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TESTIMONY

COMPETITIVE SOURCING IN GOVERNMENT

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Chairman Meadows and Ranking Member Connolly: I am honored to have been invited to testify before you on the process of competitive sourcing as an initiative in government purchases of goods and services.

I am a vice president at the Mercatus Center at George Mason University, where my work over the past 15 years has focused on mechanisms that would improve the quality of governance in America. Before joining Mercatus, I served as an elected member of the New Zealand Parliament and a member of the Cabinet of New Zealand and was later appointed New Zealand's ambassador to Canada and the Caribbean. New Zealand implemented a series of reforms to budget procedures when I served as a legislator, and Canada made major changes to its budget processes during my tenure there.

My comments today will draw on my research, these experiences, and on research that we have done at the Mercatus Center on budget procedures throughout the United States.

COMPETITIVE SOURCING RATIONALE

Competitive sourcing is, in its broadest definition, about asking a wide selection of providers for a quote for particular goods and services. It is a valuable mechanism for identifying price improvements, efficiency gains, quality improvement, and improved public satisfaction. These benefits, in fact, provide the rationale for adopting competitive sourcing.

While competitive sourcing has been used in a variety of forms by many governments, it should not be confused with privatization, public-private partnerships, or other terms applied to the purchase of government goods and services.

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For competitive sourcing to be appreciated and accepted by the public and the private sector, the intent of the initiative needs to be clearly spelled out at the beginning and observed throughout the competitive bidding process. The government should remain impartial with regard to the ultimate successful bidder, and its focus should remain on the purchase of the best goods and services for the task being subjected to competition.

THE BENEFITS OF COMPETITION

The economic literature here is clear: competition improves prices, captures best practices, encourages innovation, improves delivery, and increases customer satisfaction. The goal of competitive sourcing is to identify the *best goods and services* from the *best suppliers* using the *best technology* at the *best prices*.

At a time of significant federal resource constraints, Congress and presidential administrations cannot afford to lose the potential gains that competition would bring—both in improved quality of services and more effective use of scarce federal dollars. To settle for less than buying from the best providers of goods and services is a disservice to both the consuming public and taxpayers.

Best, however, doesn't necessarily mean cheapest. Before opening up the competition process, due consideration should be given to defining what is meant by "best." The definition should specify the desired quality of service, the desired result, the timing of delivery, and cost effectiveness. Any requirement to accept the lowest bid in a competition can be counterproductive, so lowest price criteria should be dropped in favor of a clear definition of "best." Accountability should be focused on the cost-efficient achievement of the best result.

The "Competitive Sourcing" initiative in the President's Management Agenda under President George W. Bush attempted to use competition as a means of identifying the best supplier of goods and services to the federal government.[1] Unfortunately, it was poorly managed from the beginning. The Office of Management and Budget (OMB) skewed the implementation of the "use of competition" by linking agency achievement on this initiative to competing public sector jobs. That linkage created the impression that the initiative was about privatizing public sector jobs rather than competition in sourcing—a fatal confusion.

If the policy intent is to privatize jobs, then have the courage and integrity to call it privatization—don't link it to the introduction of competitive sourcing. As I stated at the beginning of my testimony, competitive sourcing and privatization are different initiatives used for different purposes, and they produce different end results.

MODELS HERE AND ABROAD

There are a few historical examples of competitive sourcing to draw from in the United States and overseas. Outstanding examples come from two US cities. In Milwaukee, Mayor John Norquist (1988–2004) used creative approaches to competitive sourcing to help rescue the city from its budget problems. In Indianapolis, Mayor Steven Goldsmith (1992–2000) used imaginative approaches to the purchase of government goods and services. Under heavy fiscal pressure, he designed his competitive sourcing initiative so that the current public sector units delivering services could be part of the competition. This inclusion required the unit concerned to be organized as a stand-alone commercial operation with a full allocation of costs involved in providing the service under competitive challenge.

It is worth noting that, in Indianapolis, the successful bidders have oscillated between private sector providers and public sector providers. The big winner is, of course, the city of Indianapolis, which now receives better services at better prices as a result.

1. Office of Management and Budget, "Office of Federal Financial Management President's Management Agenda," accessed July 5, 2016, https://www.whitehouse.gov/omb/financial_fia_pma/.

A variation on competitive sourcing was introduced by New Zealand, which created internal markets inside government. Through this process, one agency could trade its superior services or excess capacity to other agencies or even within the bureaus of their own department. To work effectively, this process needs to be purely commercial in nature. The facility should be designed so that agencies formally contract with each other or the private sector for the goods and services that they need. The services traded could be as sophisticated as specialist skills, human resource management, accounting, payroll, data collection, data entry, and legal services or as mundane as building maintenance, cleaning, printing, and the supply of consumables.

THE MECHANICS OF SUCCESS

A competitive sourcing initiative will succeed or fail often on such mundane details as the mechanics of the process. The following are a number of principles that are essential to success:

- The process must be open, transparent, and fair, and the contracts enforceable.
- The writing of the bidding document and the subsequent contract management requires high-quality, commercial-practice legal skills.
- After the letting of the contract, contract management and enforcement require skilled legal and commercial-practice experience to ensure that the provider meets the contract obligations.
- Departures from the original contract should be exceedingly rare.
- Social and equity requirements should be explicit right from the beginning of the contract.
- The term of the contract should be explicit, and automatic right of renewal should be rare.
- It should be legally clear that nonperformance of the contract will lead to contract termination and that legal remedies against the nonperforming parties will be taken.
- The contract documents are the ideal place to spell out special requirements regarding workforce considerations, quality considerations, relationships with the public, and the protection of the reputation of the government.

CONCLUSION

The approach to competitive sourcing in the future should focus on measuring progress by agencies in outcome and efficiency terms rather than counting how many public sector jobs are facing competition. If, for instance, the OMB were to manage this process, it should remain impartial about the successful competitor for the supply of goods and services. The measure of appropriateness in the choice of supplier should be based entirely on the determination of “best.”

I hope that Congress finds a way to use competition as a means of encouraging innovation in the provision of goods and services and getting the budget benefits that flow from innovation and cost competition.

Thank you again for the opportunity to testify today. I look forward to your questions.