

Defense Department Jobs in Transition

By Paul Taibl

Summary

Downsizing for defense industry workers and military personnel has been underway for nearly a decade, but the process is still not over. Over the next several years, it will shift to the Pentagon's civilian employees who have not yet faced significant job restructuring. While this transformation is causing understandable concerns within the defense workforce, its overall magnitude is quite small. Thus, the overall job transition process should be manageable if the right policy and financial tools are in place. Job transition will be further aided by a close alignment between the skills of the Pentagon workforce and the needs of private sector employers. DoD workers possess highly marketable skills that should attract great interest among companies seeking a talented workforce. In addition, the Pentagon expects to rely on outsourcing as its primary mechanism for job transition. Jobs will be moved to the private sector, but they will not be permanently eliminated. Thus, current federal workers can also expect good job prospects with contractors who take over work previously performed by in-house government employees. Indeed, many federal workers may perform the exact same jobs under new private management. The presence of these opportunities does not guarantee a smooth transition. DoD must also manage this process to provide a "soft landing" for displaced workers. Fortunately, many of the needed transition policies are already in place. DoD should also consider additional job transition measures that include:

- *Pension portability for civil service retirees*
- *Expanding employee input in the transition process*
- *Including job transition measures in future outsourcing contracts*
- *Expanding use of buy-outs and early retirement packages for current employees*

There will be opportunities for these skilled federal workers to make successful transitions to the private sector — if the Defense Department and affected workers tap proven private sector restructuring practices and their own successful DoD transition programs. DoD will also benefit by being able to retain a vibrant and competitive US private sector to provide it with needed commercial goods and services.

This BENS Issue Brief focuses on downsizing and job transition in the defense civilian workforce. Of particular interest are the challenges faced by senior DoD managers as they adopt planned civilian personnel cuts and adjust to the new reductions called for in the Pentagon's defense management reform program. Conditions "outside the gate" are equally important. What has been the private sector's experience and what is the private sector capability to assimilate displaced government workers? Finally, as DoD increases its reliance on outsourcing to gain efficiencies and cut costs, what job transition challenges and opportunities confront the Department and the workers themselves?

Figure 1: Defense Infrastructure Personnel Reductions FY 1998-FY 2003

Planned and Quadrennial Defense Review (QDR) Reductions Defense Agency/Military Department Infrastructure

	FY1997	Planned	QDR	FY2003
Military	685,000	(26,000)	(37,000)	622,000
Civilian	689,000	(74,000)	(71,000)	544,000
Total (1)	1,374,000	(100,000)	(108,000)	1,166,000

Defense Reform Initiative (DRI) Reductions

	FY 1997	(DRI)	FY 00-03
OSD	2,993	(991)	2,002
Defense Agencies	130,000	(27,300)	102,700
DoD Field Activities	8,000	(2,880)	5,120
Joint Staff & CJCS	2,600	(750)	1,850
CINC Headquarters	15,500	(1,400)	14,100
Total (2)	159,093	(33,321)	125,772

(1) Dod employment (FY 1997); Military: 1,452,100; Civilian: 799,500; Total: 2,251,600; Infrastructure Personnel: 61%; (FY 2003); Military: 1,360,000; Civilian: 640,000; Total: 2,000,000; Infrastructure Personnel: 58%;

(2) The DRI Reductions are reallocations within the QDR caps.

Source: BENS assessment of DoD Defense Reform Task: Force Data

The need to get employee transition right

The Defense Department acknowledges it is carrying a huge supporting infrastructure-excess to its needs-that is inefficient and costly by private sector standards. Cutting the size and cost of defense infrastructure has been the centerpiece of Secretary William Cohen's Defense Reform Initiative (DRI). The DRI proposes management reorganization, workforce downsizing, and outsourcing of defense civilian jobs as a means to improve DoD efficiency and increase the productivity of its workforce.

Attempts to reform and reinvent government have often foundered on the issue of jobs. Efforts to outsource or privatize government functions create concerns about lost jobs and benefits packages. Indeed, nearly all reform efforts have faced opposition somewhere in the Congress. And, in many cases, Congress has blocked change through legislative fiat. For example, in 1988, Congress permanently prohibited the contracting out of security guard and fire fighter positions on U.S. military bases. Restrictions have also focused on specific locations, such as the prohibitions on the use of commercial contractors at McAlester (Oklahoma) and Crane (Indiana) Army ammunition plants. Government repair and maintenance depots have received the most extensive legislative protections as current law mandates that no more than 50% of government depot work can be performed by the private sector.

These Congressional job protection measures generate significant legislative controversy. Moreover, they raise costs for DoD at a time when further streamlining is needed. Yet, in some ways, the level of controversy is out of proportion as the magnitude of DoD's transition challenge is not particularly large. When compared to private sector experience, DoD faces relatively small job losses.

The DoD civilian downsizing challenge

In the past, Defense Department downsizing meant the permanent loss of jobs for thousands of military and civilian workers. The bulk of future job transitions will result from turning over in-house work to outside contractors. Over the short term, it is unlikely that huge numbers of jobs will be eliminated. Instead, they will be shifted from the public to the private sector.

When viewed in the context of the entire US economy, DoD's proposed job cuts are modest. Current budget plans call for DoD to eliminate 208,000 civilian jobs over the next five years. This total represents less than 0.2 percent of the nation's total employment level in 1998-a number which should be easily absorbed by growth in the services and technology sectors of the US economy. Looked at another way, the U.S. economy added 240,000 nonfarm payroll jobs in each month during 1998.¹ In DoD's expected scenario, the 208,000 defense civilian cuts spread between now and 2003 average

fewer than 3,500 per month. In comparison to national job creation statistics, these numbers will be challenging, but manageable.

Existing programs to assist federal employees may further reduce these numbers. In the past federal agencies have worked to minimize involuntary job losses. For example, the DoD civilian workforce dropped by 36,000 during 1996. However, buyouts accounted for 17,332 cuts, and more than 1,500 employees voluntarily retired early.² If these figures were to hold up, DoD could count on at least half of their workforce reduction occurring through buyouts and voluntary employee resignation. Few workers will be forced out of jobs without other employment or retirement alternatives.

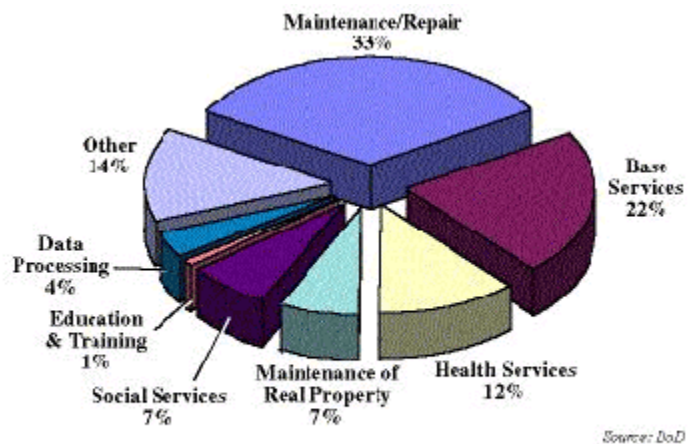


Fig. 2 DoD CIVILIAN PERSONNEL PERFORMING COMMERCIAL-TYPE ACTIVITIES

Workforce Demographics

DoD's remaining civilian workforce downsizing will be made almost exclusively on the infrastructure, or support, side of the Department. This workforce accounts for the vast majority of civilian employees. According to the GAO, nearly 85% of Defense Department civilians are employed in infrastructure and support activities.³ DoD's own estimate shows 689,000 of its total civilian workforce of 799,500 categorized as employed in infrastructure activities (Figure 1).

In 1996, the Defense Science Board estimated that slightly more half of these workers were engaged in commercial-type activities.⁴ The remainder of defense infrastructure is unique to the military and, according to current Pentagon criteria, does not have a direct equivalent in the private sector. Based on these data, we can estimate that roughly 300,000 DoD civilians perform jobs with direct private sector equivalents.

The demographics of the Pentagon workforce provide both opportunities and obstacles for job transitions. On the positive side, these employees are highly trained and are concentrated in skill areas with heavy private sector demand, including industrial and service occupations (Figure 2). Assuming that job cuts are spread more or less equally across the occupational categories, the largest number of job transitions are likely to be in skill occupations (maintenance/repair) and services (base services and health care).

Many of the Defense Department jobs that will be outsourced or eliminated are in the service sector where more than 70 percent of U.S. workers are now employed. Current forecasts suggest that the most rapid private sector growth will be found in skilled service jobs like teaching, financial services and information technology.⁵

Some observers claim that the transition of skilled maintenance/repair jobs may be more difficult. They note that the share of manufacturing in total employment in the U.S. has fallen from 28 percent in 1970 to about 15% in 1997.⁶ However, this decline has not occurred in the aircraft repair and maintenance sector, which is in many ways a service industry as opposed to a traditional manufacturing sector. The maintenance, repair and overhaul (MRO) market in U.S. aviation, now a \$23 billion industry, is expected to grow to \$33 billion by 2005.⁷ Job opportunities will range from airframe and subsystem manufacturing and aftermarket repair through the entire gamut of aviation support activities, such as spares inventory management, distribution, and material and replacement parts forecasting. Indeed, all of the industry's players — from established companies like Boeing and Ryder Systems to newcomers like K-C Aviation, a division of Kimberly-Clark — are striving to gain market share in the booming MRO sector.

Pensions and demographics present obstacles to change

The primary federal employment transition problem concerns retirement benefits and the ages of the various workforce cohorts. Because of differences in federal pension programs, any defense worker transition program must deal with the concerns of three groups with different interests.

These problems stem from a major reform of government pension programs that began in the early 1980s. At this time, the government's pension program, known as the Civil Service Retirement System (CSRS), was replaced with the Federal Employees Retirement System (FERS), a program based on the 401(k) thrift savings plans that Congress had earlier created for the private sector.⁸

The new retirement system was implemented gradually. Employees hired before 1984 were allowed to remain in the old CSRS system; new employees were required to use the FERS system.⁹ Nearly half of DoD's employees (about 342,000) are covered under CSRS. Ten percent of these employees are now eligible to retire with full pensions. The remaining fulltime workforce, roughly 370,000, are covered by FERS.

For those concerned about employee transition questions, the primary distinction between CSRS and FERS concerns pension portability. At present, the CSRS system's major drawback is that it is not portable; employees lose their vested accruals if they leave government service prior to becoming retirement eligible. In contrast, the bulk of FERS benefits are portable.¹⁰

The presence of these dual retirement systems requires that we forego "one size fits all" policies for displaced employees. Any major downsizing effort will require a three-pronged strategy that deals with three defined segments of the civil service workforce:

- Annuity-eligible Civil Service Retirement System (CSRS) employees (ages 50 and up). These individuals should not pose a transition problem because they can elect to retire from federal service and then transition to the new provider, thus receiving both earned Federal benefits and private sector employment pay.
- Federal Employees Retirement System (FERS) employees (ages low 20s to low 30s). Although not eligible to retire, their benefits are portable. Also, their ages will ease the transition to wider opportunities and merit-based pay schemes of the private sector.
- Employees aged in the early 30s to 50s. This group is the most difficult because they are neither annuity eligible nor do they have portability under CSRS.

Based on this demographic picture, policy makers should focus their attention and resources on CSRS employees in their 30s to 50s. This group is likely to resist existing defense reform proposals if they require forfeiture of accrued pension benefits and limited prospects for employment in the private sector.

Further, many of the employees in this age group serve in middle management positions. When compared to the private sector, federal agencies are "over-managed." The typical DoD supervisor-to-employee ratio is 1:7, while in the private sector the ratio is closer to 1:15. This discrepancy means that many current public sector middle managers may not find equivalent level employment in their new private sector jobs. These considerations make job transition strategies particularly challenging.

Private sector downsizing experience

The Department's downsizing challenge has many parallels with the early 1990s job shakeout in the US defense industry. The end of the Cold War rocked this sector of the economy. Between 1990 and 1997, defense-related private sector employment declined from 3.1 million to 2 million employees, or 34 percent of the workforce.¹¹ Industry observers predict that another one million defense industry jobs could be on the line before the transition is complete.¹²

These job cuts generated a seismic shift in the defense sector, and the downsized and disgruntled defense engineer became a national icon. Yet, despite the magnitude of these job cuts, the economy thus far has been able to absorb defense industry layoffs. California, in fact, recorded a net gain in jobs in 1997 even after being hardest hit in the nation by the combination of military base closures and defense industry downsizings. Los Angeles, the epicenter of defense downsizing, has replaced defense jobs with a host of new booming industries. California is now creating two new entertainment jobs for every lost aerospace job. These positions are well-paying, averaging 40% higher wages than statewide averages.¹³

While the defense industry was hard hit by the Cold War's end, its shake-up actually lagged that of other commercial sectors (e.g. steel, automobiles, textiles) hit hard by foreign competition in the 1980s. Faced with a "competitiveness crisis" in the 1980s, American industry restructured and reengineered itself and is now the envy of the world. To survive, the private sector had to merge, consolidate, restructure, reengineer, and, unfortunately, eliminate jobs. The short term restructuring costs and the realignment of jobs were the price for future competitiveness.

This transition created great turmoil, with job-cutting CEO's being called "Corporate Killers" in the national media. The less publicized aspect of this experience is that many American corporations developed outstanding programs to ease the transition for downsized workers. As the three following examples show, the private sector turned challenges into opportunities to help displaced workers while maintaining productivity and morale among the remaining workforce. Such responsible restructuring has enabled the private sector—both the commercial and defense segments—to gain the cooperative agreement of workers, their unions, and community leaders.

General Motors: Maintaining Workplace Morale

In the 1980s and early 1990s, General Motors was closing one assembly plant after another. The Pontiac-Central (Michigan) assembly plant provides a good case study of GM's approach. Craig Parr, the GM manager charged with closing the plant, found that his role soon became one of outplacement specialist. He did not try to retain his best employees, recognizing that it would be unfair to delay their job transitions. However, once the star employees departed, he was faced with motivating the remaining salaried and hourly workers to maintain quality and productivity. He challenged them to prove corporate headquarters wrong. He expanded training opportunities (thanks to investments from the local and national United Auto Workers); removed barriers created by the old performance appraisal and merit pay system by instituting a flat percentage raise; and rebuilt trust by communicating frequently and visibly. Ultimately, the plant did close, but by maintaining—even improving — workplace productivity and morale during the closing, the affected workers were in a better position to find new employment.

Source: Karen E. Mishra et al, "Preserving Employee Morale During Downsizing," Sloan Management Review, Winter 1998.

St. Louis, Missouri: Corporate and Community Cooperation

In St. Louis, McDonnell Douglas (now Boeing) provides a successful example of what works when an industry experiences concentrated job reductions. In 1990, the company, the largest employer in the St. Louis area, laid off nearly 10,000 workers, about 25% of its workforce. Early intervention with the displaced worker and regional cooperation between job service agencies and area employers proved to be key factors in making effective workforce transitions. The company established partnerships or program operation contracts with existing transition providers, like community colleges and state and local agencies, which made more sense than developing stand-alone corporate capabilities.

Local officials soon realized that regional growth was likely to center on low-wage jobs, an unpromising prospect for previously well-paid defense engineers and factory workers. Thus, their strategy emphasized retention and creation of higher wage manufacturing jobs by supporting existing St. Louis businesses through various programs of retraining and reindustrialization.

Career centers for dislocated workers proved vital. McDonnell Douglas found that successful centers provided a mix of services while being able to flexibly change services on demand and make quick turnarounds on resource allocation. Services found to be most beneficial were:

- outplacement workshops that concentrated on the workers' job finding skills
- access to phones, fax, and postage
- skill and aptitude assessment
- reality counseling on dynamics of the private job market
- good labor market information
- access to extensive private outplacement services for senior managers who are losing their jobs
- some access to entrepreneurial and small business assistance
- support services, such as travel allowances for job interviews, relocation expenses, and access to day care

Source: Robert Louis and Russell Signorino, "Layoffs of High Skilled Defense Workers and the Response of Impacted Communities," in Best Practices in Defense Conversion, Karl F. Seidman, Ed., National Council for Urban Economic Development, April 1995.

NYNEX: Managing Employee Transition

In 1994, NYNEX Corporation, the regional telephone company serving New York and New England (now Bell Atlantic-NYNEX), negotiated a new contract with the Communications Workers of America. The negotiation was necessary because the company planned to eliminate about 8,000 of the company's 35,000 hourly positions because of obsolescence due to reengineering and advanced technology. The agreement allowed the company to become "lean" but not "mean" by eliminating jobs without involuntary layoffs, transfers, or downgrades. Through a slate of financial incentives, such as early retirement, supplemental pension benefits to age 62, full health coverage, and expanding the retirement-eligible worker categories; and job strategies, like closing out temporary employees, pulling contract work back in — house, and jobsharing, NYNEX was able to work out transition policies acceptable to CWA. Perhaps more important, however, was that remaining NYNEX workers were offered inducements to further their education such as a two-year paid associate degree program or an unpaid two-year leave of absence to complete a 4-year degree program. These incentives help to stabilize the remaining workforce, as well as upgrade the skills available to the company without having to look outside for talent.

Source: Alliance for Redesigning Government, "The Guide to Responsible Restructuring," December, 1997.

Private sector outsourcing and job transition

While DoD can learn much from the private sector's painful experience with downsizing, its own transformation is likely to be less traumatic for the government workforce. The reason is that, in most cases, DoD is not eliminating but rather moving jobs from the public to private sector. Current budget plans rely on outsourcing as opposed to the permanent elimination of jobs.¹⁴

Outsourcing and job loss are not synonymous. Indeed, outsourcing an entire, non-core, function (like inventory management, for example) frequently means that a company will transition the workload and the jobs to the new provider.

Outsourcing is increasingly common in corporate circles. Companies from Microsoft to J.P. Morgan & Co. have embraced it in a big way. A 1995 study by Arthur Andersen LLP found that 85% of America's mid- to medium-sized companies (\$100 million to \$5 billion in revenue) outsource some functions, with the number expected to grow to 93% through 1998. For example, Microsoft outsources such mainstream operations as software manufacturing, order fulfillment, and customer help desks, as well as back-office functions like internal computer network installation, pension planning, and benefits administration.

While corporate outsourcing tends to be less painful than outright downsizing, it is not completely painless. In the US, job losses on the order of 10-15 percent generally accompany major transitions. The losses are created primarily due to streamlining, economies of scale, and consolidation at the managerial level. Given these realities, business has not been able to impose outsourcing from above without facing significant resistance from impacted workers. Some of the commonly-voiced objections are identical to those confronting today's Defense Department reformers:

- We have already reengineered. Why do we need outsourcing?
- An external provider won't know our business as well as we do.
- We will lose a valuable source of training.
- The effect on employee morale will be too great.

When downsizing occurs, companies and communities focus on identifying new job opportunities. With outsourcing, the primary transition challenge concerns job shifts, i.e., ensuring that workers are smoothly moved from the old employer to a new company. This shift is less drastic, but, nonetheless, it requires a major rethinking by managers and workers. Past experience indicates that outsourcing proceeds most smoothly when employees are involved early in the process — in effect, letting them craft the outsourcing plan. For example, General Electric invented the popular "work out" program in which employees meet to determine where unnecessary work can be eliminated and processes can be improved. Companies then use information technology, internal networking, and management accessibility to communicate with employees throughout the transition.¹⁵

Private Sector Best practices for the Outsourcing Transition

Outsourcing planning must be approached as a joint responsibility of both the client and the vendor. Experts have identified eight key issues to be addressed early in the transition:

- Deal openly with employee concerns to create a climate of trust
- Develop and communicate the transition plan in a timely fashion
- Establish a joint human resources transition team with the outsourcing organization
- Be available to answer questions
- Protect equity in the transfer of compensation and benefit packages
- Keep a short transition period from the outsourcing announcement to the communication of job status
- Communicate clearly the career opportunities available
- Prepare employees for outsourcing by creating an environment of self-employment

*Source: Grover Wray, Director of Human Resources for Contract Services, Arthur Andersen LLP.
<http://www.aurthuranderson.com/bus-info/services/contract/bestprac.htm>*

Pentagon challenges and best practices

The Defense Department has already demonstrated that it can create effective employee transition programs. DoD has done an excellent job in providing retraining and other supports for individual displaced workers. DoD's newest program, Project Outlook, helps employees find alternative employment and other options. For example, the Project Outlook career assistance center provides comprehensive assessment of skills, interests, goals and career options, career counseling and job search program for employees who wish to explore opportunities in industry, non-profit organizations, or other federal employment opportunities, as well as one-on-one counseling, group seminars, workshops and job search services. Downsized defense employees also have access to benefit packages offered under various federal programs.¹⁶

Outsourcing presents a different and, in some respects, more promising job transition challenge. Rather than jobs being eliminated due to reduced workload or management streamlining, jobs are recreated in the private sector. What happens to Federal employees when the functions they perform are outsourced? Depending on specific circumstances, they can stay in their agency via seniority or can be

offered priority reemployment in other agencies. Employees affected by outsourcing are also entitled to severance packages and other benefits similar to those offered other displaced workers.

If the worker's job is outsourced, employment with the new private sector provider is not automatic. However, that transition occurs with increasing frequency. A 1989 study of 2,213 displaced government workers showed that 58% went to work for the private contractor.¹⁷ A more comprehensive study of 30,000 DoD civilian employees displaced by outsourcing indicated that over half were only temporarily inconvenienced. They were either retained in other government positions or hired by the contractor to perform their old jobs in the private sector.¹⁸ (See Figure 3).

For federal employees who transition-in-place to an outsourcing vendor, they should expect a well-coordinated program that ensures them:

- no lapse in employment
- transfer of leave (vacation) balances, if not converted to cash
- continuation of healthcare coverage
- understanding of retirement plan status
- successful rollover of thrift savings plan investments

Workers who make the transition to the private contractor either voluntarily or as part of an outsourcing team will find that private sector work rule differences are marked. The employer-employee relationship is good faith employment-at-will and is graded on merit-based promotion and compensation programs, rather than longevity. Job security is not generally seniority-based and during downsizing, bumping rights are generally not available.

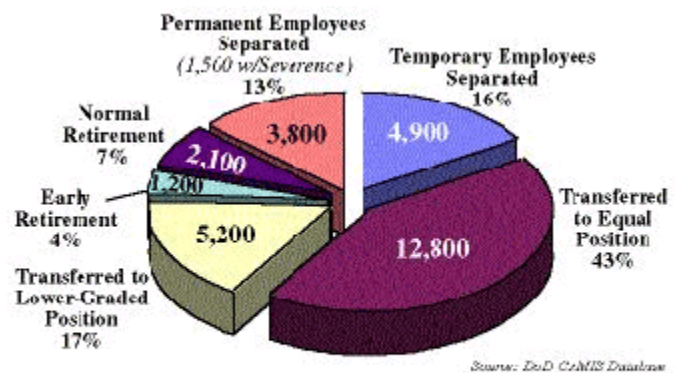


Fig. 3 CIVILIAN SERVICE JOBS REPLACED BY OUTSOURCING, 1978-1994

On the other hand, private sector benefit packages are generally similar to federal service with additional options. Most have multiple healthcare choices such as fee-for-service, preferred providers, and HMOs. Most have 401(k) savings plans with a company match. Many have basic defined benefit plans.

Private Sector Outsourcing Strategies

One of the nation's largest outsourcing providers in the field of facilities maintenance, uses transition options for current employees as one of its major bid strategies. They offer to hire qualified workers at current company wages and benefits, as well as assume some of the outsourcer's long-term liabilities such as accrued pension and retiree healthcare.

The private sector employer may have to consider, as part of winning the outsourcing contract, providing the former federal worker with:

- vacation accrual equal to their current government leave accrual rate
- thrift savings plan/retirement plan vesting credit
- pre-existing condition health waivers
- credit for accumulated year-to-date healthcare deductibles

Source: Johnson Controls, Inc., Government Services Capabilities Overview, GSC97A-0136 (briefing)

DoD's workforce challenges

While the Pentagon has a host of programs for individual workers, its experience with the transition of an entire workforce at single or multiple locations is more limited. Several alternatives have been tried, and as the examples below show, there has been success. Each takes a different approach to reducing infrastructure while, at the same time, managing the transition and preservation of jobs.

Charlestown, Indiana: Public-Private Partnering

The Armament Retooling and Manufacturing Support (ARMS) program was established in 1992 to preserve the domestic ammunition industrial base at minimum or no cost to the US taxpayer. It was also designed to reduce the impact of downsizing and loss of jobs on local communities. Under the program, the Army has invited industry to take advantage of the full range of capabilities, infrastructure, and personnel at 10 ammunition plants around the country. At the Indiana Army Ammunition Plant in Charlestown, Indiana, now known as Plant One and run by ICI Americas, Inc., the Army's annual base operating cost of \$5 million has been reduced to zero, but, more importantly, 84 tenants have signed agreements and 904 jobs have been created.

Source: Charles Saunders, Vice President, Government Operations, ICI America's, Inc., "The Reuse/Recycle Option for Property Management" (briefing), National Association for Installation Developers, 1998 Annual Conference, August 10, 1998.

Air Force Maintenance Depots: Privatization-in-place

Privatization models exist in the former Air Force maintenance depots in San Antonio, Texas, and Sacramento, California. While there were many skeptics when the privatization-in-place plans were announced in 1995, the outlook has changed. Three years into the closure process, the privatized depots are using their government work as a bridge to attract commercial interest. Maligned politically, the strategy is proving to make infrastructure reductions and job transitions less painful. The infusion of private capital promises to sustain and possibly increase local employment, especially in San Antonio which has already attracted Boeing as a major tenant.

Source: Gary Martin, San Antonio Express-News, February 22, 1998.

San Antonio, Texas: Outsourcing

The Defense Logistics Agency, which operates 22 distribution centers in the US and overseas, plans public-private competitions for at least 16 of the centers over the next few years. It recently turned over operation of its San Antonio center to EG&G Management Services, which promptly hired 286 of the 334 center employees to ensure a seamless transition for the customer who remains the Department of Defense. Some of the hires will stay on a priority waiting list for federal reemployment for another year, and may eventually leave EG&G. However, company officials predict that their plans to reorient the center from military to international commercial distribution will be a magnet to keep the best employees on the EG&G payroll.

Source: David Hendricks, San Antonio Express-News, March 13, 1998.

Indianapolis, Indiana: Privatization

In 1994, when the Naval Air Warfare Center (NAWC) in Indianapolis, Indiana, was threatened due to defense cutbacks, the community approached the Navy with a novel plan: They would spin-off NAWC as a private company, and sell its services back to the military. At stake were 2,400 well-paying government jobs. Eventually, the Defense Department and the 1995 Defense Base Closure and Realignment Commission accepted the Indianapolis proposal. What was different in this privatization was that the community, not the government, managed the competition to find a private sector provider. The Navy became the customer. In September 1996, Hughes Technical Services Company (now Raytheon), selected by the community as the best of seven proposals, signed a one-year contract with the Navy, retaining four additional one-year options. Hughes agreed to employ almost all current workers when it took over NAWC and to increase local employment by attracting commercial work to at least 3,000 by the year 2002.

Source: Stephen Goldsmith, The Twenty-First Century City, Washington, 1997: Regnery.

More experimentation is warranted. The Services need to experiment with the contracting out of an entire base or facility. Such large-scale efforts provide opportunities for major private sector

investments and economies of scale. Likely bidders would put together teams to offer the full range of services to the military at the specified location. A successful test at a single location could lead to larger privatizations on a regional or joint-service basis.

The Defense Department's challenge is clear: to become more efficient, it has to reengineer its industrial-age processes and workforce. The downsizing and job transition required will likely affect nearly half of its civilian workers performing commercial activities. It makes good business sense to follow the private sector's lead.

The key to overcoming job loss is confronting the problem head-on by combining the resources provided by Congress, the Defense Department, and local communities. BENS' decade of experience with base closings across the nation yields these lessons: aggressively pursuing private sector redevelopment pays off in a more prosperous and stable local economy. Communities choose a risky strategy by clinging to public jobs in an era of declining defense resources. Political action often aids this shortsighted job protection policy. The private sector provides the best chance for a community to preserve and grow jobs.

There is a shortage of skilled workers in the US today. With unemployment just under 5 percent, and much lower for skilled workers, the opportunities for federal workers to make successful transitions to the private sector-especially with focused programs from government and private sources-are outstanding. The key to workforce transition is to let proven private sector methods and competition predominate. A strong DoD outsourcing program can take advantage of today's favorable economic conditions to turn federal workers into private sector resources able to make their talents available to either DoD or commercial customers.

BENS Recommendations

The Defense Department should take a decidedly private sector approach to reducing its infrastructure. Today's competitive private sector can become the source of the best practices and top quality support for DoD's commercial-type activities.

The policy options that the Defense Department pursues should focus not only on the process of downsizing and reorganization but on how to create effective workforce transition programs. Three good rules guide the successful reorganization process:

- Maximize the use of information technology to sustain productivity.
- Aggressively consolidate the functions merged from higher headquarters.
- Refocus on core competencies and turn to quality providers in the private sector for outsourcing solutions.

As DoD moves forward with reorganization, it must also tap into best practices-its own and those of the private sector — to guarantee a smooth work force transition. This effort must focus on employee understanding, morale, and assistance. Useful strategies should include:

- gaining the cooperation of workers and their unions by including them in planning and carrying out the changes
- focusing particular attention on CSRS — eligible employees aged 30-50 who face the severest job transition challenge
- giving middle managers (who are less likely than other workers to find similar job situations in the private sector) the skills to reenter the workforce as independent agents
- continuing to offer and expand the availability of buyouts and other incentives for voluntary resignation
- using outsourcing competitions as a mechanism to transition workers in-place from the public sector to the private sector offeror

In an effort to promote outsourcing, Congress might consider pension portability for certain classes of federal employees. This step would help reduce opposition to outsourcing initiatives. While pension portability would increase personnel costs initially, it would generate long-term savings by opening the way to greater outsourcing and privatization. These short-term transition costs are justified if they get the Defense Department out of non-core commercial activities, allow the government to benefit from private-sector efficiency and competition, and ultimately reduce long-term costs to the taxpayer.

There is precedent: In 1995, Congress made special provisions for CSRS employees as part of the base closures at the Naval Air Warfare Centers at Indianapolis, Indiana, and Louisville, Kentucky. Under the plan, pension eligibility was guaranteed, the employee's earned benefit was adjusted for inflation with payouts set to begin at age 55.

DoD must also consider shifting from its current emphasis on job transition for individuals to a focus on transitioning the entire workforce at a specific site or performing a specific function. Individual attention will still be required, but site-wide or job function-wide provisions should receive more attention. For example, when government work is outsourced, contracts should include provisions that provide "soft landings" for existing government workers. As the earlier examples indicate, this practice is becoming more common and has worked well in pilot projects.

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There is a shortage of skilled workers in the US today. With unemployment just under 5 percent, and much lower for skilled workers, the opportunities for federal workers to make successful transitions to the private sector—specially with focused programs from government and private sources — are outstanding. The key to workforce transition is to let proven private sector methods and competition predominate. A strong DoD outsourcing program can take advantage of today's favorable economic conditions to turn federal workers into private sector resources able to make their talents available to either DoD or commercial buyers.

Footnotes

- ¹ US Department of Labor, Bureau of Labor Statistics, The Employment Situation: December 1998, USDL 99-06, January 8, 1999.
- ² DoD Office of Civilian Personnel Policy, reported by Air Force News Service, Washington, DC: March 18, 1997.
- ³ US General Accounting Office, "Defense Budget: Observation on Infrastructure Activities," GAO/NSIAD-97-127BR. Nearly 45 percent of active military personnel are also classified as supporting infrastructure functions. The proportion of active duty military personnel that support infrastructure activities varies within each service. For fiscal year 1997, 63 percent of Air Force personnel, 34 percent of Army personnel, 44 percent of Navy personnel, and 40 percent of Marine Corps personnel are assigned to infrastructure functions.
- ⁴ Defense Science Board (DSB) Task Force on Outsourcing & Privatization, August 1996. The DSB calculated that 337,000 civilians worked in commercial-type activities. DoD's 1995 Commercial Activities Index lowered the number to 247,600 based on revised criteria. Because of the wide variation in estimates, DoD is currently conducting a further review of its Commercial Activities Index to reclassify its entire workforce into core vs. non-core, commercial-like vs. mission-related workers.
- ⁵ John Greenwald, "Where the Jobs Are," Time, January 20, 1997, Vol. 149, No. 3.
- ⁶ Stephen E. Herzenberg et al, New Rules for a New Economy: Employment and Opportunity in Postindustrial America, Ithaca, NY, 1998: Cornell University Press.
- ⁷ MRO Suppliers Survey, Aviation Week & Space Technology, July 7, 1997, S1.
- ⁸ The Civil Service Retirement System (CSRS) covers employees hired before January 1, 1984. It is a defined benefit plan to which each employee contributes 7 percent of salary. The plan is not offset by Social Security benefits at age 62/65. Since December 31, 1983, federal employees have been covered by the Federal Employees Retirement System (FERS). It consists of 3 parts: Social Security, a basic defined benefit plan (0.8 percent of salary on top of the social security rate of 6.2 percent) and a thrift savings (401(k)) defined contribution plan that contains an employer automatic contribution plus an employer/employee matching contribution up to 10 percent of salary. See "The 'Ins' and 'Outs' of Your Federal Benefits," Public Employees Roundtable, PO Box 14270, Washington, DC 20044-4270, 1996.
- ⁹ Civilian DoD employees enrolled in CSRS were eligible to transfer to FERS during a six-month "open season" beginning July 1, 1998. This opportunity is now closed. Reportedly, fewer than 1% of eligible employees chose to switch.
- ¹⁰ While the FERS basic benefit is not portable (and has no cash-out value short of retirement), the Social Security and thrift savings plan are completely portable.
- ¹¹ US General Accounting Office, "Defense Outsourcing: Challenges Facing DoD as It Attempts to Save Billions in Infrastructure Costs," GAO/T-NSIAD-97-110, Testimony by David R. Warren, Director, Defense Management Issues, before the Military Readiness Subcommittee, House Committee on National Security, March 12, 1997.
- ¹² See, for example, Norm Augustine, "Reshaping an Industry: Lockheed Martin's Survival Story," Harvard Business Review, May-June 1997.
- ¹³ For a summary, see Joel Kotkin, California: A Twenty-First Century Prospectus, Ontario, CA: Center for the New West, 1996.
- ¹⁴ The Defense Department, as do other federal agencies, outsources in accordance with Office of Management and Budget (OMB) Circular A-76. A-76 specifies a public-private competition process in which cost is used as a determinant in selecting either a private-sector vendor or public-sector organization to perform the function. Historically, roughly 50% of A76 competitions are won by the private sector. Our projection of 100,000 outsourced jobs is based on DoD's estimate that roughly 238,000 jobs will be reviewed through the A76 process by FY 2003.
- ¹⁵ Gene Koprowski, "Lightening the Corporate Load," Washington Technology, November 9, 1995.
- ¹⁶ These include reemployment rights elsewhere in their own agency, priority placement in other Federal agencies or retraining and job search assistance under the Job Training and Partnership Act (JTPA). A nonfederal hiring incentive begun in 1996 encourages private employers and local governments to hire surplus DoD workers. The incentive provides up to \$10,000 for retraining and relocating an employee from an installation affected by base realignment and closure after the individual has been on the new payroll at least a year. DoD also received authority to allow surplus employees, as well as employees separated by Reduction in Force (RIF) to continue health coverage for 18 months. Employees at RIF sites could receive severance pay if they volunteered to take the place of another employee facing RIF separation. The authority extends through 2001.
- ¹⁷ US Department of Labor, National Commission on Employment Policy, "The Long-Term Employment Implications of Privatization," 1989.
- ¹⁸ Albert A. Robbert, et al, Outsourcing DoD Commercial Activity, RAND National Defense Research Institute, MR-866-OSD, 1997.