

**Statement of the U.S. Chamber of Commerce
Submitted for the Record of the
Hearing On Outsourcing
Before the Commercial Activities Panel
General Accounting Office
June 15, 2001**

The U.S Chamber is the world's largest federation of business organizations, representing more than three million businesses and professional organizations of every size, sector and region of the country. The Chamber serves as the principal voice of the American business community. The Chamber respectfully submits these comments for the record of the Commercial Activities Panel hearing on the principles and policies that should govern decisions concerning whether particular functions should be performed by the public sector or the private sector.

These comments are offered on behalf of the entire business community, but especially for the Chamber members involved in government contracting and those vying for increased opportunities in the federal market. These businesses, small and large, rely on an efficient, fair competitive process in providing the federal government with goods and services to maintain and grow their businesses.

The Chamber is a member of the Coalition for Outsourcing and Privatization (COP), which is a broad-based national coalition comprised of key industry groups formed to champion a process focused on fair and balanced competition of government commercial activities. The goal of the coalition is to move the government away from the provision of commercial activities so that it may focus on its core mission of better serving the taxpayer.

The Chamber has a long-standing policy that the government should not perform the production of goods and services for itself or others if acceptable privately owned and operated services are or can be made available for such purposes. Functions of the federal government should be limited to those that are (1) inherently governmental, (2) related to national security, or (3) functions that the private sector cannot perform. The government should not be providing goods and services, outside these limitations, that could be performed by the private sector at a higher quality and better value to the taxpayer.

Government should rely upon the private sector to provide goods and services necessary for the operation and management of federal agencies and departments. When the government engages in commercial activities beyond its core functions, its focus is diverted from executing its primary mission and is in direct competition with the private sector. Outsourcing reduces the size of government and increases efficiency by limiting government to performing its core mission functions.

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American business accounts for nearly 90 percent of the output, inventions and innovations of our \$9 trillion economy. American business added \$2.6 trillion to the gross domestic product since April 1991, which marks the beginning of our nation's current economic expansion. And American business created 2.4 million jobs last year, more than 20 million in the last decade, and will create another 12 million in the next 8 years. The private sector fuels the economy, yet federal agencies and departments continue to perform countless services and functions that could be performed more efficiently by competitive private sector enterprises, saving billions of dollars annually.

For decades, businesses have worked in cooperation with the federal government to provide efficient and cost effective products and services for America's taxpayers. Through federal contracts, thousands of businesses help our nation's government run more efficiently. All parties involved in these relationships benefit, including government, business, and taxpayers. The government saves taxpayers billions of dollars by partnering with business, and government investment in these companies helps sustain our nation's competitive edge in industries such as defense, information technology and management.

The U.S. Chamber continues to monitor and advocate the proper implementation of the Federal Activities Inventory Reform (FAIR) Act. The FAIR Act mandates that government agencies submit comprehensive inventories of all commercial activities that could be outsourced to the private sector. Under the FAIR Act's first year of implementation, over 900,000 full-time equivalent (FTE) employees were identified as performing jobs considered commercial in nature. Nearly **1 million** federal employees are providing goods and services at the taxpayers' expense that could be performed by the private sector. We support the President's commitment to opening at least one-half of the FAIR Act inventories of commercial functions to competition with the private sector.

The Office of Management and Budget (OMB) and General Accounting Office (GAO) have estimated that 30% is saved every time a Federal activity is reviewed for potential private sector performance. That means full implementation of the FAIR Act could result in \$30 billion annual savings without cutting services or programs. The Chamber commends OMB for directing federal agencies to directly outsource or to perform public-private competitions on 5 percent of all commercial positions, or 42,500 jobs, by October 2002. Our members are encouraged by this directive and are committed to working with the Administration to identify ways to implement its outsourcing initiatives.

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We are also pleased federal agencies must now include inherently governmental positions in their FAIR Act inventories as well to allow OMB and the private sector the opportunity to review all positions that could be considered commercial in nature and contracted out. We urge the panel to take a serious look at the definition of inherently governmental positions, as today's definition is vague and not applied consistently throughout the federal government.

While the OMB Circular A-76 process is costly and time consuming, the public and private sector benefits from public-private partnerships because of the cost savings that result from this process, regardless of who wins -- a true testament to the value of competition. But many of our members believe that when A-76 cost comparisons are utilized, they do not accurately reflect the government's cost of doing business and give federal agencies an unfair competitive advantage. We urge the Panel to review the A-76 process and consider implementing a new commercial activity policy. Reliable cost comparisons and past performance measures are necessary to produce a fair, level competitive process to ensure the performance of commercial activities is conducted efficiently, at the lowest price and best value.

The philosophical argument for outsourcing is based on the premise that the free market offers benefits not found in the public sector, such as relative ease of innovation, quicker decision-making, and general efficiency resulting from market discipline and the need to compete for business. In fact, these free-market tendencies are considered beneficial because they actually threaten the destruction of businesses that do not provide the best value for their customers and thereby encourage creativity and economical customer service. Driven by profits and regulated by market forces, the private sector has proven to perform more efficiently, effectively and at a lower cost than government.

The Chamber applauds the Commercial Activities Panel for its time and efforts invested in studying the transfer of commercial activities for the federal government from government personnel to federal contractors. The nature of a now global economy, technological advances, and changes in national security insight dictate our nation's government must change the way it operates. We look forward to your recommendations. Thank you for allowing our comments to be submitted for the record of the hearing on the principles and policies that govern outsourcing decisions. Please feel free to contact us should you have any questions or require additional information.