilian Pay	57.7	59.2	60.2	59.1	63.1	63.8	65	67.1
Retired Pay	25.9	26.8	27.7	28.7	29.3	29.6	29.6	n/a
Retired Pay Accrual	n/a	n/a	n/a	n/a	n/a	n/a	n/a	28
Year	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
MilPer Active Pay	95.5	96.4	95.3	94.7	93.1	90	87.9	81.1
Civilian Pay	67.2	67.1	66.3	65.5	66.1	65.7	64	65.2
Retired Pay	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Retired Pay Accrual	28.1	28.4	28	27.7	27.4	28.1	25.6	20.2

Year	1994	1995	1996	1997	1998	1999	2000	2001
MilPer Active Pay	74.3	72.8	70.8	68.6	59.8	58.6	49.4	50.3
Civilian Pay	62.7	61.2	59	56.9	53.4	51.5	50	49.8
Retired Pay	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Retired Pay Accrual	18.5	17.9	16	15.5	14	13.7	14.2	13.6
Year	**2002**	**2003**	**2004**	**2005**				
MilPer Active Pay	52.9	54.3	64.5	63				
Civilian Pay	50.4	50	50.4	53.5				
Retired Pay	n/a	n/a	n/a	n/a				
Retired Pay Accrual	15.1	14.6	13.4	13.1				

FIGURE 5

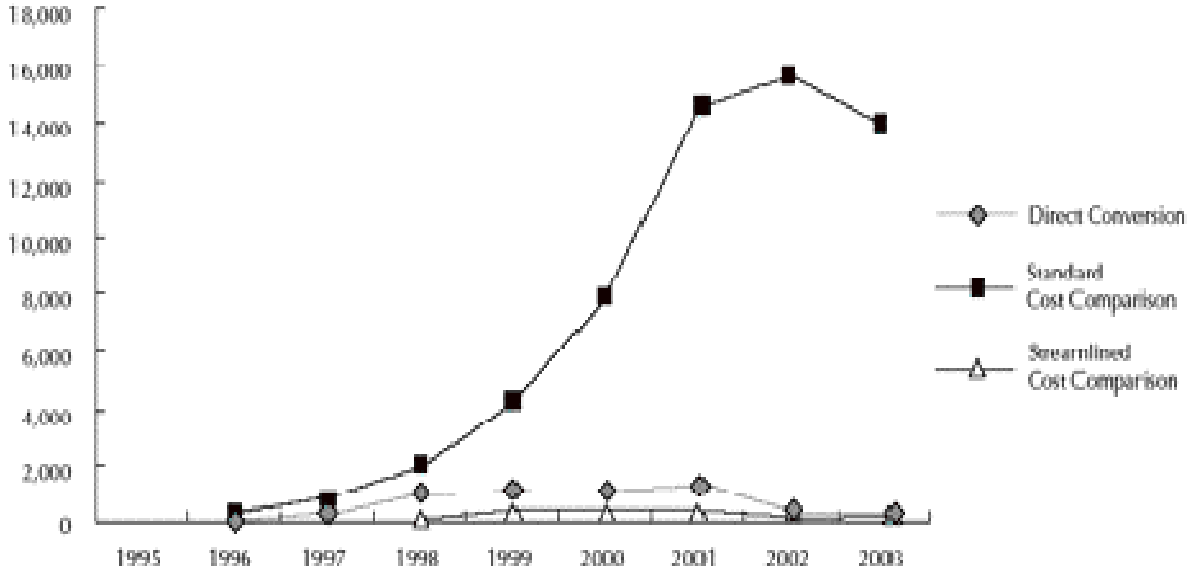
FTE Positions in A-76 Competitions between 1979 and 1996 with Projected Activity between 1997 and 2003



(Cohen 1997a, 30)

FIGURE 6

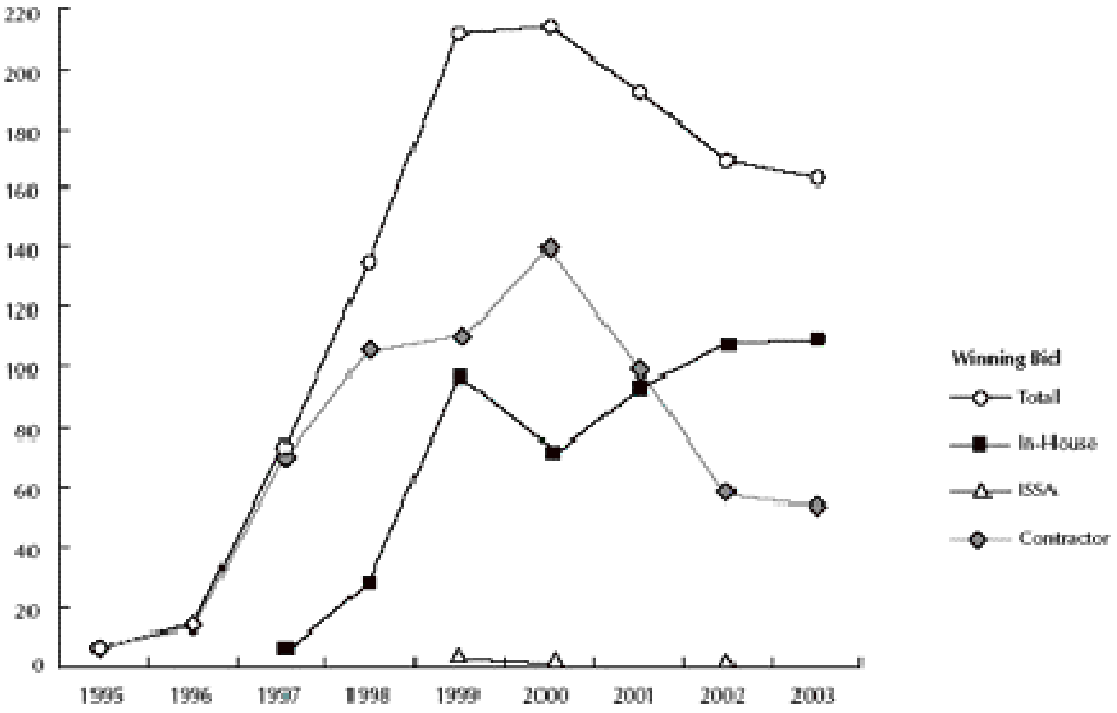
Trends in the Average Number of Total FTEs Competed for each Year from 1996 through 2003



(Gansler and Lucyshyn 2004, 26)

FIGURE 7

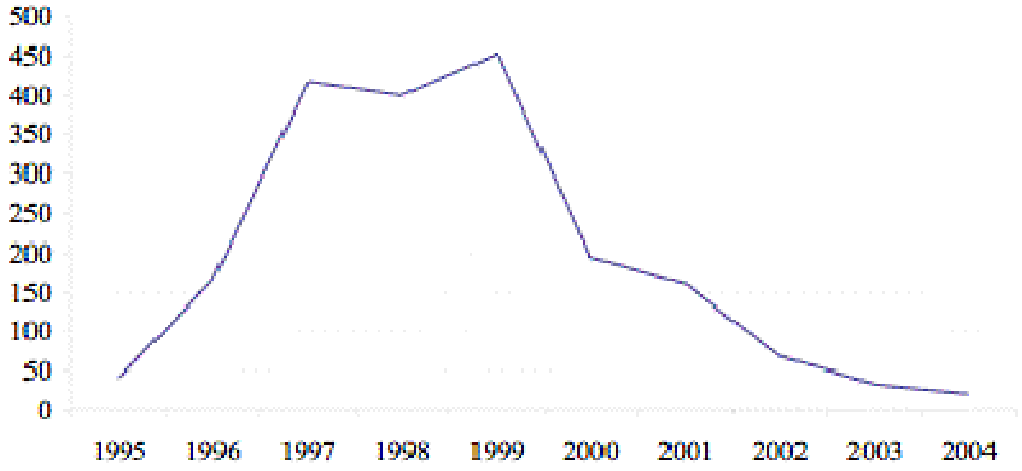
DoD A-76 Competitions 1995–2003



(Gansler and Lucyshyn 2004, 22)

FIGURE 8

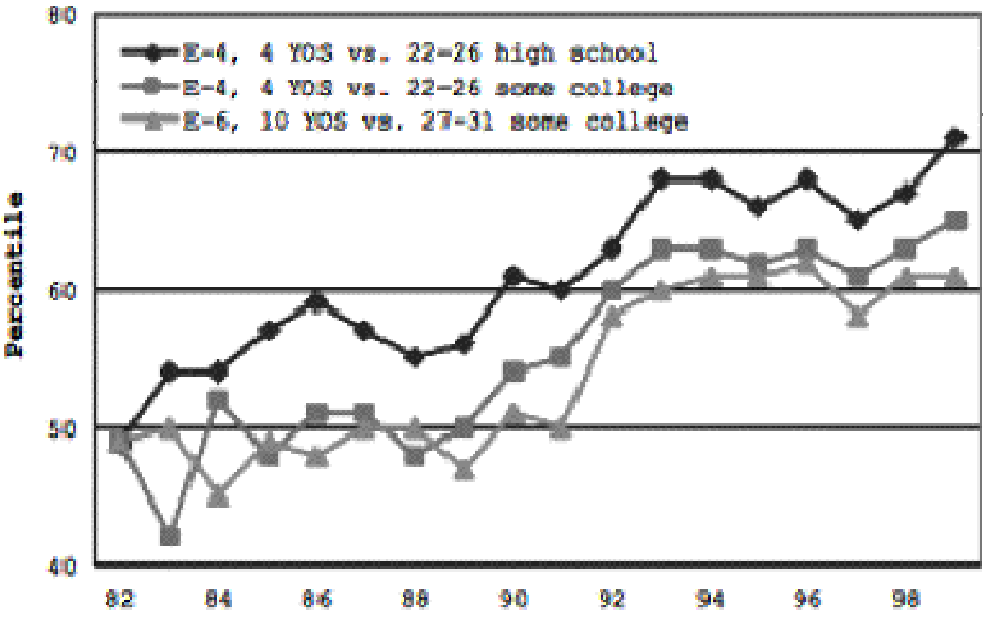
Announced DoD Competitive Sourcing Initiatives
1995–2004: Number of Competitive Sourcing Initiatives Announced by DoD (Army, Navy, Air Force, and Defense Agencies and Field Activities) from FY 1995 to FY 2004



(Kleinknecht et al 2005, 9)

FIGURE 9

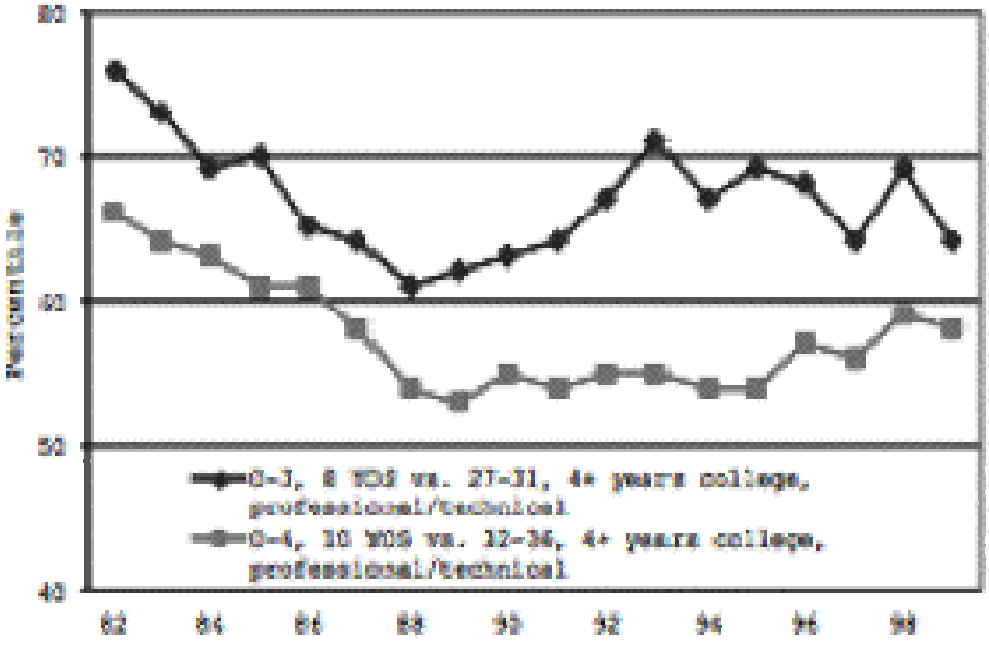
Enlisted Pay as a Percent of Private Sector Pay, Males



(Hosek 2001, 72)

FIGURE 10

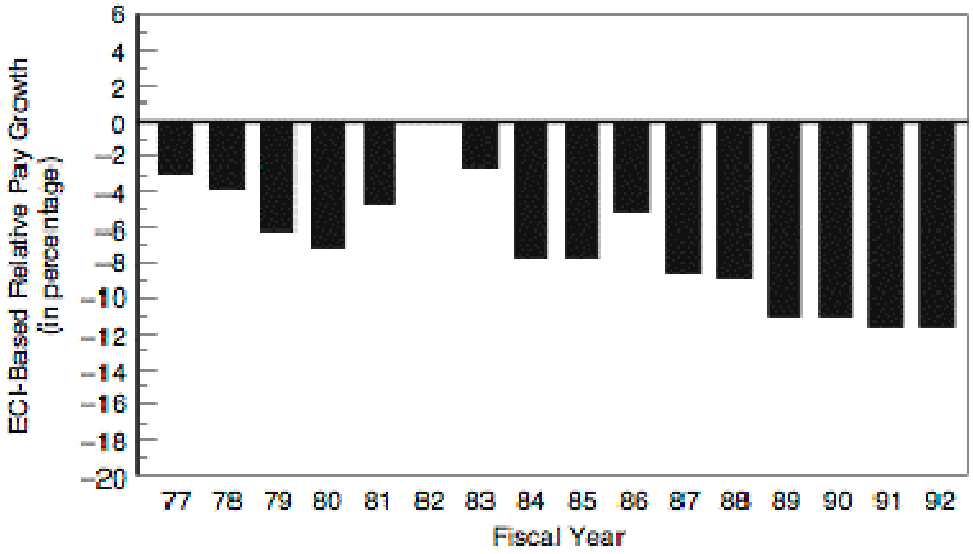
Officer Pay as Percent of Private Sector Pay, Males



(Hosek 2001, 74)

FIGURE 11

Relative Pay Growth/Decline in Military



(Hosek et al 1994, 7)

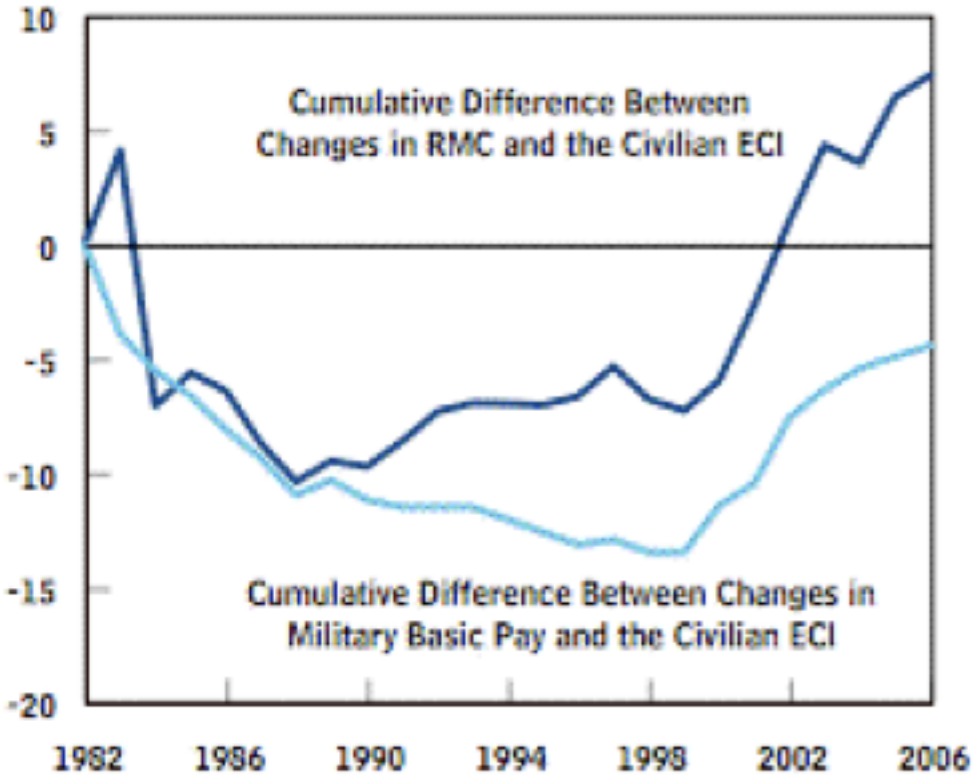
Note 1: ECI (Employment Cost Index) is used for measuring wage growth in the civilian sector. It has been used in setting military pay increases in the military. Negative bar indicates that pay in the military has grown more slowly than in the civilian sector

Note 2: Pay gaps are comparisons of relative pay-growth as measured from a base point rather than comparisons of absolute pay levels. Fiscal 1982 is the base point for the pay gap computation reported here for the ECI. In 1982 Congress provided the military with a large pay raise to create parity with the private sector. Pay is tracked by a Basic Pay Index (BPI), and the gap is computed as the percentage difference in the BPI and the ECI (Hosek, Peterson, and Heilbrunn1994; Williams 1995).

FIGURE 12

Differences Between Military and Private Sector Pay Raises since 1982

(Percent)

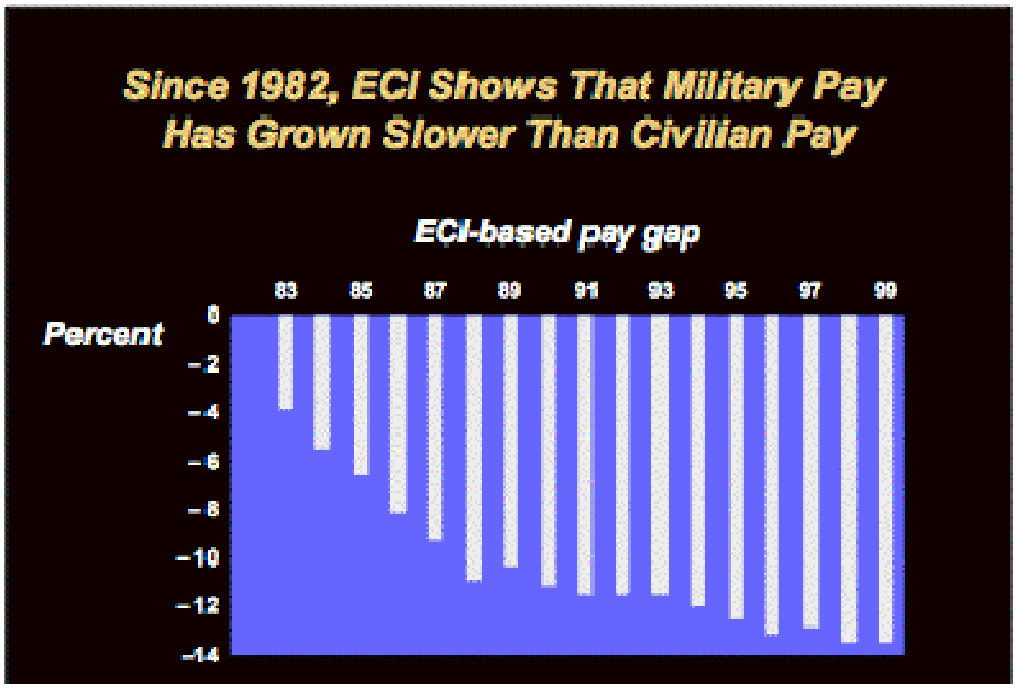


(Gilmore 2007, 12)

Notes: RMC = regular military compensation (basic pay, allowances for housing and subsistence, and the federal tax advantage that occurs because those allowances are not taxed); ECI = employment cost index. These comparisons exclude the military's special pays, bonuses, and noncash benefits.

FIGURE 14

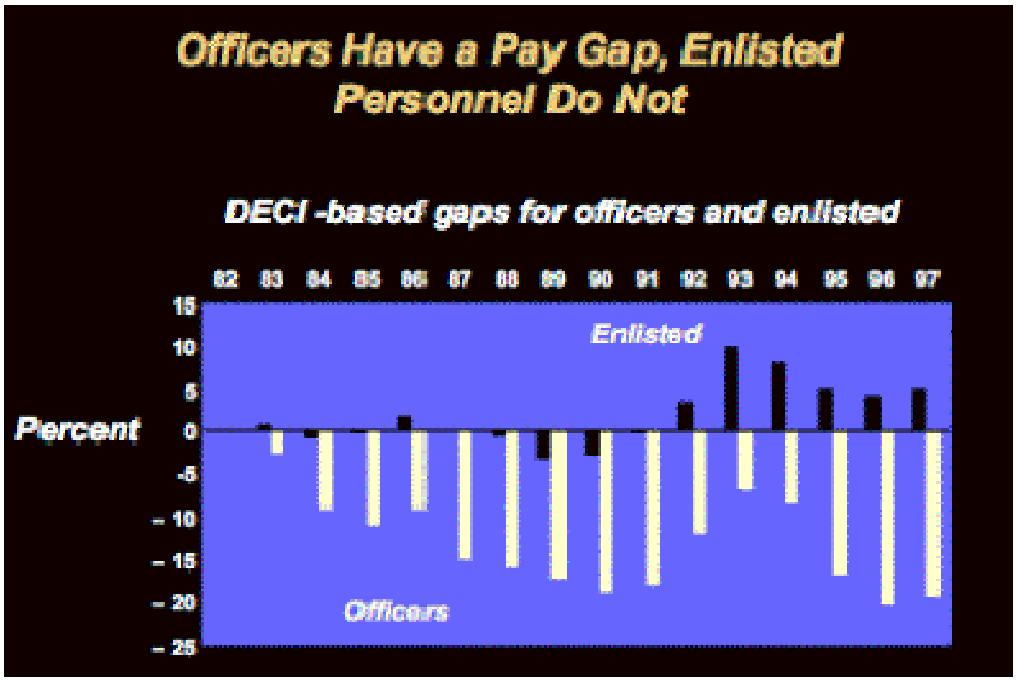
ECI BASED MILITARY PAY GAP



(Asch and Hosek 1999, 5)

FIGURE 15

DECI Based Military Pay Gap for Officers and Enlisted Personnel

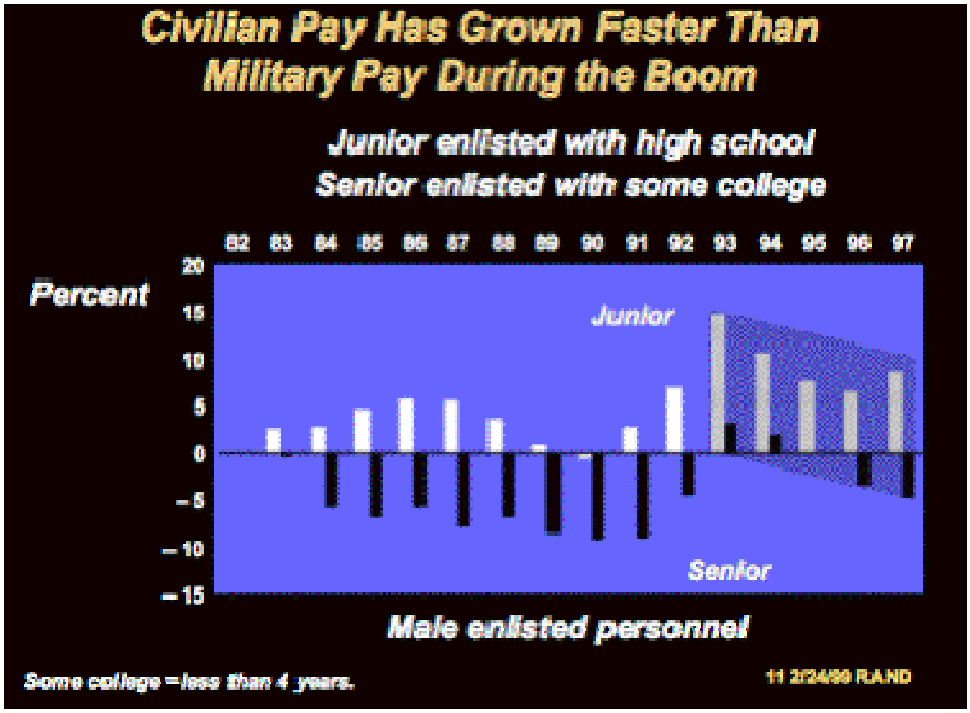


(Asch and Hosek 1999, 8)

Note: The DECI (Defense Employment Cost Index) is an alternative index that RAND developed to measure pay comparability for military personnel. The DECI tracks wage growth for civilians who are demographically similar (based on age, education, and occupation) to personnel on active duty. A positive bar indicates that pay in the military has grown more rapidly than in the civilian sector.

FIGURE 16

Civilian vs. Junior and Senior Enlisted Pay Growth 1980s–1990s

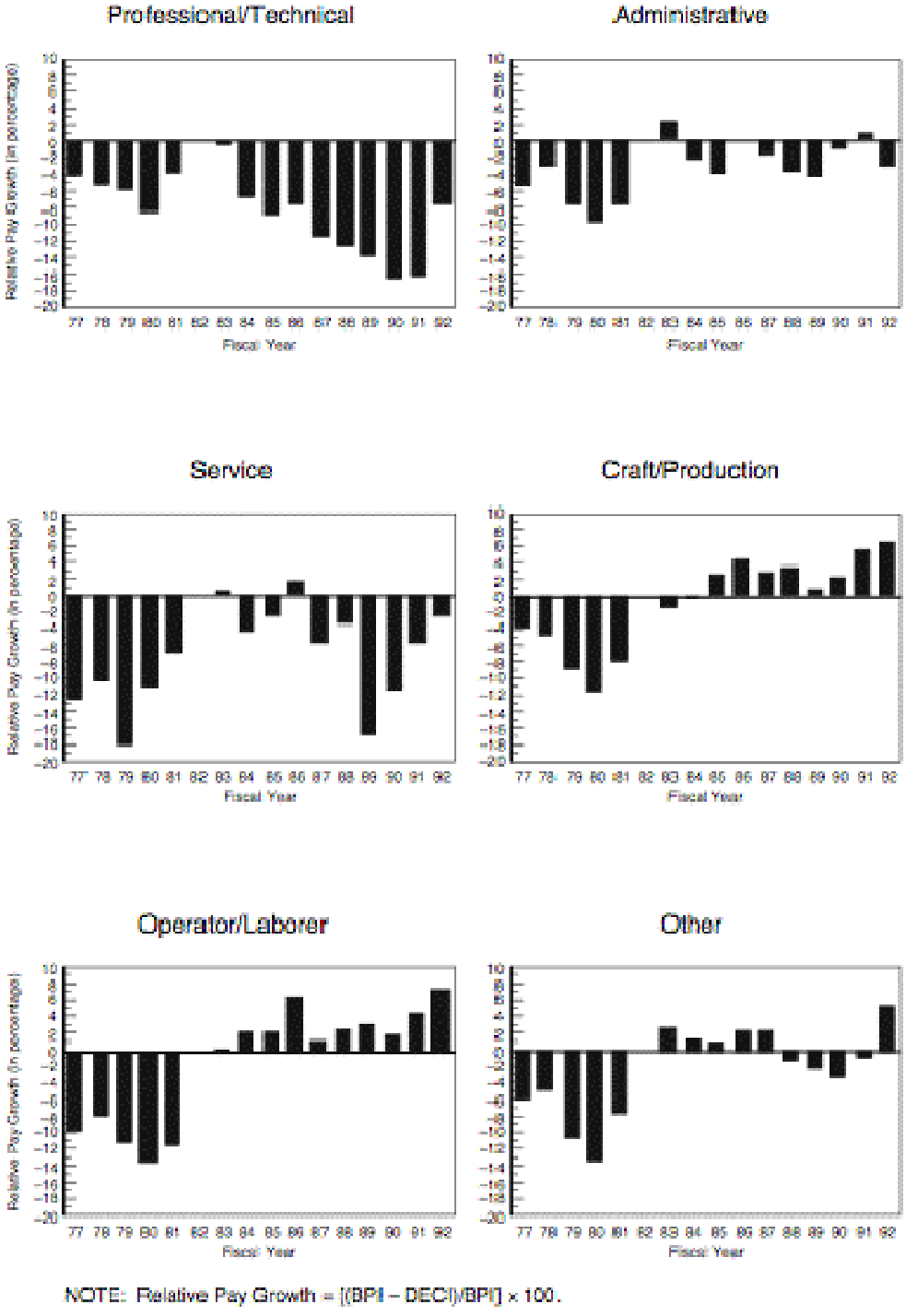


(Asch and Hosek 1999, 11)

Note: Boom refers to the economic growth during the mid–1990's

FIGURE 17

Relative Pay Growth/Decline in DoD Functional Areas



NOTE: Relative Pay Growth = [(BPI – DECI)/BPI] x 100.

(Hosek et al 1994, 15)

FIGURE 18

Estimated Distribution of Federal/Private Salary Differences for Selected Professional and Administrative Occupations in FY 2000

(Thousands of federal employees)

(Percentage Difference in Salaries)

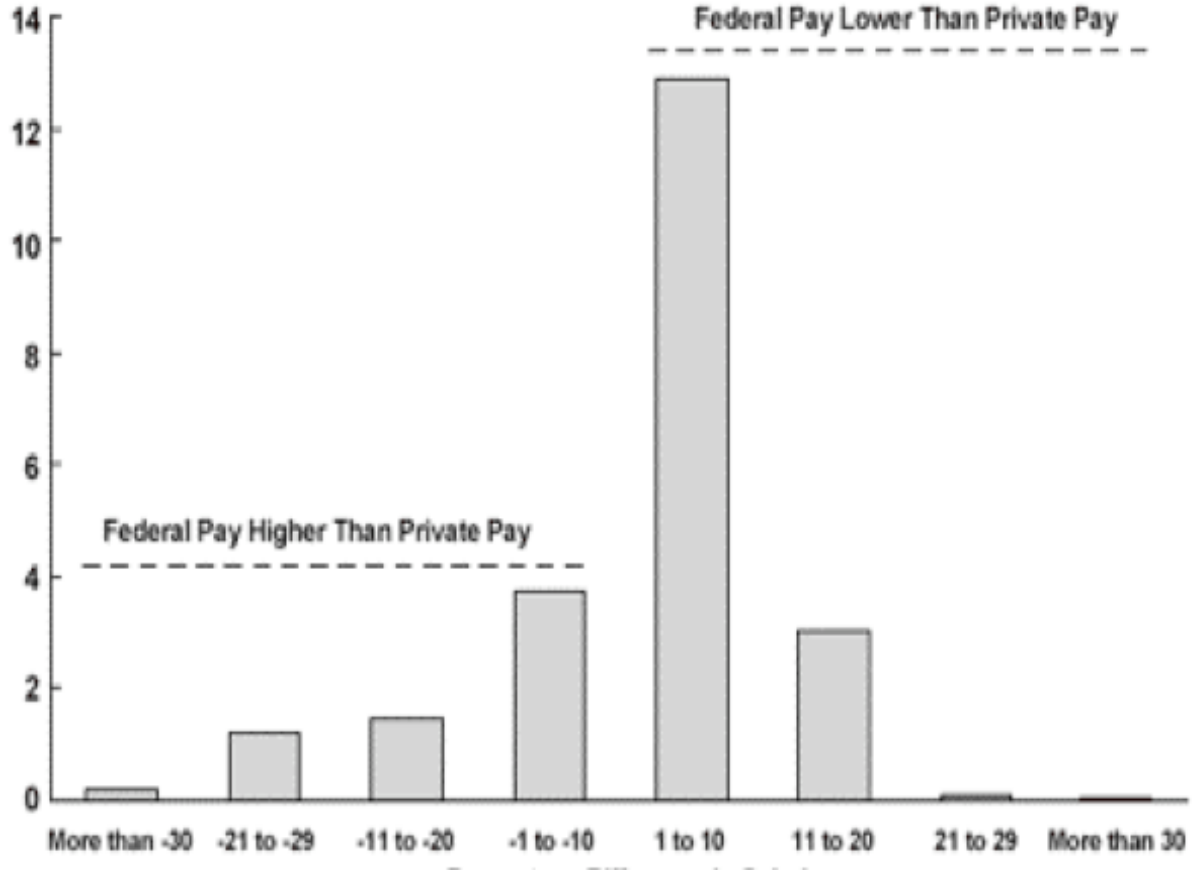
(Musell 2002, 6,8)

Note: Administrative and Professional occupations include computer specialists, accountants and lawyers.

FIGURE 19

Estimated Distribution of Federal/Private Salary Differences for Selected Technical and Clerical Occupations in FY 2000

(Thousands of federal employees)



(Percentage Difference in Salaries)

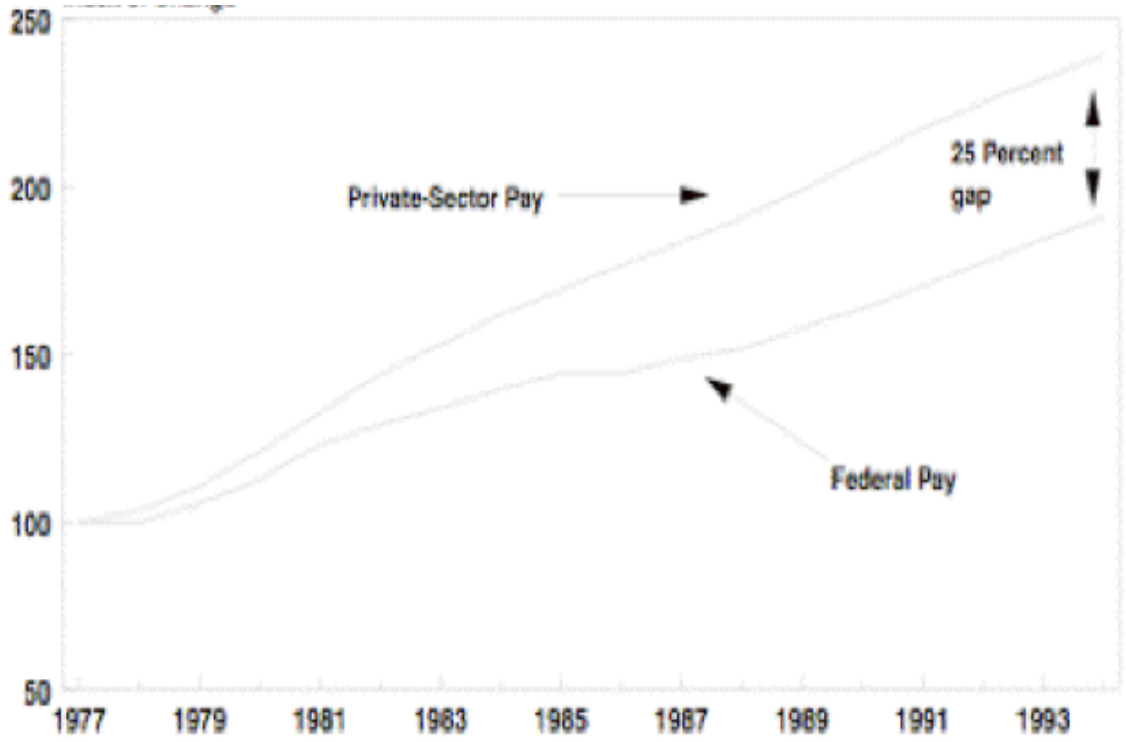
(Musell 2002, 6,8)

Note: Technical and Clerical occupations include computer operators, clerk, and secretary.

FIGURE 20

Comparison of Changes in Federal and Private Sector Pay

(Index of Change)

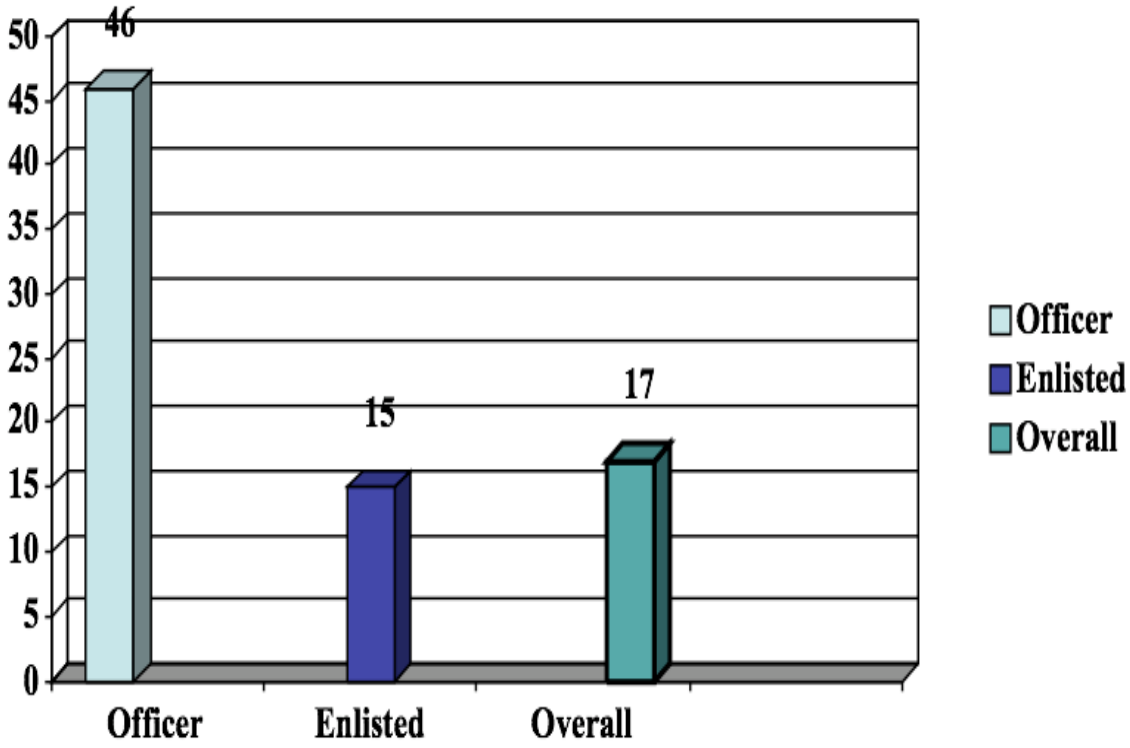


Source: Congressional Budget Office using data provided by the Bureau of Labor Statistics and the Office of Personnel Management.

Note: The gap shown is calculated by CBO on the basis of changes in federal pay compared with changes in the ECI. The calculated gap compares with an official estimate of 23 percent.

FIGURE 21

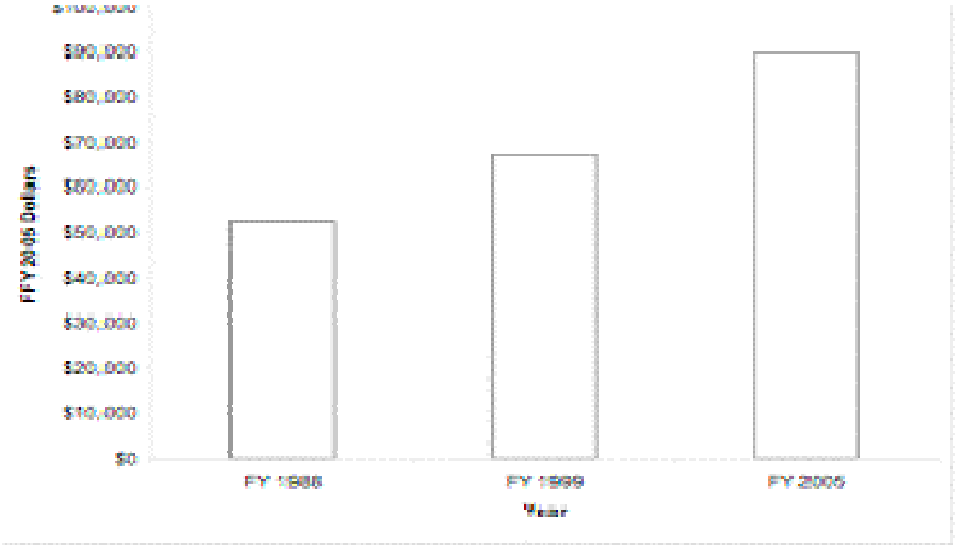
Percent of Military Personnel who Serve for a 20–Year Career



(Walker 2005b, 7)

FIGURE 22

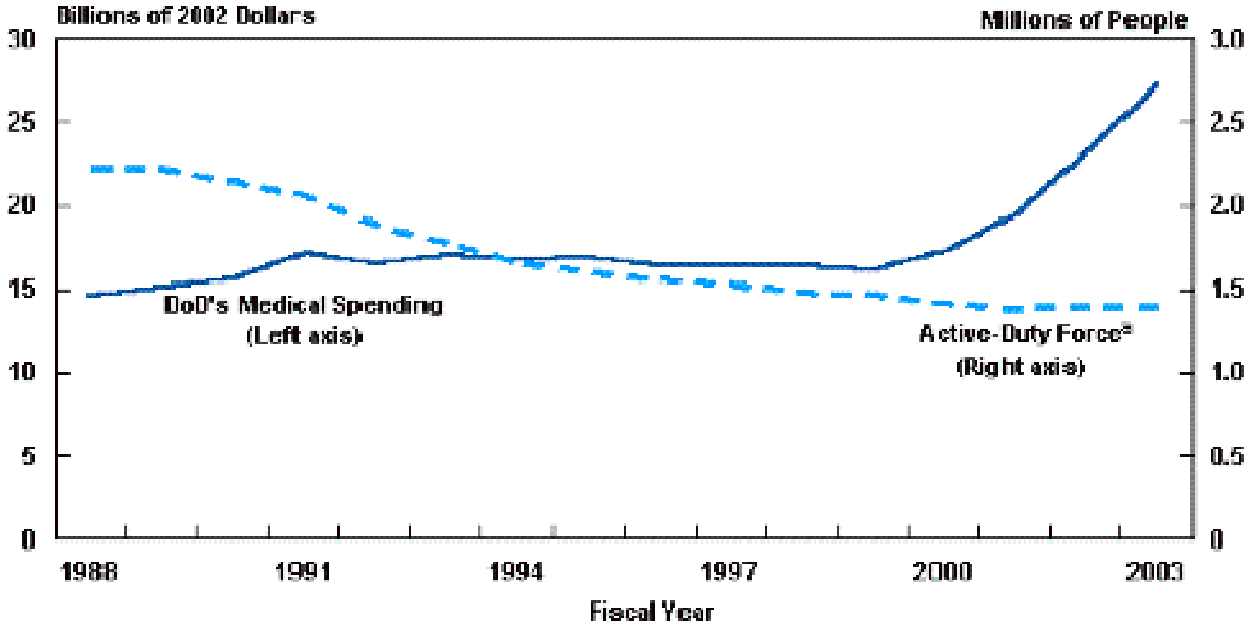
Military Compensation (excluding Veterans' Benefits) for the Average Active Duty Service Member in 1988, 1999 and 2005



(Kosiak 2005)

FIGURE 25

The DoD's Historical Medical Spending and the Size of the Active Duty Force

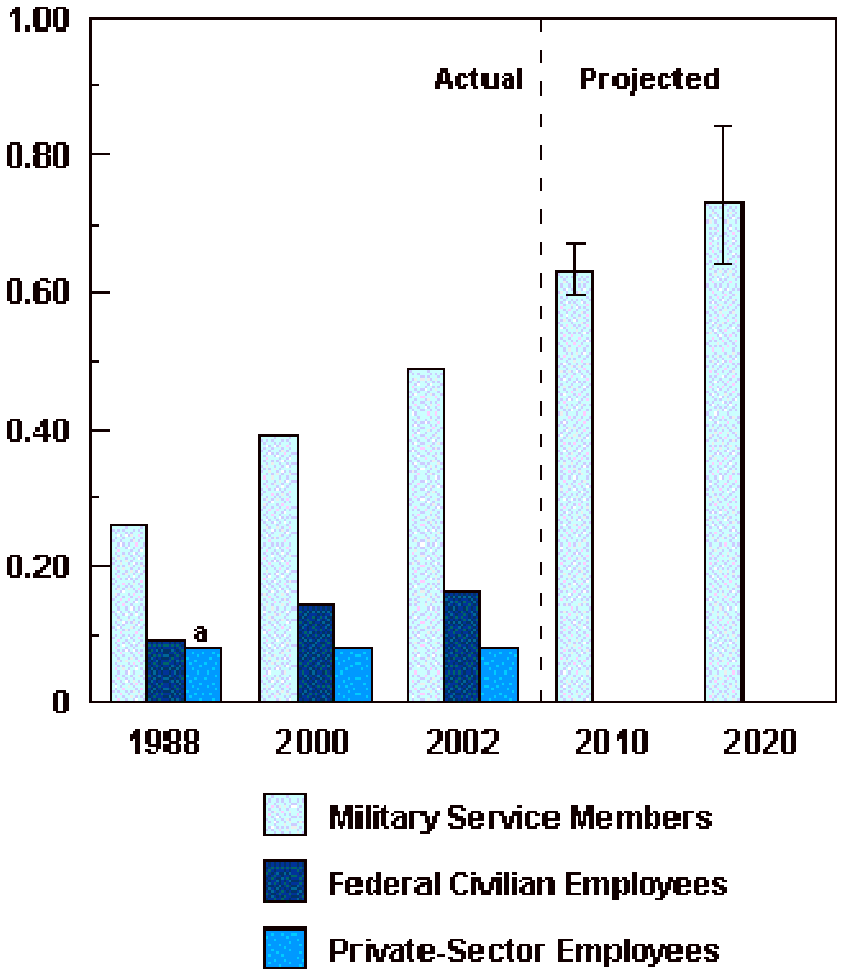


Source: Congressional Budget Office based on information from the Department of Defense's 2003 *Future Years Defense Program* (for medical spending); *Department of Defense Budget for Fiscal Years 2004/2005: Military Personnel Programs* (for the 2003 accrual payment included in medical spending); and the Defense Enrollment Eligibility Reporting System and Managed Care Forecasting and Analysis System (for the size of the active-duty force).
a. Excludes mobilized and full-time members of the Reserves and National Guard.

Note: The Department of Defense's medical spending increased from $6,600 per active-duty service member in 1988 to $19,600 in 2003, or by a total of $13,000.
a. Owing to the greater use of technology, changes in the utilization of health care services, and higher medical prices.
b. Consisting of a decrease in the number of active-duty military personnel and their dependents and an increase in the number of retirees and their dependents and survivors
(Percy, Clay-Mendez, and Gilmore 2003, 2).

FIGURE 26

Medical Spending per Dollar of Cash Compensation for Service Members and for Federal and Private Sector Employees–1988 to 2020



Source: Congressional Budget Office using information from the Department of Defense (for military service members); Office of Personnel Management (for federal civilian employees' salaries and Federal Employees Health Benefits program premiums); and the Bureau of Labor Statistics (for comparable data on private-sector employees).
Note: Error bars represent high and low estimates.
a. Based on 1991 data because earlier data are not available.
(Percy, Clay-Mendez, and Gilmore 2003, xi)

FIGURE 28

Usage of the Terms Outsourcing and Privatization in Newspapers and Academic Journals

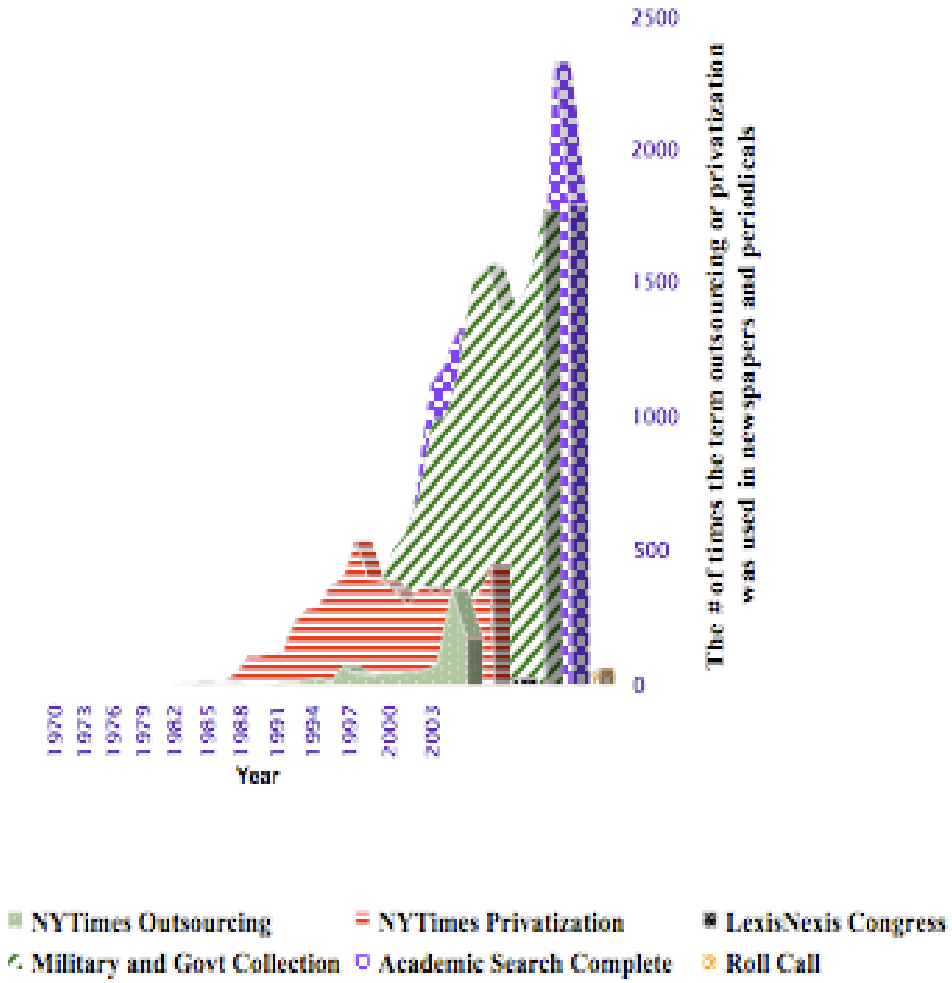


FIGURE 28 Data 1970–1997

Usage of the Terms Outsourcing and Privatization in Newspapers and Academic Journals

	1970	1971	1972	1973	1974	1975	1976
NYTimes Outsourcing							
NYTimes Privatization					2		
LexisNexis Congress	0	0	0	0	0	0	0
Military and Govt Collection	1					1	2
Academic Search Complete	1	0	1	0	1	4	3
Roll Call							
	1977	**1978**	**1979**	**1980**	**1981**	**1982**	**1983**
NYTimes Outsourcing				0	3	4	1
NYTimes Privatization			3	6	6	16	23
LexisNexis Congress	2	0	0	0	0	4	1
Military and Govt Collection	3	2	0	1	7	4	9
Academic Search Complete	0	2	0	1	7	12	6
Roll Call							
	1984	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
NYTimes Outsourcing	13	9	6	5	2	0	4
NYTimes Privatization	23	52	114	120	135	124	261
LexisNexis Congress	5	10	12	13	13	12	7
Military and Govt Collection	19	6	58	44	34	36	169
Academic Search Complete	19	16	62	53	53	91	162
Roll Call							1
	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
NYTimes Outsourcing	6	14	15	30	13	70	44
NYTimes Privatization	306	309	391	419	567	411	404
LexisNexis Congress	10	5	2	6	49	35	39
Military and Govt Collection	183	334	395	531	591	726	1036
Academic Search Complete	244	314	531	827	1200	1240	1397
Roll Call	5	9	13	24	63	42	25

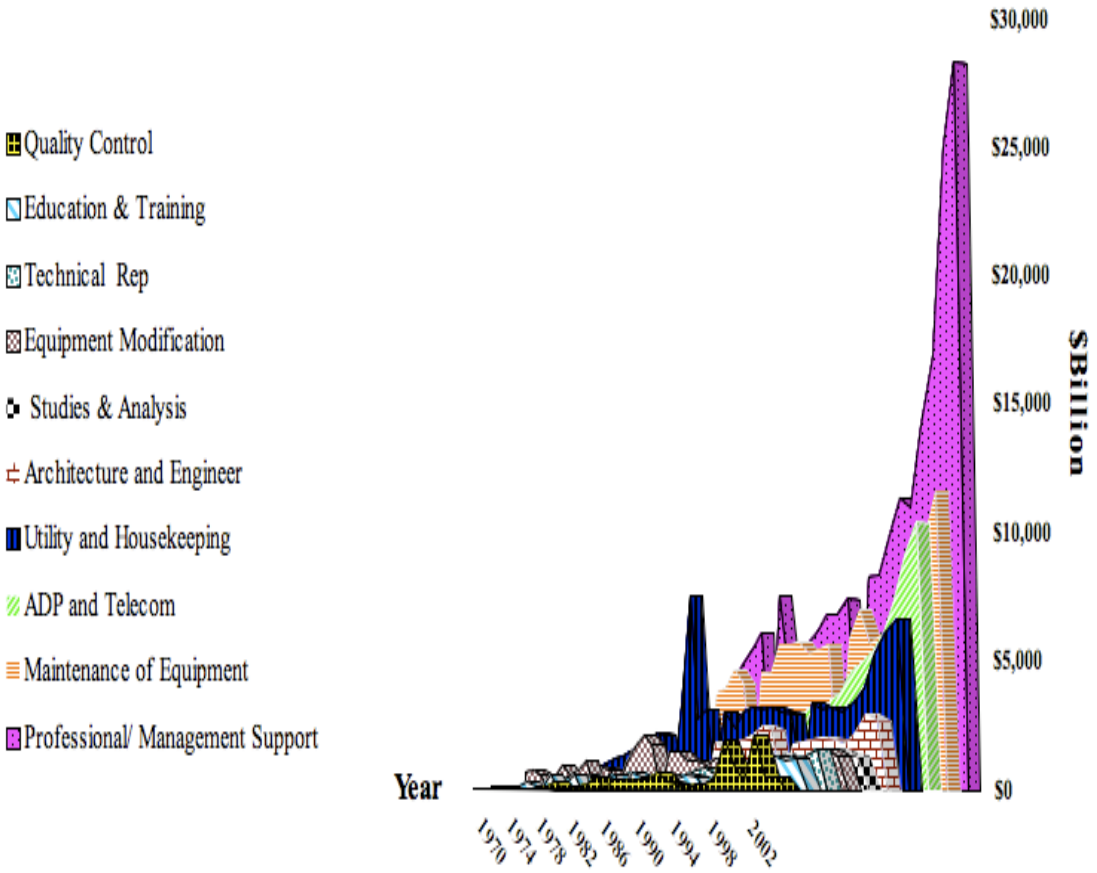
FIGURE 28 Data 1998–2005

Usage of the Terms Outsourcing and Privatization in Newspapers and Academic Journals

	1998	1999	2000	2001	2002	2003	2004
NYTimes Outsourcing	39	50	50	58	51	83	346
NYTimes Privatization	360	309	378	342	365	275	322
LexisNexis Congress	43	38	20	16	16	15	13
Military and Govt Collection	1025	1210	1544	1597	1406	1411	1491
Academic Search Complete	1175	1235	1242	1145	1096	1371	2334
Roll Call	28	12	17	12	17	17	21
	2005						
NYTimes Outsourcing	176						
NYTimes Privatization	444						
LexisNexis Congress	28						
Military and Govt Collection	1754						
Academic Search Complete	1788						
Roll Call	62						

FIGURE 29

Types of Commercial Activities Outsourced



(DoD SIAD and Division 2006)

FIGURE 29 Data 1970–1993

Types of Commercial Activities Outsourced

	1970	1971	1972	1973	1974	1975	1976
Quality Control							
Education & Training	$119	$113	$109	$88	$116	$333	$145
Technical Rep	$122	$115	$108	$44	$168	$199	$281
Equip Modification	$768	$860	$711	$32	$572	$1,059	$644
Studies & Analysis							
Architecture and Engineering							
Utility and Housekeeping	$806	$855	$928	$996	$1,170	$1,362	$1,511
ADP and Telecom							
Maint of Equipment	$852	$727	$821	$776	$951	$928	$1,877
Professional, Managemt Support	$777	$829	$984	$944	$1,103	$1,654	$1,261
	1977	1978	1980	1981	1983	1984	1985
Quality Control			$139	$336	$139	$208	$291
Education & Training	$170	$635	$255	$662	$413	$353	$445
Technical Rep	$459	$536	$672	$564	$659	$700	$698
Equip Modification	$843	$1,284	$942	$865	$1,196	$1,839	$2,400
Studies & Analysis							
Architecture and Engineering							
Utility and Housekeeping	$1,763	$1,904	$2,493	$2,362	$3,585	$8,454	$3,081
ADP and Telecom							
Maint of Equipment	$2,056	$2,060	$2,993	$3,653	$4,212	$4,387	$5,241
Professional, Managemt Support	$1,626	$1,711	$3,134	$3,266	$4,906	$5,539	$6,111
	1986	1988	1989	1990	1991	1992	1993
Quality Control	$545	$486	$482	$411	$467	$473	$787
Education & Training	$664	$758	$536	$603	$712	$523	$499
Technical Rep	$740	$612	$687	$629	$681	$672	$825
Equip Modification	$1,935	$1,639	$1,674	$1,218	$1,212	$1,074	$1,294
Studies & Analysis			$155	$188	$226	$257	$415
Architecture and Engineering			$2,028	$1,628	$1,987	$2,138	$2,241
Utility and Housekeeping	$3,474	$3,365	$2,630	$3,311	$3,439	$3,374	$3,447
ADP and Telecom			$1,064	$1,501	$1,886	$2,644	$2,896
Maint of Equipment	$4,617	$5,081	$4,870	$6,182	$6,088	$6,217	$5,694
Professional, Managemt Support	$6,862	$8,333	$4,921	$6,268	$6,149	$6,717	$7,316

Note: In 2005 dollars (thousands)

FIGURE 29 Data 1994–2005

Types of Commercial Activities Outsourced

	1994	1995	1997	1998	1999	2000	2001
Quality Control	$340	$300	$248	$239	$504	$1,981	$957
Education & Training	$692	$587	$617	$694	$711	$899	$780
Technical Rep	$890	$690	$469	$703	$721	$1,124	$995
Equip Modification	$1,135	$1,044	$868	$673	$960	$896	$1,172
Studies & Analysis	$343	$556	$944	$1,473	$1,078	$1,361	$921
Architecture and Engineering	$2,629	$2,410	$1,849	$1,913	$1,997	$2,137	$2,053
Utility and Housekeeping	$3,194	$3,145	$3,588	$3,269	$3,331	$3,163	$3,493
ADP and Telecom	$3,090	$3,422	$3,619	$3,888	$4,772	$5,098	$5,546
Maint of Equipment	$5,839	$6,009	$6,080	$7,305	$5,831	$6,203	$5,971
Professional, Managemt Support	$7,304	$7,899	$8,714	$8,737	$10,280	$11,755	$11,295
	2002	2003	2004	2005			
Quality Control	$349	$2,150	$516	$601			
Education & Training	$1,107	$1,347	$1,205	$1,292			
Technical Rep	$1,258	$1,285	$1,320	$1,617			
Equip Modification	$1,040	$1,266	$1,660	$1,353			
Studies & Analysis	$1,301	$1,638	$1,473	$1,381			
Architecture and Engineering	$1,838	$2,255	$2,952	$2,706			
Utility and Housekeeping	$4,021	$5,325	$6,122	$6,647			
ADP and Telecom	$6,233	$7,471	$9,140	$10,365			
Maint of Equipment	$7,176	$9,867	$9,909	$11,612			
Professional, Managemt Support	$14,425	$17,088	$25,225	$28,444			

Note: In 2005 dollars (thousands)

APPENDIX

Primary DoD Functions Included in 25 Categories of Functions in A-76 Studies

Administrative telephone and communications - Administrative telephone services, telecommunication centers, communication systems installation, and intermediate repair of communications equipment.

Architecture and Engineering – Architecture, engineering, and technical services.

Audiovisual – Visual information support, audiovisual production, technical documentation, electronic media, and audiovisual design services.

Automated Data Processing (ADP) – Data processing, operations and maintenance of ADP equipment, ADP production control and customer service, data transmission, system design, development and programming, and applications systems development and maintenance.

Commissary/clothing store – Commissary and clothing store operation activities.

Custodial – Janitor, pest management, and refuse collection.

Data entry – Data transcription/data entry and punch card processing.

Education and Training – Operation of training devices and simulators, recruit training, officer training, specialized skills training, flight training, professional development, civilian education and training, dependent education, and other training.

Equipment Maintenance – Intermediate and depot level maintenance of various equipment including aircraft, missiles, vessels, combat vehicles, and armaments, as well as railway, industrial, dining facility, medical, dental, and other equipment.

Facilities/Grounds/Utilities maintenance – Maintenance and repair of buildings. Structures, grounds, railway, waterway, and waterfront facilities. Operation and maintenance of electrical, plants and systems, heating plants and systems, water plants and systems, sewage and waste plants, air conditioning and refrigeration plants, and other utilities.

Fire Protection and Guard – Fire prevention, protection, and guard services
(GAO 1988)

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