

DEPARTMENT OF DEFENSE PERSONNEL REFORM  
AND STRENGTHENING THE ALL-VOLUNTEER  
FORCE

---

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES  
UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

---

DECEMBER 2, 2015

---

Printed for the use of the Committee on Armed Services



Available via the World Wide Web: <http://www.fdsys.gov/>

---

U.S. GOVERNMENT PUBLISHING OFFICE

20 -957 PDF

WASHINGTON : 2016

---

For sale by the Superintendent of Documents, U.S. Government Publishing Office  
Internet: [bookstore.gpo.gov](http://bookstore.gpo.gov) Phone: toll free (866) 512-1800; DC area (202) 512-1800  
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON ARMED SERVICES

JOHN McCAIN, Arizona, *Chairman*

JAMES M. INHOFE, Oklahoma	JACK REED, Rhode Island
JEFF SESSIONS, Alabama	BILL NELSON, Florida
ROGER F. WICKER, Mississippi	CLAIRE McCASKILL, Missouri
KELLY AYOTTE, New Hampshire	JOE MANCHIN III, West Virginia
DEB FISCHER, Nebraska	JEANNE SHAHEEN, New Hampshire
TOM COTTON, Arkansas	KIRSTEN E. GILLIBRAND, New York
MIKE ROUNDS, South Dakota	RICHARD BLUMENTHAL, Connecticut
JONI ERNST, Iowa	JOE DONNELLY, Indiana
THOM TILLIS, North Carolina	MAZIE K. HIRONO, Hawaii
DAN SULLIVAN, Alaska	TIM Kaine, Virginia
MIKE LEE, Utah	ANGUS S. KING, JR., Maine
LINDSEY GRAHAM, South Carolina	MARTIN HEINRICH, New Mexico
TED CRUZ, Texas	

CHRISTIAN D. BROSE, *Staff Director*

ELIZABETH L. KING, *Minority Staff Director*

# CONTENTS

DECEMBER 2, 2015

	Page
DEPARTMENT OF DEFENSE PERSONNEL REFORM AND STRENGTHENING THE ALL-VOLUNTEER FORCE .....	1
Chu, Hon. David S.C., President and Chief Executive Officer, Institute for Defense Analysis .....	5
Rostker, Hon. Bernard, Senior Fellow, Rand Corporation .....	11
Hale, Hon. Robert F., Fellow, Booz Allen Hamilton .....	19
Roughhead, Admiral Gary, USN [Ret.], Annenberg Distinguished Visiting Fellow, Hoover Institution .....	26



## **DEPARTMENT OF DEFENSE PERSONNEL REFORM AND STRENGTHENING THE ALL- VOLUNTEER FORCE**

---

**WEDNESDAY, DECEMBER 2, 2015**

U.S. SENATE,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC.*

The committee met, pursuant to notice, at 9:29 a.m. in Room SD-G50, Dirksen Senate Office Building, Senator John McCain (chairman) presiding.

Committee members present: Senators McCain, Inhofe, Ayotte, Fischer, Cotton, Rounds, Ernst, Tillis, Sullivan, Lee, Reed, McCaskill, Manchin, Shaheen, Gillibrand, Donnelly, Hirono, Kaine, and King.

### **OPENING STATEMENT OF SENATOR JOHN MCCAIN, CHAIRMAN**

Chairman MCCAIN. Good morning. The committee meets this morning to continue our series of hearings focused on defense reform. Today, we will focus on military and civilian personnel reform and how to strengthen the All-Volunteer Force in the 21st century.

We're fortunate to have a distinguished group of witnesses joining us today: The Honorable David Chu, President and CEO [Chief Executive Officer] of the Institute for Defense Analysis and former Under Secretary of Defense for Personnel and Readiness.

David, we have a long a relationship, and we appreciate all the great work that you have done.

The Honorable Bernard Rostker, who is a RAND Corporation Senior Fellow, also a former Under Secretary of Defense for Personnel and Readiness. The Honorable Robert Hale, Booz Allen Hamilton Fellow and former Under Secretary of Department of Defense Comptroller. And Admiral Gary Roughead, USN [United States Navy] [Retired], Annenberg Distinguished Visiting Fellow at the Hoover Institution and former Chief of Naval Operation.

Put simply, our All-Volunteer Force is the greatest fighting force in human history. Any consideration of personnel reform must begin from that basis. And all of us, the Congress and the Department of Defense, must take great care as we consider what changes are needed to ensure that our force can respond to the needs of a new generation of warfighters and meet our future challenges. Our efforts must proceed from rigorous factfinding and analysis. We must always ask what problems we are trying to solve. We must always measure any reform against the military's unique mission

of combat effectiveness. And we must always remember that what works for the private sector or society at large may not always work best for our military.

We've all heard the stories of the many excellent servicemembers who are choosing, or being forced, to leave the military for ridiculous personnel reasons. This is a real problem. But, it's made more complicated by the fact that so many talented officers and enlisted continue to fill the ranks of our force. All of us meet them every day across the country and around the world.

The question is whether our military is able to recruit and retain so many excellent Americans because of its personnel system or in spite of it. I'm concerned that all too often it is the latter, as in the acquisition system and other parts of our defense organization. Too often, our military is losing and misusing talent because of an archaic military personnel system. Promotions are handed out according to predictable schedules with only secondary consideration of merit. That's why, even after more than a decade of service, there is necessarily no difference in rank among officers of the same age. Is it really because they all perform the same or deserve the same rank? Jobs in the military are assigned rather than chosen. To some extent, that is necessary. After all, the mission must always come first. But, we should ask whether we can better support this mission by giving servicemembers more of a say in their assignments.

At the Reagan Defense Forum last month, for example, the Chief of Staff of the Army, General Milley, described how he had met a soldier who spoke six languages but had been assigned as a truck driver. We need truck drivers, of course, but we also need first-rate linguists and intelligence analysts, and we need a personnel system that can manage our people's talent accordingly. We should ask whether we should give commanders greater discretion to build a staff with the specialists and experts they need in the right positions. Commanders are better able to assess their needs than bureaucrats in the personnel system.

Our military has always had an entrepreneurial culture that encourages individuals to innovate, but the military personnel system undermines that spirit when it mistakes upholding professionalism with enforcing conformity. And when high standards give way to a zero-defect mentality in performance evaluations, this discourages risk taking, truth-telling, and cultivation of entrepreneurial leaders.

To strengthen the All-Volunteer Force, we must also review the promotion system, especially the requirements of the Defense Officers Personnel Management Act and the Goldwater-Nichols reforms. Previous witnesses have expressed concern that the joint duty requirements that a military officer must meet have contributed to the growth in headquarters staff that we have seen in recent decades as the personnel system seeks to check a series of boxes that may be of little value for actual career development. We need to review whether this requirement is meaningfully enhancing the joint capabilities of the force, and how it can be better tailored for our 21st century force. The personnel system cannot be and end in itself. Similarly, we must ensure that our civilian per-

sonnel system is equally capable of recruiting and retaining the best leaders.

Unfortunately, there is much work to do. The USAJob system, for example, is an abysmal failure. We are repeatedly told by managers that they can't hire the employees they need to fill mission-critical roles because they cannot hire qualified individuals through the USAJob system or because they cannot make job offers in a reasonable timeframe. The Department of Defense needs to devote more energy to resolving these hiring stalemates, not developing more—many bureaucracies that have so often failed before.

Finally, a key pillar of personnel reform will continue to pertain to compensation. This committee has made great strides this year with the most sweeping reforms of our military retirement system in seven decades. We must bring the same rigorous bipartisan approach to the task of reforming the military health system next year. If we do nothing, the Congressional Budget Office projects that defense healthcare costs will devour about 11 percent of the defense budget in 2028. This is staggering. Every dollar that the Department of Defense spends on healthcare is a dollar that can't be spent on training and equipping our warfighters.

While we need to slow the growth of defense health spending, the primary focus of our reform efforts must be to create a better healthcare system for servicemembers, military families, and retirees by improving access to care, quality of care, and health outcomes. We must identify and eliminate waste in the military healthcare system and evaluate the organizational structure of the services' medical departments, with an eye toward making them flatter, more efficient, and more responsive. In some cases, we may need to eliminate some organizations where infrastructure—while ensuring that we maintain and improve medical readiness.

With these and other reforms, we can make the military health system perform better for beneficiaries and more sustainable for the Department of Defense. It's often said that America's greatest military advantage is its people. That is not a talking point, it's a reality. We will consider input from all sides throughout this process, starting with our witnesses today.

I thank you for your willingness to appear before the committee, and I look forward to your testimony.

Senator Reed.

#### **STATEMENT OF SENATOR JACK REED**

Senator REED. Well, thank you very much, Mr. Chairman.

Let me join you in thanking the witnesses for being here today, but, more importantly, for your extraordinary service to the Nation. You have come with great expertise and insights to address a very important topic.

The committee has held a series of hearings to review the organizational structure of the Department. Experts have testified the importance of streamlining our defense acquisition process, reevaluating the roles and missions of the services, ensuring effective management of the Department, and in the formulation of our defense strategy and future force structure. But, I believe today's hearing may be among the most important this committee will convene during our review.

The men and women who make up the All-Volunteer Force remain this committee's top concern. Any changes we recommend to the processes, structure, and organization of the Department of Defense, or to the benefits structure, will not matter if we don't provide the Nation with a sufficiently sized, trained, and equipped military of the necessary quality, of the character and talent to meet national defense requirements.

To that end, Congress has, for several years, considered various proposals for changes in compensation and healthcare to slow the growth of personnel costs so that those savings could be redirected to buy back readiness and modernization shortfalls. The Department has consistently, over the past several decades, proposed a budget in which military personnel costs comprise roughly 33 percent, or a third, of that budget. In 1980, this third devoted to military personnel bought an Active Duty strength of over 2.1 million. Today, with the total DOD [Department of Defense] budget that is hundreds of billions of dollars higher, that third only buys 1.2 million Active Duty members. And that figure continues to fall, and will likely drop further if rising personnel costs are not constrained.

In my view, hard choices will need to be made, especially in the budget environment we find ourselves. We made some difficult choices this year, as the Chairman pointed out, through his bipartisan leadership. They included the enactment of a retirement benefit for tomorrow's force. But, we need to do more. I am concerned, frankly, that we are pricing ourselves out of a military that is sufficiently sized and trained to accomplish national defense objectives. I look forward to any recommendations the witnesses may have for addressing the increasing personnel costs.

With regard to the management of military personnel, it is time to reevaluate whether the Defense Officer Personnel Management System, commonly referred to as DOPMA, continues to meet the needs of our military services. The "up or out" promotion system is 70 years old, and, in many respects, it has worked, and continues to work, well. It ensures promotion opportunity for talented young servicemembers as they progress in their careers. But, it also has its weaknesses. In some circumstances, it requires divestiture of talent at its peak. It may not be the right system for highly technical occupations, such as cyberexperts, pilots, doctors, or special operators in whom we may have invested millions of dollars in training. It relies on a cohort-based system that may be outdated. Joint professional education requirements, a signature element of the Goldwater-Nichols legislation, may, in some cases, be so substantial that servicemembers have difficulty fitting in all the required training, joint assignments, and command assignments needed for professional development. I hope that our witnesses can, first and foremost, identify what problems exist within the military personnel management system and compensation system, and offer proposed solutions to these problems that Congress and the Department of Defense should consider to bring our military personnel up to date.

I thank you all for your time, your expertise, and, most importantly, your great service to the Nation.

Thank you, Mr. Chairman.



Chairman MCCAIN. Welcome, Dr. Chu. Thank you for appearing again before the committee.

**STATEMENT OF HON. DAVID S.C. CHU, PRESIDENT AND CHIEF EXECUTIVE OFFICER, INSTITUTE FOR DEFENSE ANALYSIS**

Dr. CHU. Mr. Chairman, thank you. It is a privilege, indeed, to be part of the panel this morning.

I do have a prepared statement that I hope can be made part of the record.

Chairman MCCAIN. All prepared statements will be made part of the record.

Dr. CHU. Thank you, Mr. Chairman.

I should emphasize that the comments I make are entirely my own views, not necessarily the position of the institution that I currently serve.

It's my belief that decisions about the issues that you and Senator Reed have outlined and the committee is confronting ultimately should be rooted in a set of choices about the kind of military force we want for the future 5, 10, 15, 20 years from now. And the characteristics of that force will ultimately, in my estimation, determine what kinds of personnel we need and how we should prepare those personnel for their responsibilities.

In my estimation, one of the high-payoff, high-leverage opportunities lies, from both a performance and a cost perspective, in the decision about the mix of personnel types for the future. To what degree do we want to rely on Active Duty military personnel? What's the role of the Reserve components? What should be the proper level of Federal civilian staffing? And to what extent do we want to use civilians engaged through contractor arrangements of one sort or another? I might emphasize that those arrangements exhibit a great variety of characteristics, and, in some ways, we might usefully experiment with additional varieties of contractor arrangements, going forward.

The Department today, institutionally, does not make this decision in a holistic manner. It decides each of—it decides how much of each community it desires separately. So, military end strength is considered at one point, civilians are a decentralized hiring decision left largely to the field, and so on and so forth. So, it does not examine the trade-offs among these personnel, which I think present extraordinary opportunities for the country.

Looking at the likely effect of budget constraints, it's my—that the Department will probably choose to rely more heavily on Reserve components of one fashion or another, and perhaps look at a different role for civilians, especially Federal civilians.

In managing these communities, it would be my plea that we move away from the implicit premise of the current systems, which is one-size-fits-all, as you pointed out in your opening statement. It's particularly true of other officer management system, DOPMA. My urging would be to encourage experimentation within the waiver authority the Department already possess under a declaration of national emergency and 2 years thereafter, although Congress could grant an additional waiver authority, if it so chose, and encourage its actual use. In fact, the Department could begin with ex-

periments on the enlisted force side, because most of the enlisted force rules are a product of policy, not a product of statute.

Now, as you look at the civilian management issue, in my estimation—and you pointed out this issue, Mr. Chairman, in your statements about USAJobs—most important—one of the most important issues is appointing authority. Department does not have, under Title 5 of the various Federal Civil Service systems, operates the latter two to appoint, and to appoint properly, that I think is needed in today's environment.

In fact, Secretary Carter is fond of pointing out that, except for the fact that the office in which he got his first DOD job had extraordinary appointing authority, special appointing authority, he could not have been hired by the Department of Defense as a young academic.

I also believe that we ought to look at investing more energetically in our civilian workforce. It's quite ironic, in the Department of Defense, on the military side, we have a well-established and much-admired training education system on the civilian side. We leave the employees' department largely to their own devices.

I endorse what you underlined, Mr. Chairman, and that Secretary Carter has opened the door upon with his Force of the Future speech, and that is, a greater use of volunteers in self-selection. Give the individual greater voice in his or her future assignments, further training, education, et cetera.

On the compensation front, the Congressional Budget Office has long pointed out that the military system puts too much in deferred compensation and pays too much in kind. And we know that compensation is much more effective if it's in cash and it's up front. And the changes made by the Congress this year to the retirement system move in that constructive direction. In fact, in my estimation, they open the possibility of a much wider range of experience targets for the Department by skill area that's much more responsive to issues like the need for cyber personnel that Senator Reed—to which Senator Reed pointed.

I do think further—a further look should be taken at how we treat single personnel in the military. They make up just under half the force. Much of their compensation is really in kind, because, at the junior level, especially, about one-third of the package is the housing allowance, and they must surrender that housing allowance in order to live in the barracks. Because we tell them to live in the barracks, we know from similar results that living in the barracks is not one of the great attractions of military service.

On the civilian front, in compensation, I plead for a return to the use of pay bands to give the Department greater flexibility in civilian compensation so that in areas of high cost, high demand for certain skills, it can pay more competitively; in areas where there isn't the same situation, it could be more austere in its compensation choices.

Whatever compensation system we select, I would urge that we set and honor the expectations that's established. I'm very concerned about the actions of the last several years in which, often, changes the compensation have a flavor of being arbitrary and driven by budget considerations. And I think it's important that we set a standard and keep to that standard so that the young people

who join the American military establishment understand the future that they have selected, and are enthusiastic about that choice.

I thank you, Mr. Chairman. I look forward to your questions.  
[The prepared statement of Dr. Chu follows:]

#### THE PREPARED STATEMENT BY DR. DAVID S. C. CHU

##### CREATING 21ST CENTURY PERSONNEL AND COMPENSATION SYSTEMS FOR THE DEPARTMENT OF DEFENSE

###### INTRODUCTION

Mr. Chairman and Members of the Committee: It is a privilege to participate in this morning's panel. The views I express are entirely my own, and should not be interpreted as reflecting any position on the part of the Institute for Defense Analyses.

In my judgment, "human capital"—people, their skills and esprit—lie at the heart of any successful military endeavor. Deciding whom you want to serve in your military establishment, how you wish to develop their "capital", and how you expect them to perform, are essential elements in meeting the nation's security needs. The answers to these questions, in turn, should derive from the future military at which you wish to aim, the capabilities you wish it to possess, and the challenges you believe it must be ready to confront.

Those answers include basic decisions about how many actually wear a uniform (and are therefore governed by the laws of war), how many will be civilian employees of the national military establishment (therefore performing with the authority of the government), and how the private sector might provide key services on which both military and civilian functions depend, perhaps in a partnership arrangement. For each community, you will want to specify the characteristics of the personnel you wish to recruit, the preparation and ongoing education and training they should receive, and the service trajectory you expect them to follow.

Grounding the human capital debate in the force you desire also implies it is the force characteristics that should drive personnel policies, not the other way around. This is especially true as today's evolving technology and international security environments alter US needs. It is the responsibility of the compensation system, broadly defined, to produce these desired force characteristics. A key element is the competitiveness of compensation, both military and civilian, with non-government opportunities. And from the enterprise perspective, there is an appropriate concern with costs.

The ultimate cost issue, of course, is not military compensation alone, but what is required overall to operate the Department. Operating costs dominate the Department's budget requirements. They are driven by military equipment decisions (including the reliability of that equipment); by business practices (including, for example, the statutory floor for government depot work, and the impediments to A-76 competitions); and by choices on the mix of active military, Reserve Component military, federal civilian, and contractor personnel.

###### CHOOSING THE MIX

On the last set of issues (the staffing mix), Secretary Carter recently called for more "permeability"—if I understand correctly, to attract a wider variety of experience and backgrounds in both military and federal civilian personnel. He announced a series of initiatives to address this issue. Some of those confront what his Acting Under Secretary of Defense for Personnel and Readiness has identified, the difficulties created by the federal civilian personnel system, including those involving appointing authority.

The Department faces two obstacles in considering the optimal mix of personnel, one a planning challenge, one institutional. The planning challenge is defining the structure—the nature—of the force of the future. The Department has struggled to meet this challenge since the end of the Cold War, with its initial responses a scaled-down version of its prior choices (Base Force, Bottom-Up Review). Besides the growth of Intelligence, Surveillance and Reconnaissance force elements (including cyber), that remains, as a generalization, the case today. Much of the structure is aimed at high-end, state-on-state conflict, for which we must be prepared, but with little devoted to the challenges we face immediately. The structure emphasizes the ability to destroy targets, not necessarily the ability to secure the political or political-military outcomes we desire. Securing a broader range of capabilities within

likely budget limits may require accepting hedges vice full-up solutions, perhaps involving greater use of Reserve Component authorities (conceivably new authorities), and of civilians.

The second obstacle is institutional. The Department's planning processes, as long constituted, do not adequately consider the "total force" solution space in arriving at the mix. Military personnel are decided and budgeted for in terms of a central account (end strength), and once the strength level is established, military personnel are "free" to the using elements of DOD. (Conversely, they cannot easily trade military personnel for federal civilians or contractors.) In this situation, it is not surprising that in most Military Departments the demand for military personnel, as substantiated in various manning documents, exceeds the planned supply, especially for active duty forces.

At the other extreme sit federal civilians. Their numbers are decided on a largely decentralized basis, but often restrained to produce budgetary savings through ceilings (notwithstanding the statutory provision barring such a practice outside of management headquarters). That leaves contracted services as the safety valve, as organizations strive to meet their needs with the funds available.

Repeated analyses demonstrate that there are significant gains possible from a more systematic approach to deciding on the total force mix.

It would be easy to paint too discouraging a picture about the tradeoff process, and only fair to note some of the exceptions. One interesting development is the Air Force's pursuit of composite units, staffed with a mix of active, National Guard and Reserve personnel, benefitting from the differing levels of service that can reasonably be expected from each community. Another is the long-standing Inherently Governmental/Commercial Activity database maintained by DOD, which allows you to examine military-civil tradeoffs (and whose results have long argued DOD could make greater use of civilians). Particular Secretaries of Defense have taken an interest in this issue, whether Secretary Rumsfeld in military-civilian trades (to conserve military personnel for the Long War) and in competitive sourcing (an initiative of the George W. Bush administration), or the in-sourcing initiative launched by Secretary Gates. The last two, of course, are now restricted by statutory restraints.

Staffing mix issues extend beyond broad categories of personnel to include structural issues within each community. For example, the Army has long solved the conundrum of "up or out" in the context of a pilot force (high training costs, substantial payoff to experience, implying long cockpit tours) by staffing extensively with warrant officers, reserving just a few billets for (classically) commissioned officers who are groomed for leadership positions. Presumably, as the military becomes more highly technical this mechanism—or its analog, the Navy's Limited Duty Officer—could be used more extensively. Mechanisms like these might be used to strengthen the cyber force, and other areas such as intelligence, language and cultural expertise, science and technology, and acquisition.

Indeed, as one opens the aperture on personnel types it's quite possible that some duties that are now thought to require officers could be performed by enlisted personnel, given the high aptitude and performance standards of the All-Volunteer Force. The current Air Force Chief of Staff, as you know, has speculated about their possible utilization to meet some piloting needs. Indeed, the Army, Navy and Marine Corps already use enlisted personnel to operate Unmanned Aerial Vehicles.

#### MANAGING THE MIX

The Committee has expressed its interest in possibly reconsidering provisions of the Defense Officer Personnel Management Act (DOPMA), or the Act in its entirety. I would urge that we first focus on the different results that are desired, and analyze the degree to which it is the statutory provisions that make it difficult to achieve those results, versus the manner in which the Act is implemented. If alternate regimes appear attractive, the Department might experiment with those regimes (through existing or new waiver authority, or pilot programs), to understand their possible unintended consequences, before making them permanent.

While key elements of enlisted management parallel that for officers, the rules are largely driven by policy, not statute. Enlisted personnel, of course, constitute the vast majority of the force. Perhaps the management paradigm for this element should receive our attention first.

The challenges of the last fifteen years have demonstrated the value of agility—agility at the individual level, and agility on the part of defense institutions. American military personnel, starting with the Battle of Bunker Hill, have been known for their agility. Could we do even better, whether via the standards we set for recruiting, or the manner in which we prepare the force?

In thinking about managing the mix in a more agile fashion, the Department should be willing to consider hybrid vehicles—vehicles that embrace the strengths of the different personnel communities. Secretary Carter points in this direction with his emphasis on Intergovernmental Personnel Act appointments, but more ambitious models might also be considered. These include the British notion of sponsored reserves (contractor operations in which all personnel hold Reserve Component appointments, and can be shifted to a military status as theater circumstances require), and Government Sponsored Enterprises, where the government retains control but creates an entity that can operate like a private sector actor (the Saint Lawrence Seaway is viewed as one of the more successful examples, I believe).

One issue that has not received the attention it deserves is strengthening the skills of existing federal civilians over the course of their careers. The contrast in DOD could not be more striking: Significant investments in further education and training for military personnel, very limited opportunities for civilians. Some of this result derives from the strictures of civil service rules, some from the lack of budgetary allocations to support the necessary costs. Greater investment in federal civilian “human capital” should pay handsome dividends in long-term performance, and in the ability to recruit and retain the talent that Secretary Carter is properly seeking.

#### MILITARY AND CIVIL COMPENSATION

Economic principles and actual experience highlight six characteristics of an effective compensation system:

- Cash compensation is more attractive than compensation in kind
- Compensation now is more attractive than compensation later
- Incentives for special situations (e.g., certain skills, or hard-to-fill positions) are more efficient than across-the-board solutions—especially if implemented through a flexible versus a “hard-wired” system
- Clarity about the incentives you’re offering (and the compensation system as a whole) is critical
- Expectations about future compensation importantly drive current results
- Recognizing individual preferences (“volunteerism”) can produce a much more satisfied team, and lower long-run compensation costs

As the Congressional Budget Office has pointed out, the military compensation system does not score well on these criteria. The civilian compensation system may be better—but not much, in my judgment.

The current military pay system does offer the Department some flexibility, thanks to the considerable leeway Title 10 gives the Department in deciding the amounts and application of various special and incentive pays. But the same is not as true for federal civilians, because of the reliance on the General Schedule structure.

It is also important to acknowledge that compensation includes more—sometimes much more—than pecuniary rewards. One of the most important, of course, is pride and satisfaction in serving the country. Recognition of such service is critical—and it is also critical to keep in mind the effect of all conditions of service on the willingness to join, the willingness to continue serving, and the enthusiasm with which that service is rendered. “Conditions of service” embraces a wide range of personnel and non-personnel decisions, ranging from how assignments are made, to the frequency of change and the length of less desirable or more difficult assignments, to education and training opportunities, to the quality (and quantity) of equipment provided, and to the excellence of leadership.

An important condition of service is the individual’s ability to influence his or her future—to choose, rather than be “assigned”. Civilians enjoy considerable latitude in this regard (even if civil service realities can make it difficult), military personnel less so. The Navy’s administration of

Assignment Incentive Pay is a notable exception to this generalization, as are some long-standing de facto processes of the Reserve Components. Secretary Carter points the way to increased reliance on the volunteer spirit, endorsing the concept pioneered by the Army with its “Green Pages” experiment.

For military personnel, one of the most important conditions of service involves the post-service transition. In our system, the principal responsibility for that transition lies with the Department of Veterans Affairs; thus its substantial resources (over \$160 billion in fiscal year 2015) and their most effective employment should not be ignored in any reform agenda. (The Dole-Shalala Commission, for example, urged major changes that the Congress declined to adopt.) Within the Department of Defense’s set of responsibilities, the recent decision to strengthen the Transition Assistance Program is worth noting—encouraging uniformed personnel to start

thinking about their post-service interests early in the military career. Such early reflection presumably will help guide their education and training choices.

The “force of the future” may look different from today’s, reflecting both changing needs (think cyber), and the changing nature of our society (think opportunities for women, and changing views of what constitutes a career). As we contemplate change, however, it is worth reiterating that the current system sustained a successful all-volunteer force in the concluding stage of the Cold War, in its immediate aftermath (including the First Persian Gulf War), and in the long period of armed conflict that followed the attacks of 9/11. There are clearly elements that have worked well, or that have adapted effectively.

Perhaps the most important success was recognizing that the compensation “package” must remain competitive. Since we anticipate that real compensation in the private sector will grow over time, so will federal compensation. Those joining need to know that the political system will act consistently with that reality (e.g., for military compensation, sustaining the competitive standards set out by the Ninth Quadrennial Review of Military Compensation), and forbear from making what appear to be arbitrary changes to the trajectory of compensation as a source of near-term budget savings.

A focus on the competitive status of compensation also implies that adjustments to military and federal civil pay packages (e.g., the pay tables) will not necessarily be identical. That is in sharp contrast to the practice of recent and earlier years, in which across-the-board adjustments are matched.

Competitive compensation will not be the same for all skill areas. The American military system confronts this reality using its bonus authority. While there are bonus authorities for civilians, they are not widely employed by most federal agencies, and may not provide the same flexibility of response. Hence proposals to replace the General Schedule with broad pay bands for federal civilians, allowing civilian compensation to adjust for local and skill realities.

Much recent attention has focused on the cost of military personnel. The reform of military retirement you’ve just adopted moves more of the reward “up front”, creating not only a more efficient program (with some cost savings), but one that allows the Department to vary career length by skill area, as operational needs argue should be the case. The prior system encouraged a “one size fits all” mentality, with the result that some skill areas had a more senior force than might be optimal, while others suffered from a lack of needed experience, despite the Department’s efforts to rebalance through the use of retention incentives.

The Military Compensation and Retirement Modernization Commission, whose recommendations Congress considered in making its changes, also proposed a revised military medical benefit. While the proposed change would give military households more choice, and promised some potentially substantial savings, it would also move modestly more compensation to immediate cash (in the health expenditure accounts created), whereas the current benefit is paid entirely in kind—a compensation mechanism we know is less efficient.

One issue the Commission did not address is the disparity between the compensation for single personnel, versus those with dependents—perhaps five to ten percent for junior personnel, measured by Regular Military Compensation (RMC). Moreover, RMC imputes the “value” of living in the barracks as equal to the housing allowance foregone (about one third of the total); we know from survey results that required living in barracks housing is actually a detriment to military recruiting. Would overall costs increase if single personnel were paid at the same rate as those with dependents? Not necessarily, since there would be offsetting cost reductions in other elements of compensation (e.g., health care). Indeed, over the long run it might well reduce costs. Such equilibration, coupled with a revised barracks residency policy, amounts to a targeted (i.e., more efficient) pay change, likely to ease the Army’s current recruiting difficulty.

#### CONCLUSIONS

The time is long past for a fundamental re-examination of the appropriate mix of personnel types in the military establishment, as a prelude to deciding what personnel management reforms may be needed for the future military establishment. It is the nature of the future military establishment that should be the starting point, guiding the discussion on personnel types. Perhaps this debate could unfold in the context of whatever national security transition plan a new administration adopts, particularly as it conducts its Quadrennial Defense Review.

With the caveat that those choices have not been made, it may be useful to advance some hypotheses that could be explored in the interim as a basis for any immediate decisions the Committee wishes to consider. On the mix issue:

- It is likely that more Reserve Component and federal civilians will be desired, the latter requiring more flexible appointing and pay authorities.
- It is possible that more use of “intermediate” personnel—i.e., senior enlisted, warrants, LDOs [Limited Duty Officer]—will be attractive in staffing certain military needs, creating a viable approach to “up or stay” while preserving the best features of “up or out” for those being considered for senior leadership positions.
- It is conceivable that hybrid staffing arrangements will be sometimes be attractive, e.g., composite units, or Government Sponsored Enterprises (e.g., for the DOD overseas Kindergarten–12 school system).

On compensation:

- Moving more military compensation to cash vice in kind should improve recruiting and retention. Likewise making more cash available earlier in a career would be meritorious, as the retirement reform just enacted permits the Department to do.
- Harnessing individual preferences to the needs of the organization, consistent with the spirit of Secretary Carter’s demarche, will help restrain long-term compensation costs.
- Creating greater flexibility in setting civilian pay levels would allow DOD to respond better to local market conditions (with savings in some areas financing increases in others).
- Stabilizing expectations by adopting and honoring a long-run compensation strategy for both military and civilian personnel should help recruiting and retention—and morale.

As these hypotheses imply, much of what’s needed lies in the province of the Executive Branch of our government, above all to organize the institutional mechanisms within which good decisions can be made, including recommendations for statutory action where needed. There is no more important set of decisions, if the United States is to enjoy in the future as fine a military as defends us today.

Chairman MCCAIN. Thank you.

Mr. Rostker.

**STATEMENT OF HON. BERNARD ROSTKER, SENIOR FELLOW,  
RAND CORPORATION**

Dr. ROSTKER. Thank you, Chairman McCain and Ranking Member Reed and members of this distinguished committee.

It’s my pleasure and honor to be asked to testify today on this very important issue. As you know, I’ve spent my whole professional life working in this area, and have often written about our need to reform the system, so I welcome this opportunity to further discuss this today.

In many ways, the need for reform has been obscured because, by and large, the system we have today has produced a superb professional military. The problem as I see it is that we could have done it better, perhaps at less cost, but certainly, in terms of meeting the needs of our servicemembers and their families. Moreover, as the threat and our needed capabilities evolve, the only way to—of doing business in the future is likely to be less effective as we move—as it has been in the past. The trick here is to understand the current system, how it operates, what needs to be changed. To use an old cliché, we must not throw the baby out with the bath water.

Rethinking the kind of military we want, and how to achieve that what some have called “the force of the future” is needed, and your hearing today is very timely.

I’ve prepared a longer statement, but I want to highlight for you here six points that I think are critical as you move forward.

The first imperative is that you look at changing the system. You ask what will be the impact of the experience profile of the force

10 and 20 years in the future. For the vast majority of our military workforce, the people we recruit today will be the journeymen we need 10 years from now and the leaders we need 20 years from now. While in some specific areas, new programs of lateral entry may provide added flexibility, the vast majority of military skills will still be in at the bottom and up through the rank.

Second, the plain fact is that the military we build today must be capable of winning wars in the future. But, we don't know when that might be. In the aggregate, the year of service profile is the best indicator of the readiness of the force to go to war at any point of time in the future. Maintaining the appropriate experience profile is critical.

Third, the key to achieving the needed experience profile over time is maintaining an adequate flow of people into and through the force over time. We have done this with the so-called "up or out" promotion system. While there are many ways such a system can be managed, there must be a way of ensuring sufficient turnover to constantly revitalize the force. The flow out of the force should not be just at the end of a career. Our enlisted and officer personnel need to progress or leave. They must not be allowed to stagnate in place.

Fourth, the one thing that distinguishes the military personnel system from our private sector or our government civilian personnel system is we have the tools needed to maintain the required personnel profile over time. Some have argued that we should institute a system that allows people to stay in place as long as they adequately perform in their jobs. The ultimate example of such a system is our current civilian personnel system, but I don't know anyone who thinks that that system has been so successful it should be the model for the military. For our military, if servicemembers do not advance, they must be sent home to make room for the next generation, because it is the next generation and the one that comes after that that will carry the fight in the future.

Fifth, many of today's critics warn of a brain drain, projecting that some may claim—and they—some claim many bright young people will leave the military frustrated because of the service are not making the appropriate use of their talents. However, the more significant issue is the larger drain that is the systematic expulsion of talented officers who, regardless of experience and skills, who are forced out at 30 years of service or those who leave earlier than 30 years of service, anticipating that they will be forced out at 30—at the 30-year mark, which generally equates to a chronicle—chronological age at about 52 or in the early 50s. I've written extensively about this problem and, even when I was Under Secretary of Defense for Personnel and Readiness, tried to address this, but to no avail.

Sixth, and lastly, it might seem strange to you for me to be arguing that we must maintain the flow of personnel through the military just as I'm saying that in select areas we should extend careers. But, I assure you that there is nothing contradictory in what I am proposing. Today, DOPMA gives us a one-size-fits-all personnel system for officers. While we can manage different occupational groups separately in what is called "competitive categories," the career structure for each category is the same. To me, that



makes no sense. Without arguing the merits of longer careers for the combat arms, I am certain that our specialty corps, such as intelligence, medical, chaplain, acquisition, and many more, including, in the future, cyber, do not need to adhere to the standard DOPMA structure of promotion timing, opportunity, and tenure, which reflects our thinking about youth and vigor in the 1940s.

To summarize this quick overview of reforming the military personnel system, here are a few points that I think this committee should keep in mind: keep your eye on the future, particularly what changes will do to the experience profile of the force; maintain the desired experience profile over time; ensure adequate flow of personnel; maintain the basic concept of “up or out”; be as flexible and permissive as possible to allow the services to better manage the assignment of people; and then lengthen careers beyond 30 years of service, particularly for specialty corps.

Thank you for allowing me to testify before you today, and I look forward to your questions.

[The prepared statement of Mr. Rostker follows:]

THE PREPARED STATEMENT BY BERNARD D. ROSTKER<sup>1</sup>

REFORMING THE AMERICAN MILITARY OFFICER PERSONNEL SYSTEM<sup>2</sup>

The military personnel system in place today is fundamentally the same one put into place after World War II, with minor modifications for officers provided by the passage of the Defense Officer Personnel Management Act of 1980, or DOPMA. Many, including myself, have argued that this system is outdated—reflecting industrial-age thinking in the information age—and point to what they see as a drain of talent. The fundamental problem that most can agree on is that a one-size-fits-all system cannot provide the range of competencies that will be needed in the future. However, what a new system might look like is far from settled.

Recent books and magazine articles include critiques of the current system that call for a new regime. These publications are replete with stories of frustrated bright young people leaving the military because the services both force them into assignments that they do not think make appropriate use of their talents and require them to adhere to a rigid path of advancement that is inflexible. The favorite villain in this story is the so-called up-or-out promotion system. While these stories are individually compelling and collectively paint a bleak picture of the future of the American military, they generally come up short in describing how an alternative system might operate or how eliminating up-or-out might produce the desired force of the future—or, for that matter, what the desired force of the future should even look like. What is needed is an understanding of the current system, how it operates, and what needs to be changed. To use an old cliché, we must not throw the baby out with the bath water.

It is important to recognize that there are at least two places where talented individuals are leaving the military: There is the oft-cited exodus of junior officers (although many talented individuals choose to stay), but there is also the less-cited systematic exodus of officers—not only those who are forced out at 30 years of commissioned service regardless of experience and skills, but also those who leave before that, anticipating that they will be forced out at 30 years of service. Given the way officers are commissioned through the military academies or through ROTC [Reserve Officer Training Corps], this generally equates to forcing out officers who are in their early fifties. It is important to note that the way we lose junior officers

<sup>1</sup>The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of RAND or any of the sponsors of its research. This product is part of the RAND Corporation testimony series. RAND testimonies record testimony presented by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies. The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

<sup>2</sup>This testimony is available for free download at <http://www.rand.org/pubs/testimonies/CT446.html>.

is largely because of the way the assignment system is managed, but the way we lose talented senior officers largely has to do with the way the personnel system is designed. The ability to address the retention problem among junior officers is largely in the hands of the services and the way they manage assignment; addressing the retention of senior officers means Congress would have to consider whether it would change the way careers are structured.

#### PROCEDURAL CHANGES IN THE ASSIGNMENT SYSTEM

Today's critics charge that the services' central personnel assignment system is a failure because it neither adequately recognizes the special attributes an individual can bring to a job nor takes individual preferences into account; further, it does not provide all candidates an equal chance of being assigned to the positions most important to advancement. Critics maintain that a decentralized system where each candidate could self-nominate for any job and is eligible for all jobs would better foster the principles of talent management. Let's look at these claims in some detail.

#### KNOWING WHAT'S NEEDED

The military's human resource management system is actually made up of two complementary systems most often managed by two different organizations: one that focuses on job or billet requirements (most often referred to as the manpower system), and another that focuses on providing qualified people who meet the specifications laid out by the manpower system (most often referred to as the personnel system). The assignment system is the bridge between the two as it tries to put the right face in the right space. Any special attributes possessed by an individual service member—often referred to as his/her knowledge, skills, and abilities (KSA) or competencies—may make little difference in his/her assignment unless these attributes are recognized in the job or billet description. In a small number of cases, information about a service member that is not on the record but is known to senior personnel may be taken into account, but for the vast majority of officers, the match is made based upon the stated job description. Therefore, the first requirement for better matching the unique qualities of young officers is for the services to expand the range and improve the specificity of attributes that are included as part of a job description.

Expanding job descriptions, however, is problematic, with the Army's recent Green-Pages proof-of-concept pilot test serving as a clear example. The pilot tested a largely decentralized assignment system, where individuals presented themselves for reassignment and units advertised their opening to improve matches. That was the way it was supposed to operate, at least. In actuality, the pilot test showed that units required "a great deal of follow-up encouragement," and even with all the encouragement that resulted from this being a pilot test, half of the officers who participated thought that the job information was "too sparse." There are many reasons that units fail to differentiate jobs adequately, but little progress can be made until the services better articulate what is required and what skills will be needed in the future. Two examples may illustrate this point. A former Air Force personnel chief recently recounted how he was told that the Air Force needed more officers with STEM (Science, Technology, Engineering and Math) backgrounds, at a time when there were more STEM qualified officers than there were billets to which they could be assigned. Assuming that that Air Force did, in fact, need more officers with STEM backgrounds, this need must be reflected in the descriptions of Air Force jobs to have any validity for recruiting new personnel. Similarly, the Army's senior commander in Europe recently discussed his need for more soldiers who could speak Russian and other eastern European languages. The system can only respond, however, if such a need is translated into job requirements.

#### ACCOMMODATING INDIVIDUAL PREFERENCES

Meeting the assignment preferences of individual service members can be challenging, and all too often, the process appears to force people into assignments that they don't want. One often hears that there are less-desirable jobs that must be filled and the assignment systems must fair-share them among the entire force. But this fair-sharing approach doesn't take service member preferences into account. The Navy, for example, has found a way to compensate volunteers for such jobs by allowing qualified sailors to bid for these jobs, with the winning bidder being the one willing to take the smallest cash bonus to fill the position. Recent research at

RAND<sup>3</sup> has shown that a similar auction system could be used to induce members to extend in place in overseas assignments. Nevertheless, the services have been slow in taking up such incentives and ideas to help them sort out the assignment system and gain the potential to satisfy assignment requirements while making service members better off by aligning assignments with preferences. More can be done.

#### OPENING UP ASSIGNMENTS FOR ALL?

Another often-heard complaint is that the current system does not consider all qualified service members for all jobs, including the most critical and career-enhancing jobs. But one can challenge whether the assignment system should do this. While I am sure there are ways to improve the visibility of the talents of all members of the force, the plain fact is there are fewer positions at the top than there are at the bottom. Moreover, in order to ensure that future leaders gain the experience they will need later in their careers, the services must assign critical jobs to those judged to have the best chance for advancement. This is done today in both a formal and informal way.

Formally, there are critical gateway selection boards for schools, or for qualifying for certain positions, such as command of a ship. More important, however, is an informal system of mentorships where senior leaders (generally from a particular occupational group or community) “sponsor” junior officers, who then are given specific assignments to help shape their careers for advancement. I am most familiar with the way it works in the Navy, where leaders identify those young members considered among the most promising and guide their careers so they gain experience that will facilitate their performance if and when they become senior leaders. The system works well for those who find a sponsor, but some will be left behind. Getting into this group usually requires impressing a senior officer so that he will work the system to give his protégé the best assignments, but falling out of this group is easy if a junior officer fails to perform as expected.

The Army, on the other hand, traditionally has been more egalitarian in managing assignments. Some have argued that this better allows the talent to rise to the top, and is fairer about giving everyone a chance at critical assignments. However, research going back to the 1960s suggests that some very talented people leave under such a system because they cannot see a clear path for advancement and do not want to leave their careers to chance. They believe they are special and expect to have their careers managed accordingly.

#### STRUCTURAL CHANGES IN THE DESIGN OF MILITARY CAREERS

For a long time, I have argued and written about the need to reform the career military structure by increasing the maximum years of service an officer might serve to 40, for the reasons I will discuss here. That said, I first want to sound a cautionary note by endorsing the fundamental principle of the up-or-out system and explaining why such a system is critical to ensuring the vitality and viability of our military personnel system for the future.

#### THE THIRTY-YEARS-OF-SERVICE CAREER LIMITATION

A key feature of the officer military personnel system as laid out in law under the DOPMA is the 30-years-of-service cap for all officers who are not promoted to General or Flag rank, O-7. I am aware that under DOPMA, the service Secretaries can establish special continuation boards to extend the service of O-5 and O-6 officers beyond mandatory retirement for up to five years or until age 62, but this is almost never done. For all intents and purposes, we operate under a career cap of 30 years of commissioned service.

Given that most officers come from the service academies or ROTC, entering college at 18 years of age and commissioned at 22 years of age, this means that, with the exception of those promoted to O-7, most career officers have left the service before age 52. This is true regardless of an officer’s specialty because DOPMA is a one-size-fits-all personnel system for officers. While DOPMA allows for the promotion of different occupational groups separately in what are called “competitive categories,” the career structure for each category is the same. To me, this makes no sense. Without arguing the merits of longer careers for the combat arms, I am certain that our specialty corps—such as intelligence, medical, chaplains, acquisition, and many more, including any future cyber corps—would benefit if they were

<sup>3</sup> Craig A. Bond, Jennifer Lamping Lewis, Henry Leonard, Julia Pollak, Christopher Guo and Bernard Rostker, *Tour Lengths, Permanent Changes of Station, and Alternatives for Savings and Improved Stability*, Santa Monica, Calif.: RAND Corporation, RR-1034-OSD, 2015.

not compelled to adhere to the standard DOPMA structure of promotion timing, opportunity, and tenure. The case of intelligence corps, described here, illustrates why the 30-year limitation should be changed.

Aside from the needs of specific occupational groups where experience is particularly important, a general case can be made that limiting careers to 30 years of commissioned service is out of line with efforts to broaden the experiences of officers as they progress through their careers. In 1987, Congress passed the Goldwater-Nicholas Act, which recognized the expeditionary and inherently joint nature of how military forces operate and established the requirement that officers complete the requisite joint professional military education and joint assignments before they could be considered for promotion to general or flag rank. Accordingly, officers start to be “jointed” after their tenth year of service, when they are promoted to O-4, and usually try to complete this over the next ten to 12 years. These are also the years that officers destined for leadership positions have their command assignments. In effect, the Goldwater-Nicholas Act added between four and five years of additional must-have assignments to an already full career and squeezed out the time officers would have spent on their service staffs learning how to manage the enterprise. I am particularly sensitive to this unexpected cost of Goldwater-Nicholas, having served for many years at a senior level in the Navy and Army secretariats. While we may have made better joint warriors, it came at the cost of having less-experienced uniformed managers of the services. This was a cost that could have been avoided if career length had been extended commensurate with the expanded career content resulting from Goldwater-Nicholas.

This situation I describe is only going to get worse with the new programs recently announced by the Secretary of Defense designed to increase the opportunities for assignments with industry and expanded opportunities for advanced education. We need to ask, “What sense does it make to broaden the experiences of our officer corps and then provide little opportunity to reap the benefits of that broadening by truncating careers at 30 years of commissioned service?” In my judgment, it is imperative to lengthen careers to accommodate all these career-broadening opportunities.

I note that the issue of career length is not new, as the following review of the legislative history on this issue will show. The 30-year career has been in place since 1947, but even back then, members of Congress were not comfortable with limiting careers to 30 years of commissioned service. Finally, knowing the Committee’s concern about the cost of personnel, I would like to review how extending the career length limit might have a positive impact on reducing the overall cost of personnel.

#### A HISTORICAL VIEW OF THE THIRTY-YEARS-OF-SERVICE CAREER LIMIT

As the Senate considered the passage of the Military Personnel Act of 1947, some in Congress expressed concern that the new system would “force the retirement of officers at the height of their usefulness,” and would be “very detrimental to the best interests of the country.” Sen. Guy Cordon, R-Texas, did the math and figured that “the retirement of colonels after they have completed five years of service ... or 30 years of service, whichever is the later ... would mean that the average officer, figuring that he received his commission at age 22, would be forced to retire at 52 years of age.” The record shows that Sen. Wayne Morse, R-Ore., concluded that he could “not vote for the bill unless those objections are taken care of,” and Sen. Harry Flood Byrd, D-Va., commented that this “seems to me mighty early to retire a man, at 52.” The Army countered the concerns of the three senators by arguing that Sen. Cordon had gotten the math wrong because

The statement that the average officer receives his commission at 22 and would be retired at 52 is in error. The average age at appointment of Army officers is 25. For years to come, the average officer will not reach the grade of colonel before he has had 28 years of service ... Therefore, the average age of colonels will be 58 ... The question of proper retirement ages must be a compromise between the desires of the individuals for longer service and the needs of the Nation for a vital Army ... Without a flow of promotions, there must be stagnation. There cannot be a flow of promotions without forced attrition at the top.<sup>4</sup>

Of course, it was the Army that got it wrong, but how wrong did not become clear until the system was in operation for some time and it became obvious that it was the rare officer who waited until 30 years of service to retire. The incentive in the

<sup>4</sup>Dwight Eisenhower, et al., “Officer Personnel Act of 1947,” testimony before Senate Armed Services Committee, 1947.

new system was to take advantage of the reduced pension that paid immediately for voluntary retirements after 20 years of service and move on to start a second career before it was too late to do so.

In 1954, the question of early voluntary retirements so alarmed Congress that an amendment to the Defense Appropriations Act of that year, the so-called Van Zandt amendment, limited voluntary retirements. It was repealed when the Officer Grade Limitation Act was passed, but only after Congress received assurances from the military services that “the privilege of voluntary retirement after completion of 20 or more years of service will be exercised little” because “the services have long accepted 30 years of faithful service as being the normal tour of duty.”<sup>5</sup> The force reductions after the Korean War saw extensive use of the 20-year option to draw down the force. By 1980, when DOPMA passed Congress, the 20-year volunteer retirement had become so common that it was no longer considered to be at the discretion of the Secretary of the Military Department, but had become a “right” and was so reflected in the new legislation.

#### THE NEED FOR LONGER CAREERS FOR INTELLIGENCE OFFICERS

The career area of military intelligence is a prime example of how today’s one-size-fit-all system is not serving us well. The requirements for intelligence professionals, particularly the intelligence officers who serve in the National Intelligence Program, are well articulated by the Army in its description of the “unique functions” performed by the Strategic Intelligence Functional Area officers, attached at the end of my statement.

Our study of the current state of military intelligence shows that today’s military personnel system is ill-suited to produce the kind and number of officers needed by the intelligence community.<sup>6</sup>

Today’s system is built on the paradigm of youth and vigor. It is not designed to produce the personnel with the kind of training and experiences that are required of today’s intelligence professionals. The grade table that drives the system reflects the needs of combat units, not the needs of the interagency intelligence community. The DOPMA tenure and retirement rules truncate and terminate military careers just when intelligence officers have gained the experience necessary to make them truly productive. The best that can be said is that many former intelligence personnel continue to serve as government employees and contractors. Changing this system will require statutory relief to allow the services to retain personnel with demonstrated professional intelligence expertise and experience beyond current mandatory retirement dates. The best way to address this problem is to build a career profile based on the paradigm of “experience and performance.” Given the general structure of DOPMA and working within the constructs of a competitive category, this could be accomplished by providing grade relief, ceiling relief, and end-strength relief. Grade relief would allow the services to better match the service member with the positions that need to be filled; ceiling relief would allow officers who are not promoted to the grade of O-7 to serve longer than the current limit of 30 years of service; and end-strength relief would mean that if the overall requirements for intelligence officers exceeded those authorized today, there would be no need to reduce the number of officers serving in other occupations to accommodate any increase in the number of intelligence officers serving. All this, however, must be done within (and adhering to) the basic concept of up-or-out.

#### THE IMPORTANCE OF MAINTAINING THE UP-OR-OUT SYSTEM

The first imperative when considering changes to today’s personnel system is to examine the impact on the experience profile of the force ten and 20 years in the future. For the vast majority of our military workforce, the people we recruit today will be the journeymen we need ten years from now and the leaders we have 20 years from now. In some specialty areas, new programs of lateral entry may provide added flexibilities, but the vast majority of military skills will still be acquired along the path of in-at-the-bottom-up-through-the ranks.

The plain fact is that the military we build today must be capable of winning wars in the future, but we don’t know when those wars might come. In the aggregate, the year-of-service profile is the best indicator of the readiness of the force to

<sup>5</sup>“Officer Grade Limitation Act of 1954 (H.R. 7103),” Senate Committee on Armed Services hearing transcript, Washington, D.C.: Government Printing Office, 1954, p. 8.

<sup>6</sup>Charles Nemfakos, Bernard D. Rostker, Raymond E. Conley, Stephanie Young, William A. Williams, Jeffrey Engstrom, Barbara Bicksler, Sara Beth Elson, Joseph Jenkins, Lianne Kennedy-Boudali, and Donald Temple, *Workforce Planning in the Intelligence Community*, Santa Monica, Calif.: RAND Corporation, RR-114-ODNI, 2013, pp.51–73.

go to war at any point in the future. Maintaining the appropriate experience profile is critical.

The key to achieving the desired experience profile is maintaining an adequate flow of people into and through the force over time. We have done this with the so-called up-or-out promotion system. While there are many ways that such a system can be managed, there must be a way of ensuring sufficient turnover to constantly revitalize the force. The flow out of the force should not be just at the end of a career. Our officers need to progress or leave. They must not be allowed to stagnate in place.

The one thing that distinguishes a military personnel system from our private sector or our government civilian personnel system is we have had the tools and use them to maintain the required experience profile over time. Some have argued that we should institute a system that allows people to stay in place as long as they perform their job adequately. In fact, we have done this in the past, specifically during the drawdown during the early 1990s, and the result was that when we went to war in Afghanistan and Iraq, there were shortages of critical midgrade personnel; the same personnel we failed to recruit a decade earlier. I appreciate how hard it is to tell a young service member who is doing a good job today and wants nothing more than to be left alone to continue doing that job that he or she must advance or leave the service, but that is exactly what we must do to ensure that our force is always ready. If service members do not advance, they must be sent home to make room for the next generation because it is the next generation, and the ones that come after it, that will carry the fight in the future.

Some might think it strange for me to be arguing that we must maintain the flow of personnel through the military just as I am arguing that in selected areas we should extend careers, but I assure you that there is nothing contradictory in what I am proposing. Extending careers does not negate the need to move people along in their careers; it means having different points in time when people move up or out. It means more time for people to learn their craft, less turnover, longer tour assignments and more ability to take advantage of career-broadening opportunities, including those gained from joint assignments, as well as outside of the military at school and in assignments with industry.

#### CONTROLLING THE COST OF MILITARY PERSONNEL

Finally, I would like to comment on the cost of military personnel. Military personnel cost more today than in the past because we are paying them better—and by the way, they have fewer complaints. I don't believe that we think our military personnel are being underpaid today, which was a concern when I last served at the Pentagon. In my judgment, the best way to reduce overall personnel cost in general is to increase the average years of service we get out of every new recruit or officer, even as we maintain the appropriate years-of-service experience profile. I do recognize that, as always, the devil is in the details and the general argument may not hold for all occupations. It depends on the costs of accession and training, and on the structure of pay. In general, however, selectively extending the length of careers to 40 years of service is likely to be cost-effective. Remember, while we might pay individual officers more in current military compensation, there are relatively few of them. Also, as was true when Congress voted to increase the pay of senior enlisted personnel in 2002, there is a very positive message sent through the force and we would expect to see increased retention as service members look forward to the possibilities of serving for a full career.

#### SUMMARIZING

To summarize this quick overview of reforming the military personnel system, here are a few points to that I think this committee should keep in mind:

- Keep your eye on the future, particularly what any change will do to the experience profile of the force in the future.
- Maintain the desired experience profile over time.
- Ensure adequate flow of personnel; i.e., maintain the basic up-or-out concept.
- Be as flexible and permissive as possible in allowing the services to manage the assignment of personnel.
- Lengthen careers beyond 30 years of service, particularly for the specialty corps.

[END OF TESTIMONY]

[NEXT IS A DESCRIPTION OF ARMY STRATEGIC INTELLIGENCE]

ARMY STRATEGIC INTELLIGENCE <sup>7</sup>

Strategic Intelligence functional area provides a focused, trained corps of strategic intelligence professionals to Army organizations, combatant commands, DOD, the Joint Staff, and interagency communities with tailored intelligence required for the development of national security policy and theater strategic plans and operations. The Strategic Intelligence officer acts as the premier expert on strategic and global intelligence activities that accomplish U.S. strategic objectives developed through unique training, education, and recurring assignments at theater, national, Joint, DOD, and interagency communities. The Strategic Intelligence officer translates national security strategy into intelligence strategies. Providing premier intelligence in a strategic context, the Strategic Intelligence officer enables decisionmakers and warfighters to dominate the battlespace. The Strategic Intelligence officer represents Army interests at the Joint and interagency communities. Strategic Intelligence officers work primarily at echelons above corps worldwide. [They fill positions] in intelligence units, headquarters, national agencies, and unified commands. Strategic Intelligence officers . . . participate in all phases of the intelligence cycle. The Strategic Intelligence officer is an agile, national- and theater-level and interagency expert—who leads, plans, and directs all-source analysis, intelligence systems, and intelligence policy and programs—supporting key decisionmakers, policymakers, and warfighters in an interagency, joint, coalition, and combined environment. Exercising broad responsibility and authority, the Strategic Intelligence officer is capable of integrating interagency activities and interacting with the foreign intelligence services to produce predictive strategic intelligence to advise policymakers and combatant commanders to deliver overwhelming advantage to our warfighters, defense planners, and national security policymakers.

Chairman MCCAIN. Thank you.

Mr. Hale.

**STATEMENT OF HON. ROBERT F. HALE, FELLOW, BOOZ ALLEN  
HAMILTON**

Dr. HALE. Well, thank you, Mr. Chairman, Senator Reed, members of the committee.

I'll focus today on two broad issues: military compensation, or slowing its growth as free money for readiness, and also some selected personnel issues.

Let me just say, I appear here as a former Comptroller and as an individual, not necessarily representing my current organization.

Let me turn first to compensation. As a share of the total DOD budget, military compensation has stayed roughly constant since 2000. It's up a couple of percentage points, but not much. But, those constant percentages mask important shifts. As the DOD budget grew sharply after 9/11, compensation costs grew with it, fueled by increases in healthcare costs and also pay raises. As the budgets then turned down in 2010, the Department sought to slow the growth in military compensation. It made this decision not to alter, not to shoot for any particular percentage, but, rather, to free up funds to sustain readiness and modernization, but particularly readiness. And the proposed compensation reforms also sought to modernize the compensation system and make it more effective.

Now, conventional wisdom holds that the Congress turned the Department down almost all of its—with regard to almost all of its requests. In fact, Congress approved a number of DOD proposals,

<sup>7</sup> Department of the Army, Commissioned Officer Professional Development and Career Management, Washington, D.C., Department of the Army Pamphlet 600-3, 2007. P. 251.

including initiatives to slow growth and payments to healthcare providers, to raise care—TRICARE fees modestly, to reform pharmaceutical copays, and others. Congress even took the lead on some issues, principally military retirement reform.

Taken together, these changes reduced DOD costs by about \$6 billion a year, freeing up substantial funds to help the Department return toward full-spectrum readiness. I think the Congress deserves more credit than it gets, and principal credit—or significant credit certainly goes to this committee.

But, the job's not done. Further efforts to reform compensation and slow the growth to free up funds need to take into account the recruiting and retention climate, which obviously is tightened. But, the key candidate for future reform is the military healthcare system, as the Chairman said in his opening remarks. The current system often requires copays that are zero, or nearly so, which can lead to overuse of care. And the system's costly to administer. And also, despite some overuse of care, there's substantial underutilization in military healthcare facilities, which results in wasteful spending. And finally, there are access and quality issues.

Congress has before it two proposals, a DOD proposal for several years, and then the one from the Military Compensation and Retirement Modernization Commission. The DOD proposal would certainly be the easiest to implement. It would result in some modernization and savings. And, I might add, more than three-quarters of the savings in DOD proposals—in the DOD proposal comes not from the pockets of the beneficiaries, but from more selective use of care and from the reductions in the cost to administer the system.

The Commission version offers beneficiaries a choice, and that is certainly a substantial advantage and, I think, warrants a careful look, but it isn't clear, at least to me, how the system—how the Commission proposal would maintain the system of military treatment facilities, which must remain in place, in some degree, to train future healthcare providers for war. And so, I think significant further work would be needed before you could enact the Commission proposal.

In sum, the military personnel system has received substantial attention in recent years, and needs continued attention, but I am more concerned about the system that DOD manage—uses to manage its career civilian employees. Listening to debates over civilians, I sometimes feel like critics believe that the 775,000 DOD civilians mostly work at the Pentagon, maybe making PowerPoint slides or testimony. In fact, about 80 percent of them work outside the Washington, D.C., area, they perform many necessary support functions, they fix some DOD weapons, they teach military kids, they provide military healthcare, they manage bases.

The system that recruits, retains, and manages these civilians has major problems. I'm not in a position to offer a comprehensive assessment or reforms, but let me use my experience in DOD to offer a couple of ideas:

First, it takes too long to hire civilians. The Chairman mentioned this in his opening remarks. This committee made a start by granting expedited hiring authority for acquisition professionals. You might want to consider expanding that. One group that would come



to my mind is professionals with expertise in the—and experience in the audit of financial statements.

Poor performers are another issue. DOD has a small proportion of career civilian employees who do not perform well. Executives working for me spent way too long disciplining and, when needed, attempting to terminate members of this relatively small group. Most recent authorization legislation makes a start here, allowing performance to be considered in RIF [Reduction in Force] actions and expanding the probationary employment to 2 year—period of employment to 2 years. It is a good start. But, DOD and Congress might consider establishing review points throughout a career when poor performance can lead to termination. Some safeguards would be needed, but they have to be more streamlined than the onerous safeguards and lengthy proceedings that are required today.

Let me also briefly address the requirements for civilians. Civilian personnel needs, in my experience, tend to be established job by job, making it hard to debate what numbers and types of civilian employees are needed in the aggregate as warfighting and support needs change. We have much better information to debate the numbers needed of the military.

Even in the—so, I think Congress should challenge DOD to provide a better basis for determining, in the aggregate, the number and types of civilians that are needed to meet warfighting requirements—but, even in the absence of improved requirement tools, it's clear that DOD needs to reduce the size of its civilian workforce, but it needs to do so in a way that allows it to continue to meet support needs. Some key steps that would permit that require congressional support, including contentious ones, like permission to close unneeded military facilities where a lot of civilians work, and to downsize or close some military treatment facilities.

Finally, in my view, we employ too many sticks and not enough carrots in dealing with our career civilians. In recent years, we've furloughed civilians twice, we've frozen their pay three times. Some in Congress criticize career civilians, seemingly treating them not as valued employees, but, rather, as symbols of a government that they believe is too large.

DOD and Congress need to provide more rewards for good performance—a few more carrots, if you will. Let me suggest a couple of actions:

Today, many career civil servants who are selected as members of the Senior Executive Service [SES] receive little or no increase in salary, even though their responsibilities grow sharply. And I might add, in my experience, it discourages good people from considering taking SES roles.

Press support or reports suggest the administration is considering trying to increase SES pay, at least to the minimum level of GS-15 [General Schedule]. That would be an incremental step, but one I like better as an incremental step would be for DOD and Congress to expand the proportion of SES performers who are eligible for presidential rank awards, perhaps focusing on the awards at the meritorious level. These rank awards are made competitively through board selections. They offer both prestige and some substantial financial rewards. And what I like about them is that they

direct the rewards to the SES members who are performing exceptionally well.

Finally, DOD and Congress need to harness the power of praise as a way to recognize the importance of DOD's career civilian employees. We're very good at recognizing the accomplishments of the military. And that should continue.

While I served as Comptroller, I always tried to thank the men and women in uniform and the civilians who support them. I hope more senior leaders will do that regularly. And DOD, along with this committee and others in Congress, could help by seeking opportunities to recognize the successes of civilian employees. Greater recognition would acknowledge the important role that DOD civilians play in maintaining our Nation's security, and it would help civilians feel that they are, indeed, valued employees.

Throughout my government career, I have been privileged to serve with many highly capable DOD personnel, civilian and military. I hope the thoughts I've offered today can play a small role in helping these men and women who do so much to support our national security.

With that, I'll stop, Mr. Chairman, and join in questions at the right time.

[The prepared statement of Mr. Hale follows:]

#### THE PREPARED STATEMENT BY HON. ROBERT F. HALE

I appreciate the opportunity to testify on Department of Defense (DOD) personnel issues. DOD is one of the largest employers in the United States, and the military compensation system is one of the most complex. Given this size and complexity, I cannot address all of the issues related to DOD personnel. Instead I will focus on two issues: efforts to reform and slow growth in the costs of military compensation and selected civilian personnel issues.

#### REFORMING AND SLOWING GROWTH IN COSTS OF MILITARY COMPENSATION

As a share of the total DOD budget, military compensation costs have remained roughly constant since 2000. But the constant percentages mask important shifts. As DOD budgets grew sharply after 9/11, compensation costs also grew sharply. Health care costs, especially for the new TRICARE for Life program, caused much of this growth. But substantial increases in basic pay, along with increases in basic allowance for housing to eliminate out-of-pocket costs, also fueled growth.

*Past Success in Reform and Slowing Growth.* After 2010 total defense budgets began to decline, and DOD faced legal limits on its total funding put in place in 2011. In response, the Department sought to slow the growth in the costs of military compensation. It made that decision, not to alter the percentage of funding devoted to compensation, but rather to maintain recruiting and retention while freeing up funds to sustain modernization and, importantly, readiness. As the military ended most of its large-scale combat operations in Iraq and Afghanistan, regaining full-spectrum readiness required added funds. Proposed compensation reforms sought to help meet readiness needs while also modernizing the compensation system and making it more effective.

Conventional wisdom holds that Congress refused most of DOD's requests for changes in laws needed to alter the military compensation system. While Congress did turn down some DOD requests, it approved a number of them and even took the lead on key issues. Examples of key enacted changes over the past five years include:

[Questions for the record with answers supplied follow:]

- *Health care changes.* The Administration permitted DOD to use the federal ceiling price for pharmaceuticals, which substantially reduced DOD costs. Congress permitted DOD to use Medicare rates to reimburse for outpatient care and care at small hospitals. It also agreed to modest increases in fees for retirees who use TRICARE. Finally, Congress permitted DOD to restructure and increase pharmaceutical co-pays in ways that steered beneficiaries toward more cost ef-

fective approaches such as generics and mail order delivery. Congress even went beyond DOD requests and mandated use of mail-order delivery for follow-on pharmaceuticals.

- *Pay raise limits.* For the past three years the President has exercised his existing authority to limit military basic pay raises below the levels that would have been mandated by the private-sector formula. Because basic pay makes up a large share of compensation, these limits contributed significantly to freeing up funding for readiness and, to date, have permitted the military to recruit and retain needed personnel.
- *Military retirement.* This year Congress took the lead in reforming the military retirement system to provide military members with a new 401(k)-like fund that includes matching government contributions while also reducing the size of pensions for future retirees who serve 20 or more years. The changes will reduce DOD accrual costs for military retirement.

Taken together, these changes reduced the DOD costs for military compensation by more than \$6 billion a year. These savings, which will continue in perpetuity unless they have to be reversed to meet recruiting and retention needs, did not come close to offsetting the large reductions in DOD funding mandated by the Budget Control Act of 2011 and other decisions. However, the compensation changes made available significant funds for readiness and achieved some needed modernization, especially for the military retirement system. Importantly, even after slowing growth in compensation, DOD has so far been able to recruit and retain needed personnel—the key goal for the military compensation system.

*Job Not Done.* Despite these notable successes, further efforts to reform compensation and slow the growth of costs should be undertaken. DOD and Congress must proceed carefully to ensure that, in the face of improvements in the economy, the Department can still recruit and retain needed personnel. So long as that goal is met, further reform efforts can lead to a more effective compensation system and free up funds to support readiness and modernization.

As part of these efforts, continued limits on the size of basic pay raises may be appropriate if the recruiting and retention climate permits. Limits on basic pay raises free up substantial funds, some of which could be used to offset the costs the compensation proposals that may result from the next version of the Force of the Future initiatives. Media reports suggest that, as part of the next tranche of initiatives, DOD is considering changes in the basic pay table to increase incentives for retention of mid-grade officers and for persons with specialized skills. These types of flexibility almost always make the military pay system more effective and should be given careful consideration. Changes in out-of-pocket costs for basic allowance for housing and reduction in the commissary subsidy may also be appropriate.

The key candidate for future reform is the military health care system. The current system often imposes co-pays that are zero or nearly zero, which tends to lead to overuse of care. The system is also costly to administer. In the TRICARE portion of the system, the share of costs borne by beneficiaries has fallen well below the levels Congress mandated when TRICARE was established. Nor are benefit issues the only problem. Despite some overuse of care, there is substantial underutilization in military health care facilities, which results in wasteful spending.

For the past several years, DOD has proposed revisions that would modernize the TRICARE system and make it more effective. Changes including combining the three major TRICARE plans into one plan and imposing modest co-pays when retirees and active-duty dependents seek treatment (care for active-duty personnel would remain free). The co-pays are designed to reduce overuse of health care and to provide more incentives for use of military treatment facilities in order to improve utilization. Once fully implemented, the reforms proposed by DOD would save roughly a billion dollars a year. More than three quarters of these savings would result, not from greater payments by beneficiaries, but rather from reductions in administrative costs and more selective use of health care. Imposing fees for new entrants into the TRICARE for Life plan, along with additional changes in pharmaceutical co-pays designed in part to steer beneficiaries toward generic medicines, would generate substantial additional savings.

In its 2015 report, the Military Compensation and Retirement Modernization Commission recommended a much different approach to reform of the military health care system. The Commission approach would provide military personnel with an allowance for health care that beneficiaries could use to select from a menu of health care plans. The Commission's proposal offers beneficiaries a choice of health care plans, a significant advantage. Also, in part because the Commission proposed that retirees pay substantially more for health care, the Commission proposal saves a large amount of money—more than \$6 billion a year once it is fully implemented, according to estimates in the Commission report.

While the Commission proposal offers substantial advantages, it is not clear how the system of military treatment facilities, which must remain in place to train health care professionals for war, would be maintained. Significant further work is needed, perhaps along with a carefully designed pilot program, before the Commission plan could be implemented.

In addition to some version of these reforms, Congress needs to permit the military services to downsize or close underutilized military treatment facilities so long as reasonable patient care can be maintained and training needs met. For their part, the military services need to propose appropriate downsizing as part of the overall effort to maintain quality health care while holding down costs. Finally, as it reviews the health care system, Congress needs to address other issues such as access to care.

In sum, DOD and Congress have made important progress in reforming military compensation. This progress has freed up substantial funds that have been used to maintain readiness and modernization in the military while still allowing the services to meet recruiting and retention needs. Further reforms are needed, including consideration of changes proposed by the Force of the Future Initiatives and—importantly—reform of the military health care system.

#### SELECTED CIVILIAN PERSONNEL ISSUES

The military personnel system needs continued attention. But I am more concerned about problems in the system DOD uses to manage its career civilian employees. DOD employs about 775,000 civilians who provide support that is critical to the Department's ability to maintain national security. Listening to debates over civilians, I sometimes feel that critics believe that most DOD civilians work at the Pentagon. In fact about 80 percent of DOD civilians work outside of the Washington DC area. They fix some DOD weapons, run the Department's training ranges, and manage DOD bases. They provide health care for military personnel and teach their children. They also perform many other necessary support functions.

The system that recruits, retains, and manages these civilian employees has major problems. However, compared to the military system, it gets much less attention in DOD and Congress. This relative inattention occurs in part because career civilians work in agencies throughout government. DOD tends to defer to the Office of Personnel Management and other government-wide organizations when civilian issues arise. DOD, however, employs about half of all career civilians in the federal government. Because of their numbers and their importance in maintaining an effective warfighting force, I believe that the Department needs to take a leading role in improving the civil service system, as does this Committee and other defense committees.

I have neither the time nor the expertise to provide a comprehensive assessment of DOD's civilian personnel system and its problems. However, during my 12 years of service as a senior DOD leader, I supervised many DOD civilian employees. Based on that experience, several problems stand out:

- *Hiring problems.* It takes too long to hire career civilian employees. Organizations that I oversaw as DOD comptroller (including the Defense Contract Audit Agency and the Defense Finance and Accounting Service) hired numerous civilian employees—many of whom were just beginning their careers. These organizations lost qualified candidates because private-sector firms could hire much more quickly.
- *Problems handling poor performers.* DOD has a small proportion of career civilian employees who do not perform well. Executives working for me spent too much time disciplining and, when needed, attempting to terminate members of this relatively small group.
- *Lack of tools to set requirements and manage pay.* We have reasonable tools to help determine the numbers and types of military personnel needed to meet warfighting needs, or at least to generate information needed for an informed debate. We also have good tools to ascertain how military personnel will react to changes in compensation. Civilian personnel needs, however, tend to be established job by job, making it hard to debate what numbers and types of civilian employees are needed in the aggregate as warfighting and support requirements change. Also, we have almost no tools that permit us to judge how civilians will react to compensation changes.
- *Too many sticks, too few carrots.* In recent years we have furloughed civilian employees twice and frozen their pay three times. Some in Congress criticize career civilians, seemingly treating them not as valued employees but rather as symbols of a government they feel is too large. We also often fail to recognize

the contributions that civilians make to meeting DOD's warfighting needs. In contrast, we regularly recognize the accomplishments of our military personnel.

Because of these various problems, morale has fallen sharply among career civilians. Each year the Partnership for Public Service creates a morale index for career civilians using questions administered by the Office of Personnel Management during an annual survey. Between 2010 and 2014, the index suggests that morale for the government's civilian employees declined by about 12 percent, even while recent improvements in the economy led to morale improvements among all U.S. workers.

Employees perform best when they believe that their employer values their services and will treat them fairly. Today, unfortunately, I believe that many career civilians in DOD, and probably in other federal agencies, wonder whether their employer really values their services.

I am not able to offer a comprehensive package of solutions to these and other problems affecting DOD's career civilian employees (and in many cases, civilian employees throughout government). I am hopeful that in future releases, Secretary Carter's Force of the Future Initiatives will include recommendations for improvements in the civilian personnel system. I trust that any proposals that are submitted to Congress will receive careful consideration.

While I can't offer comprehensive reform, I have found during my government service that progress often has to occur in increments. So I will conclude my statement by proposing some incremental improvements that seem practical to me and should help improve the civilian personnel system.

Congress should challenge DOD to provide a better basis for determining, in the aggregate, the number and types of civilians needed to support warfighting requirements. Requiring a one-year study by DOD's personnel experts, perhaps coupled with an analytic organization within DOD, seems to me a good place to start. In return for better tools, Congress should stop requiring cuts in civilian personnel that are proportional to military reductions. Proportional cuts rarely permit DOD to meet its support needs.

Even in the absence of better tools to establish requirements, it is clear that DOD needs to take steps to reduce the size of its civilian workforce while continuing to meet support needs. Some key steps require Congressional support. Permitting DOD to close unneeded military bases, and to downsize or close some military medical facilities, would help DOD begin to achieve needed civilian personnel reductions without harming needed support activities.

It is also clear that DOD needs to hire more younger employees. Today DOD civilian employees under age 35 represent less than one-fifth of the Department's career civilian workforce. Media and other reports suggest that future Force of the Future Initiatives will include specific initiatives to attract more millennials into the Department. I hope that is true and that the Department (and other agencies) can move in that direction. In this year's National Defense Authorization Act, Congress also sought to help by providing expedited hiring authority for civilian acquisition professionals. As I mentioned earlier, slow hiring is a key problem in meeting civilian personnel needs. Making this expedited authority available for other skilled personnel—for example, for those with skills and experience in the audit of financial statements—makes sense to me.

Congress and DOD need to work together to help the Department deal with the relatively small number of poor performing civilians. The most recent authorization legislation, which permits DOD to take into account performance during employment cutbacks resulting from reduction-in-force (RIF) actions, represents a start. Extending the probationary period for new employees to two years also helps. But broader authority is needed. DOD and Congress might consider establishing periodic review points during a career when poor performance can lead to termination. Some safeguards would of course be needed to avoid politically motivated or inappropriate terminations, but the safeguards must be sufficiently streamlined to permit terminations without the impossibly lengthy proceedings that are required today. I recognize the difficulty of making this change, but I also know it is needed.

DOD and Congress also need to provide more rewards for good performance—a few more carrots, if you will. Let me suggest a couple of actions. Today many career civil servants who are selected as members of the Senior Executive Service (SES) receive little or no increase in salary, even though their responsibilities grow sharply. Comprehensive civilian pay reform, including pay increases for senior civil servants, would provide the best solution to this problem of pay compression. But comprehensive pay changes for senior civilians seem highly unlikely in the current budgetary and political climate. Press reports suggest that the President is considering an executive order that would urge increases in SES pay within existing limits. That action could represent an incremental step toward fixing pay compression. As another incremental step, DOD and Congress could expand the proportion of

SES performers who are eligible for Presidential rank awards, perhaps focusing on awards at the meritorious level. These rank awards, which are made competitively through a process of board reviews, offer both prestige and substantial financial rewards to SES members who perform exceptionally well. The expansion should apply to all federal agencies, not just to DOD.

Along with expansion, the Administration should be strongly encouraged to remove recent limits on the number of SES members who are eligible for Presidential rank awards. The Administration imposed these limits because of concerns about providing awards in tight budget times, but the limits have the unfortunate effect of reducing recognition and compensation for the most capable SES members.

Finally, DOD and Congress need to harness the power of praise as a way to recognize the importance of DOD's career civilian employees. DOD and Congress are both very good at recognizing the contributions of military personnel at all ranks, but less good for career civilians. While I served as DOD Comptroller, I always tried to thank the men and women in the military, and the civilians who support them. I hope more senior leaders will do that regularly. DOD, along with this Committee and others in Congress, could help by seeking opportunities to recognize the successes of career civilian employees. Greater recognition would acknowledge the important role that DOD civilians play in maintaining our nation's security, and it would help civilians feel that they are valued employees.

Throughout my government career, I have been privileged to serve with many highly capable DOD personnel—both civilian and military. I hope the thoughts I have offered today can play a small role in helping these men and women who do so much to support our national security.

Chairman MCCAIN. Thank you.  
Admiral Roughead.

**STATEMENT OF ADMIRAL GARY ROUGHEAD, USN [RET.],  
ANNENBERG DISTINGUISHED VISITING FELLOW, HOOVER  
INSTITUTION**

Admiral ROUGHEAD. Mr. Chairman, Senator Reed, members of the committee, thank you for the opportunity to share my thoughts on what I consider to be the most important issue that needs to be confronted going into the future, and that's designing the total force and putting in place the policies that enable us to attract, recruit, and retain the talent that's going to be so important.

My perspectives are based on command at sea, commanding both the Atlantic and the Pacific Fleets, serving as a Service Chief and a member of the Joint Chiefs of Staff, serving on combatant commander staffs and on service staffs, commanding a NATO striking force in the Atlantic, which is a multinational joint task force, and commanding a joint task force in the Pacific.

Nothing that I say should be construed as criticism of the great young men and women who serve in our Nation's defense in uniform and in civilian clothes. But, I think that we're at a different time, when many of the policies and rules that we administer of this force, they were derived at a different time, and the times have changed, and it's time to relook at what those changes should be, because I believe that we're rapidly approaching the point of an unsustainable mix of cost, force balance, and lethality. And that will only get worse as we continue to feed the personnel costs that have been described by my colleagues here.

I think it's safe to assume that significant top-line relief is not going to bail this out. And so, we have to look at what are the ways what we can adjust that. And because many of these policies have been implemented over time and they have interwoven with one another, layered on top of one another, it has to be looked at in its

totality. Pull one lever, and you might get second- and third-order effects that are unintended.

I think the real issues that I see is that, as we try to adjust the size of those who serve in the broad Department of Defense, the solution is always to go to the Active Force and reduce that. We, as has been mentioned, have a compensation system for the All-Volunteer Force that is really not tuned to that force. And I thank the committee for the work that they've done, particularly this year, to crack the door and begin the reform process there.

We have a uniform promotion paradigm that tends to bleed expertise away from the force to fill a hierarchical promotion model that has been in place for decades. We are bound to a well-intentioned Goldwater-Nichols legislation that achieved the joint imperative, but has caused a bloating of our joint headquarters staffs in Washington and around the world. We have a government employee and civilian contractor ratio that is significantly out of balance with the fighting force that we field today. And our civilian personnel system values longevity over merit. And we have become extraordinarily disposed to filling our service headquarters with contractors without a means of really determining the number of contractors that we have working at any given time in these headquarters facilities, and whether or not that's the optimum solution.

So, I think, as I look at it, some of the things, as we debate the size of the force, I believe the going-in position should be to hold constant the number of Active- Duty personnel, and work the other variables first of civilian employees, Guard, Reserve, and contractors.

We should reform DOPMA and tune it in a way that we can adjust the time-and-service requirements and the time-and- grade-promotion requirements for the force, but I think it has to be tuned in such a way that give the services, and even specialties within each service, the latitude to be able to make the decisions to best incentivize the people that we want to keep. And clearly, we have to change the "up or out" policy, particularly in some of the technical areas that are going to only increase in competitiveness in future years. And the one that has been mentioned and most frequently comes to mind is cyber. But, if we do that, I think we'll have to put in place some longevity pay raises so that we can keep that talent, and they'll still be able to take care of their personal obligations that they have.

With respect to Goldwater-Nichols, I really do believe that we have to maintain a legislative hammer on the Department of Defense with that joint forcing function, because if we don't, the services will likely retreat back into more tribal behavior. But, clearly, we have to adjust Goldwater-Nichols so that we cannot use it as a personnel management system, but really what it was intended for, and that's to improve the jointness of the force.

And I do think, when we get to the general and flag officer ranks, we should maintain the current requirements, but I do believe that we can lift some of the mandated requirements on some of the more junior ranks within the services.

I also believe, and jumping more to the organizational construct, that as we look at the role of joint commanders and command—and I know it's been discussed before the committee, the idea of the

Chairman being moved from an advisory to a more command position—I really do believe that civilian control of the military is fundamental to who we are, and I maintain that the best approach to that is to maintain the advisory role of the Chairman. Nor do I believe that we should move to a general staff, because it is important that we have current operational, technical, and geopolitical experience moving in and out of the headquarters so that we can make better decisions.

With regard to DOD civilian personnel management, returning to a scheme similar to the NSPS, or National Security Personnel System, I think is very important. I had the opportunity, when it was in effect, when NSPS was in effect, to implement it in several commands, and, within months, you could see the change: young people enthused, eager; where merit mattered, and not longevity; where they didn't have the concern about, "If I'm the last one to be hired, I'm going to be the first one to leave, should there be any force cutbacks." I think that we really need to look at putting that back in place.

And we have to get our arms around the contractor numbers within our headquarters. Right now, we can't do that. If we do get a number, it's normally time late. And it's a very amorphous thing to work with. Similar to what we have with headquarters authorizations for uniformed personnel, for old-time equivalent for government civilians, I think we should set numbers of contractors for the headquarters, and not let that float, because if we go after headquarters numbers, and we drop uniformed government civilians, the headquarters, in my view, will not change in size; we'll just add more contractors into the mix. And the problem with that is, when a headquarters gets big, it makes more work for other people and for themselves, and it justifies its existence that way.

So, those are some thoughts, and I look forward to your questions.

[The prepared statement of Admiral Roughead follows:]

THE PREPARED STATEMENT BY ADMIRAL GARY ROUGHEAD, U.S. NAVY (RETIRED)

Chairman McCain, Ranking Member Reed, members of the Committee thank you for the opportunity to offer my thoughts on Department of Defense (DOD) personnel reform and strengthening the All Volunteer Force. I applaud and welcome the more strategic view this Committee has taken in assessing global security challenges and the efficacy of our Armed Forces today and in the future. Nothing is more important to our nation's security strategy than getting the force design right and optimizing the total personnel strategy to that design.

In addition to command at sea I have had the privilege of being a Service Chief and a member of the Joint Chiefs, serving on Combatant Command (COCOM) and Service staffs, and commanding a NATO Striking Force in the Atlantic and a Joint Task Force in the Pacific. But I spent my life in the U.S. Navy because of the extraordinary young men and women who serve in it. It was my pleasure, every day, to sail and serve with them and there was no higher honor than to have been afforded the opportunity to lead them. Any comments and recommendations I make are not criticisms of their dedication, commitment and contribution to the hard and important work they do around the world.

The fundamental question I inferred from your letter of invitation was: is the total DOD force optimally organized, sized and compensated for the security demands of today and those we will likely face in the future? The answer is—no. The organization and processes under which we operate, fight and manage the force were derived in different times. The world has changed. We have not and do not lack for recommended solutions. Numerous studies over the years have examined organization and processes. Many recommendations have been implemented, many have not. The



solutions are organizationally and mechanically simple, but the personal impact on those who serve and have served is largely distasteful and the political will, in the information environment in which we live, more doubtful. The work you are doing at this time is critical because we are at a point where the current force is approaching an unsustainable mix of cost, force balance and lethality. We continue to sacrifice procurement and the necessary maintenance and training funds of a shrinking fighting force to feed the current personnel structure. One credible estimate projects that with personnel and operation and maintenance costs growing, as they have been at four and two percent respectively, those two accounts will consume 86 percent of the allowed DOD budget by 2021 and all of it by 2024, the last year of the second term of the next president. As much as we all desire, significant topline relief is not likely. Piecemeal solutions will not work. A total examination and comprehensive revision of the manpower organization and governing personnel legislation and policies of the DOD is required.

We continue to attempt to reduce manpower costs by cutting the number of those who are on point—active duty uniformed personnel. We have an all volunteer force with a compensation and benefit system that is not tuned to that force and a uniformed promotion paradigm that bleeds needed technical expertise to fulfill a one size fits all hierarchical promotion model. We are bound to well-intentioned and needed joint forcing legislation (Goldwater-Nichols) that has achieved the joint imperative but has ballooned headquarters' overhead. We have a uniformed, government service civilian and service contractor ratio conspicuously out of balance to our fighting force. We attempt to attract and retain quality new generations of government civilian employees with a civilian personnel system that values longevity over merit. We have become exceedingly disposed to headquarters service contractor support without knowing how many service contractors we are paying for and whether they are the optimum solution.

*Sizing the Force.* The number of active duty uniformed personnel has fluctuated since 9/11. Ground force numbers appropriately increased during the high demand years in Iraq in Afghanistan. Active duty Navy and Air Force personnel declined, but in the aggregate the total number of active duty personnel has not increased that much. The civilian workforce, after early post 9/11 growth, has remained illogically stable with some growth occurring within the acquisition community at a time when we are buying less. Reserve and Guard numbers are rarely in question; and, while public debates rage over reductions in active uniformed personnel, there is relative silence regarding the other components of the force. Further force reductions should begin with holding active uniformed numbers constant and reducing the other components, primarily civilian numbers.

*Compensation and Officer Promotion.* The changes to compensation begun by this Committee are positive and relevant to new generations who will serve in our military. Regarding officer promotion and retention, it is time to reform the Defense Officer Personnel Management Act (DOPMA). Time in service and time in grade promotion milestones should be tuned to the needs of each Service and to specialties within each Service. This will be key to incentivizing service and can make a difference in retaining quality and skill. Similarly, the 'up or out of DOPMA' should be eliminated in skill areas determined by the Services. This will be particularly important in areas such as cyber where broad competition for talent will be intense. Retaining experience and skill in a niche area will be more important than promotion opportunity. This change will require a longevity and skill pay scale for those who do not promote but are committed for the long haul to their area of technical expertise.

*Goldwater-Nichols Legislative Reform.* Without the forcing function of the Goldwater-Nichols DOD Reorganization Act of 1986 we would not be the unmatched fighting force we are today. The joint imperative must be sustained; however, adherence to Goldwater-Nichols today is more synonymous with promotion requirements than war-fighting skill and experience. Those promotion requirements have caused the size of joint staffs (COCOM and JCS Staff) to increase in size based on assignment throughput rather than necessary and appropriate work. Concomitantly, it has reduced the attractiveness of Service staff assignments where expertise, experience in and the responsibility for manning, training and equipping of our forces reside. Joint promotion requirements for Flag and General officers should be retained, and Services should manage joint assignment strategies and incentive strategies to support senior leader requirements. Mandated numbers and promotion ratios between Service and the Joint Staff should be relaxed to best spread skill, talent and relevant experience among Joint and Service staffs. This more limited approach is consistent with addressing and tailoring to that which Service and joint organizations need rather than incentivizing all.

Recent testimony before this committee addressed the responsibilities of Combatant Commanders, the Chairman of the Joint Chiefs of Staff and the nature of their staffs. In the case of the former, the trend to Joint Task Forces leading the fight has called into question the role of the Combatant Commander. That is a behavioral not an organizational problem because senior headquarters and leaders tend to bypass the chain of command. Combatant Commanders must command and be accountable for operations across the spectrum of operations, including combat. Their authority and accountability must be seen in their respective region or function as absolute and continuous. Joint Task Forces will remain the optimum organization for focused operations but the COCOM must be accountable for effects and outcomes. The tasks and functions of COCOM staffs should not replicate those of subordinate Joint Task Force or functional staffs and COCOM staffs must be sized for oversight not redundancy.

Nothing speaks more to our nation's principle of civilian control of the military than the advisory role of our most senior uniformed leaders, particularly the Chairman, Joint Chiefs of Staff—that should not change. With regard to recent musings and proposals regarding creating a 'General Staff,' this could potentially create an elite military entity that could generate outside influence while limiting the infusion of recent operational, war-fighting, and technical experience into joint staffs in our rapidly evolving world.

*DOD Civilian Personnel Management.* Our nation is fortunate indeed to have dedicated men and women who are drawn to and take great pride in public service. As previously mentioned, the number of civilian personnel in the DOD must be rationalized with the number serving in uniform. Additionally, the management of that force should value merit over longevity. It was my duty and pleasure to have implemented the National Security Personnel System in several commands when it was in effect in a previous administration. The effects were quickly apparent—increased interest in government service, greater optimism regarding being rewarded more rapidly for hard work and innovation, and less concern for being the first to be let go if the last to come aboard—quality and hard work mattered.

*Staff Size and Service Contractor Accounting.* The number of people in an organization should be a function of work to be performed. We account for and control uniformed personnel and government civilian personnel through end strength and Full Time Equivalent (FTE) authorization. There is no method to account for service contractors on staffs; accordingly, staff size can float based on money available rather than work to be performed. Any count of contractors on a staff is vague and time late, and staffs can grow with limited control and awareness. Without more disciplined control in this area right-sizing organizations and staffs will be a mirage. While not perfect, creating a contractor personnel authorization at the service and joint staff level, i.e. CPN [contractor personnel Navy] (in the case of Navy) or CPA [contractor personnel Army] (Army), etc. is a way to stabilize, monitor and control the size of headquarters. Once stabilized and controlled the work of debating and defining the appropriate roles and mix of government civilian versus contractor can take place. Absent that we will continue to attempt to design an optimal total force using nebulous variables.

Personnel management, especially reforming compensation and right-sizing overhead, is hard, complex and politically challenging. My comments and recommendations touch on what I consider to be the major areas of needed reform. I am hopeful they are helpful, and I look forward to your questions.

Chairman MCCAIN. Well, thank you, Admiral.

And, Admiral, I was just—not long ago, read a wonderful book called "The Admirals" about five-star admirals in the Navy in World War II. And I noticed with some interest that Admiral Nimitz, at one point in command, ran a ship aground. Do you think that's possible today?

Admiral ROUGHEAD. Senator, I think we have some recent cases where we've done that, but I will tell you that the fitness report that was written on Admiral Nimitz after he ran a ship aground was on the door of my office as I walked out every night. And to me, I think it's important that we still give people the latitude to make mistakes and move on.

Chairman MCCAIN. Do you think that's the case?

Admiral ROUGHEAD. I know that we have, in recent years, allowed some people who have made some significant mistakes or errors in judgment to move on.

Chairman MCCAIN. Dr. Rostker, you bring up a really fascinating—there's many aspects of this issue. I mean, it's really a—this is a aspect where there are many different facets of it, but you're advocating a—changing the current 30-year retirement into 40 years, which, I think, given longevity and capabilities and experience and knowledge, is something that ought to be considered. But, what about the fact that there are specialties that put a premium on physical strength and fitness? How does this work? And I'd be interested in the other witnesses' view of this. This would be a huge change.

Dr. ROSTKER. And I—I agree with you, and I think that we have to address the needs for each. In my state—in my oral statement, I made the point about not taking on the issue of youth and vigor in the combat arms, but I would also point out that all of the storied admirals of World War II would not have been around, they would all have been retired under our current personnel system.

The issue becomes how we manage the specialty force. And we've heard here about Goldwater-Nichols. Goldwater-Nichols has, basically, added 5 years of career content to an already jammed career. And it has deprived the services of the talents of many officers who are being jointed at the time in previous years they would have learned how to manage the corporate entity. We send people to school. The Secretary is out, talking about new initiatives for time with industry. And yet, we're going to send people home when they're 52 years old in the acquisition corps and planning and things that don't require youth and vigor? Can you imagine being a corporation and saying to the majority of your acquisition executives, "You've reached 52. Go home"? That's when they've learned their craft. We do that with FAOs [foreign area officers], we do that with the intelligence community. The hardest fill jobs in cyber are not the hackers, but the people who are managing hackers. But, we'll send them home when they reach 52—52, of course, being 30 years from the time of commission.

So, I think we have to break the one-size-fits-all paradigm, and address your concern for youth and vigor, and address my concern for the specialty corps as we build career structures that make sense for the individual skills that are needed for the future.

Chairman MCCAIN. Sometimes that could be as short—early age as 48—

Dr. ROSTKER. It could be.

Chairman MCCAIN.—in some cases.

Dr. Chu.

Dr. CHU. I couldn't agree more with the notion that we ought to look at variable career lengths. And I think the retirement reform you enacted this last—in this current authorization act opens the door for the Department to begin moving that direction.

DOPMA's current 30-year ceiling is an issue. There is some latitude in the statute to extend in order to recall people from retired status. But, that's not really a panacea as an option. Congress, in the last decade, moved to loosen some of the age restrictions, which is another problem. Some people join the military late, and so they

might be the 60-year-old acquisition executive, and we'd still like to keep them. And I think those—that greater latitude is very helpful.

But, I think, fundamentally, it—it's not about a particular constraint, it's about—the paradigm the Department follows, that everybody should look—as you said—more or less the same. And I think that Admiral Roughead touched on this in his remarks, that we're grooming all officers to be Chief of Staff. That's not true. Most officers are not going to be Chief of Staff, as is obvious from an arithmetic perspective. Many are wanting a fulfilling career, where they move to a middle management or a middle level of expertise, and they continue to serve in that level for a longer period of time.

And so, my play would be to encourage variability. First, the Department needs to be focused on what experience mix it wants, by skill area, both officer and enlisted, as a guide to what that variability should look like. So, in some areas, where youth and vigor is essential, you might actually want somewhat shorter careers. You already have a problem with some people hanging on, so to speak, as we all know, as they get to 15, 16, 17 years' service. Congress honors that with a sanctuary. Eighteen years of service, you get there, you have to really commit a crime not to get to 20 years. That's a mistake. The new retirement system allows you to say, "It's time to leave." And you can take a significant prize home with you. But, some other people ought to stay for much longer periods of time, as Dr. Rostker argued. It—senior command, senior experience in various specialized fields—medicine is an example of that career track, as well. And we ought to retain people for longer periods of time. So, I think it's the issue of variability in career length that ought to receive attention, not necessarily just extending everyone.

Chairman MCCAIN. Mr. Hale, your view.

Dr. HALE. I think it's a good idea to look carefully at this. I mean, it would be a far-reaching change, and it could have significant effects on costs and other things. But, the longevity trends, and, as Dr. Rostker pointed out, the idea of sending home experienced acquisition or financial professionals or others, at that matter, at ages 52 doesn't make much sense. And so, I think it is definitely worth looking at.

Chairman MCCAIN. Senator Reed.

Senator REED. Well, thank you very much, Mr. Chairman.

And, gentlemen, thank you for your testimony.

It strikes me—and it is a point Dr. Rostker made, but I think everyone echoed it—is that anything we do will have an effect about 20 years from now, when you work through the system, which begs the question, What will the military look like 20 years from now?—which leads another question, Who's going to tell us what it should look like? And how do we get that information from the Department of Defense.

Then, to go Dr. Chu's point, this is right now very much fragmented and culturally distinct. You know, the Army employed copious numbers of warrant officers to fly helicopters in Vietnam because they needed them. Today, we have drone operations, but they have to be Air Force culture, qualified pilots and in the career path

to move up in command squadrons of F-16s, et cetera. So, I think this just—I want—we'll start with Dr. Chu and go down—comments about, How do we, the Congress, get the Department to focus on the force 20 years from now in a coherent way across all the different services and components of the services?

And, Dr. Chu?

Dr. CHU. My suggestion would be to ask the Department, in its annual presentation of the President's budget request, to speak to why they chose the personnel mix and their cultural norms that are embodied in that document. So, I would start the conversation with, Where are you today? And why did you make those choices? And do you think those—and, to the Department, the challenge would be, Why do you think those choices are good for the—what the force is going to mature to look like in 5 years, 10 years, 15 years, 20 years, et cetera? I would acknowledge, no one can foresee exactly what the force characteristics are going to be 20 years from now. And, in fact, I think where that conversation leads is encouragement, particularly under current circumstances. So, it's not like the Cold War, where you had known opponent and a view of how a conflict might unfold. We don't know. And therefore, I think the real issue in looking forward is, Have—Has the Department offered for the Congress' consideration, a reasonably rich set of hedging choices so that if we're wrong, as we're likely to be, as Secretary Gates has testified repeatedly, we have some backup plan, some foundation, particularly from a personnel perspective, which we can build?

But, I'd start by challenging the Department to explain, How did you get this Active Duty figure? How did you decide the Reserve-component number? Is it something other than just history of what you did last year? What about Federal civilians? All right? That will set up a scramble in the Department, because civilian manning is largely a decentralized decision. There'll be some preparation time needed for people to give you a reasonable answer. And what about the contractor force, which I think, as my colleagues this morning have testified, is largely a safety valve for the Department. So, you constrain Active Duty, you constrain Reserve numbers, you constrain Federal civilians. What pops out, as long as people have money, is they hire contractors instead.

Senator REED. Dr. Rostker, please.

Dr. ROSTKER. Well, I'd like to invoke the great American philosopher Yogi Berra. Yogi said, "The future ain't what it used to be." And I think that's right.

First, we need to put the "p" of planning back into PPP [Program Protection Plan]. We're not doing that. We're just programming.

We have a good idea of what our capabilities will be, to a fair amount of the force, the majority of the force, because it's tied up in our capital stock. So, the first thing we need to be able to do is man our squadrons and our aircraft carriers and our bomber force that we're building. We know the mechanic needs, the pilot needs. Those projections are fairly straightforward. And when I talk about the experience profile, I'm talking about that.

The unknown is the flexibility for dealing with ISIS [Islamic State of Iraq and Syria], the growth in Special Ops [Operations], and their flexibility is the most important thing. I once did a paper

for the Guggenheim Institute about thinking about the last—the next war. And I—and everybody else who did papers had very specific notions about the next war. And I used the Yogi Berra quote.

The thing that distinguishes the Defense Department is that we bet on a lot of horses. We didn't close down the cavalry until we knew that tanks were—we have a long history in the Navy of battleships and aircraft carriers fighting it out until we knew what was going on. And that redundancy in our services and within our service has proven to give us the flexibility to be able to adjust to the future. And flexibility is the key.

Senator REED. I have very little, if no, time, Dr.—Mr. Hale and Admiral Roughead. Any comments?

Dr. HALE. No, I don't have anything.

Chairman MCCAIN. Admiral?

Admiral ROUGHEAD. I would take a little different tack. I think that the ability for the Department to reform itself—I question that. The most significant change that's taken place in the U.S. military in the last 50-60 years was the creation of the All-Volunteer Force. It's not the technology or anything. It's All-Volunteer Force. That was produced by the Gates Commission. Thomas Gates was an opponent of the All-Volunteer Force. He was the chairman of it. But, yet, it created the military we have today, which I submit is one heck of a military. And so, I think what we really need to do is to bring the same flavor of people together to really look at this in its totality. And there's going to have to be some china broken, and that normally does not happen within a bureaucracy.

Senator REED. Thank you very much, Admiral.

Thank you, gentlemen.

Chairman MCCAIN. Senator Fischer.

Senator FISCHER. Thank you, Mr. Chairman.

As we're looking ahead 10, 15, 20 years, and trying to do this planning, and comparing it to where we were when Goldwater-Nichols reforms were put into place, how can we—carry on with this conversation—how can we achieve the flexibility without throwing out a lot of the reforms that were made under Goldwater-Nichols? If we look at joint duty, for example, and if that is needed in the future, if it's appropriate in the future, or does it just add on to more headquarters staff? How—do we form the commission, Admiral, to get into the weeds on every reform that's in there, and then figure out a way to be flexible?

You had mentioned we need to change that “up and out” policy. And, Dr. Rostker, you had mentioned that the force must not be allowed to stagnate in place. But, yet, I think we're going to need people to remain in place longer to achieve the skills that they need to give them the flexibility for the challenges that we face in the future. You know, you can look at cyber. A few of you mentioned that. That's going to take experts, it's going to take people who can respond quickly to change as that environment changes.

So, I would just ask your opinions on that, if we could start with you, Admiral.

Admiral ROUGHEAD. Yes, ma'am. And I would say that, one, I don't think a commission similar to the Gates Commission gets into the aegis. I think that they can generate the design of the total force that will be required going into the future. I—but, I also be-

lieve that—particularly in Goldwater-Nichols, that we’ve constrained ourselves with some of the requirements that are there. By forcing the joint requirement down onto the major, lieutenant, commander level, what we have done is, we have basically said—sent the signal that staff duty is more important than honing your warfighting craft.

We have also, by putting in the requirement that the service staffs can’t promote at a rate higher than the joint staff, we’ve disincentivized people from serving on service staffs, where we man, train, and equip, and where most of the money of the Department is spent. And so, we’ve lost that talent pool and experience and expertise.

So, I think that, in Goldwater-Nichols, we can float that requirement higher. But, it also, as I said, has to be done in conjunction with some of the other policies. The fact that we have may have a good cyberwarrior who is not a qualified joint officer, and allow that person to stay in the Navy longer, or in the military longer, that’s okay. So, I think we have to look at how all of these things work together. But, I think that we’ve forced the joint requirement down too low, and we have disincentivized some of other priorities that I think are going to be important for a fighting force of the future.

Senator FISCHER. Thank you.

Mr. Hale?

Dr. HALE. So, I’d like to ask that you broaden your thoughts on Goldwater-Nichols and think about whether we need something analogous to that for our civilian workforce. We are at the other extreme with regard to the civilians. That is, there’s not a lot of, often, moving around, especially at the senior levels. And I wonder if, as we think about Goldwater-Nichols, and fixing it for the military, we want to think about how we engender some more rotational experience among those who will ultimately be our civilian leaders. Maybe, as I say, we need some version of Goldwater-Nichols for civilians.

Senator FISCHER. Thank you.

Dr. —

Dr. ROSTKER. The first would be to extend the career, so we can accommodate requirements like Goldwater-Nichols within the career structure. But, the notion of stagnation in place is not to imply that everyone needs to—that people need to advance. And in certain technical areas, that might be fine to stay in relatively the same job, but it tends to be in a particular technical area. We are often told of the young officer who says, “I’m a great captain, and leave me to be a captain.” Well, he may be a great captain when he’s 30. I’m not sure he’ll be a great captain when he’s 40. Again, youth and vigor comes. So, he needs to either advance in his profession or leave. It’s very hard to say to somebody who’s doing well, “You have to go home, because we’re worried about the next generation.” We can’t do that in the civilian world. We don’t do that in the private sector. We must do that in the military.

Senator FISCHER. Dr. Chu.

Dr. CHU. I’d urge we think about how we get the same outcomes that we like of our Goldwater-Nichols, but at a lower price, in terms of career content. The current—because I—as your question,

I think, implied, there are some good points to what has been produced from Goldwater- Nichols. More joint orientation by the senior officer corps, specifically. But, our mechanism, as we all know, is an input-oriented one, "You will take this course, you will have this assignment for a certain length of time, and such is the way to get there," which, of course, adds to the career content issue Dr. Rostker has raised.

And so, just as a personal example, in my judgment, one of the most joint-oriented Army officers I encountered in my career in the Department was Jack Keane. General Keane would not qualify, under the rules. Until he was Deputy Commander of Joint Forces Command, he had never had a joint assignment. Of course, the issue is, you can't look inside the person's mind easily. But, I do think, if I may be presumptuous, that the confirmation power of the Senate is one tool to use. In other words, part of the examination really ought to be, what is the outlook of this officer on joint matters, and how has he or she achieved that outlook? As opposed to prescribing so much how the person gets there. I recognize there's the risk of confirmation conversion, as people have unkindly labeled some people's stance over the years, but I do think that might be one small step to try to move away from the prescriptive approach we use now, that you will take certain courses, you will have certain experiences in order to achieve this orientation, and to ask, in some fashion, that both the Department and the Congress look at people more holistically.

Senator FISCHER. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Manchin.

Senator MANCHIN. Thank you, Mr. Chairman.

And thank all of you. I appreciate very being here.

It's—someone coming from the civilian ranks and not being blessed enough to be in the military service, but now sitting back and watching this and trying to make sense of it, how we run the operations, is unbelievable. And it doesn't make any sense that we talk about—now we've got sequestration, we've had budget caps, all the different things. And you would think that the system, the Department of Defense being our largest Department in Federal Government, would be able to make adjustments and changes. But, it doesn't seem to come unless there's congressional mandates for that to happen.

I can't get a handle on the contractors. I've tried. I've been here for 5 years, and I'm trying to get a handle on the strength of contract. The contracting forces, which we should look at, because I know the reduction of force. And every time we run into budget problems, it's always a reduction of the people that we depend to defend the country. And I know the size of the staff doesn't seem to change proportionally, when we should be changing. Staff seems to be constant, if not growing. But, contractors is just an absolutely misnomer, here. We've had as high—I mean, our report—I know this is not accurate, but in 2014 it was showing 641,000 full-time-equivalent contractors at a cost of \$131 billion. I can never get—I can't get that answer. I don't know why it's so hard for the Department of Defense to be able to tell us how many contractors



we're paying and kind of filling slots and substituting and playing a kind of a movement game, here.

And maybe—Admiral Roughead, I know you've been on the front line of this thing, but give me some insight on this.

Admiral ROUGHEAD. Well, thank you, Senator. And my observations are exactly the same as yours, because there's no structure that defines the particular work, position, person that applies to a contractor. We have that with our uniformed and our government civilians. And I think that, as we look at our headquarters structures, that there should be an apportionment by billet, if you will, to use military speak, for those contractor positions that get done. Otherwise, what you find is that the money buys as many contractors as it can afford. And so, I think we need to do that.

I would also say that all contractors are not created equal. I mean, we have some—

Senator MANCHIN. Sure.

Admiral ROUGHEAD.—contractors that are maintaining airplanes, and we've made the decision that that approach is best.

Senator MANCHIN. Why can't that scenario be accomplished? Does it have to be a direction from Congress, legislated? Or can Department of Defense do that? The accountability of contractors.

Admiral ROUGHEAD. I would leave whether Department of Defense can do that to some of my colleagues who have been in the Department, but—

Senator MANCHIN. Okay.

Admiral ROUGHEAD.—but, I really do think that that would be one way to get our arms around that.

Senator MANCHIN. Dr. Rostker, if you could comment on that. And, Mr. Hale, I'll come right back to you.

Dr. ROSTKER. The reason we have the contractors is because we don't account for them. We buy service. It's in the O&M [Operations and Maintenance] budget. It's just dollars. And it purely comes back to the Comptroller's shop, in terms of controlling those contracts that are used to purchase the services of people.

The Congress, it—has said we want to have a limit on the size of headquarters. We want to have a limit on the number of civilians.

Senator MANCHIN. Yeah.

Dr. ROSTKER. And then, the headquarters go out and hire contractors, and they sit behind the same desk that a civilian sat behind. I would suggest they have loyalties that are not necessarily in line with those of the government, like maintaining the contract. And so, we can go to the American people—you can go to the American people and say, "We're controlling government. We've limited the number of civilians."

Senator MANCHIN. Yeah.

Dr. ROSTKER. But—

Senator MANCHIN. Mr. Hale.

Dr. ROSTKER.—we haven't.

Dr. HALE. So, it's harder than it—than you'll think to count contractors. If you do a firm fixed-price contract—many of them are now—there is no responsibility on the part of the contractor to tell you how many people are doing it. They just have a job, they get the job done.

In response to congressional requirements, DOD is inserting clauses in many of its contracts, directing the contractor to estimate the number of full-time-equivalent people. But, it takes time, and that's why you're not seeing this data.

The way to control it, in my view, is, you control military and Federal civilians by billets or by FTEs [Full-time Equivalents]. You control the contractors by limits on the operation-and- maintenance funding. And that allows the Department the flexibility to use firm fixed-price contracts, when they make sense and we want to have that.

Senator MANCHIN. The hardest thing that I had—and I'll finish up with this—the hardest that I had is that, basically, we had contractors of—fighting, basically, on the front lines. I know that people said that didn't happen, but we—I know that happens. And I know that they're hired, and they go in to force. They seem like—at 10 years, they come out of the military, they retire from the military and take a pay three to four times higher. That didn't make any sense to me. You can't justify that. You can't sell it back home. And we keep talking about reduction of forces, and we're coming back, paying three to four times more for the same person that we reduced—or reduced, and put them back into the private sector and on a contract. How do we stop—is there any way to stop that from happening?

Dr. Chu?

Dr. CHU. I think, ultimately, as my colleagues have implied, the contracts are a safety valve. And the real issue is what you're asking the Department to do. So, let's take the headquarters issue. Without in any way being cheeky here, the office I formerly held, a major activity was answering congressional correspondence. Many of these letters were—required a significant research project. Someone had to do that work. If you place a limit on how many Federal civilians can be employed, the solution, as Dr. Rostker says, is the office uses the funds at its disposal to hire contractors to help with that task.

So, I think the ultimate break on excessive contractor employment, to the extent it is, indeed, excessive, is the issue of what the Department's being asked to—what function it's being asked to perform and perhaps the too- tight limits on the resource inputs it might more usefully employ for that purpose—Active Duty personnel, I think, in the case in point that you were citing. You're—you are going to get situations where people who leave the military will have a skill set that's very valuable in the private sector, perhaps serving the Department of Defense. But, to me, that's—that's just a signal that there's an excess demand for that skill and that we've suppressed meeting that demand with Federal civilians and Active Duty or Reserve-com personnel, and it pops out in a contract. The contractor, eager to—service, as Mr. Hale said, offers a very significant salary to the—so, it's the safety-valve issue and the question of the burdens of the Department and its business practice, I think, that is ultimately the break on the situation that you are—that—with which you are concerned.

Senator MANCHIN. Thank you very much.

I'm sorry.

Dr. HALE. Can I just add, very briefly, one of the wartime problems that you raised occurs because we place limits on the number of troops that can be in—and that causes the Department to turn to contractors.

Senator MANCHIN. That doesn't make any sense all, but I appreciate your answers.

Chairman MCCAIN. Senator Ernst.

Senator ERNST. Thank you, Mr. Chair.

And thank you, gentlemen, for being here today.

Mr.—or, Dr. Rostker, if we could start with you, I know that you are well aware of the heavy deployment schedule that we have had over the past 14 years or so. Many members have mobilized, they have deployed, time after time after time, and we still continue to do that with a number of our SOCOM [Special Operations Command] units, as well. What can we do for those that are in more of the—well, I've met a lot of Active Duty soldiers. Many of them have deployed over and over again. But, then we also have that group that seems to be in the type of unit that is maybe a training environment. They have spent a career in those types of positions where they haven't deployed. How can we make sure that we are offering the same opportunities for everyone across the board? Because, of course, when you look at promotions and advancements, we want to make sure that everybody has opportunity for that, even broadening and strategic-type assignments. What can we do about that to even the playing field?

Dr. ROSTKER. Well, there is a—deployments are by units, obviously, but also by skill sets. And so, there are certain skill sets that will not deploy. Generally, it has been to the advantage of servicemembers to deploy, because those considerations come into promotion boards and through the so-called “up or out” system. There are rewards. But, it will not necessarily fall evenly, depending upon the particular occupations that people have.

I think the broad question is also, what do we do for the servicemembers and their families for those who are deploying quite often? And this is really a unique and new problem for the Department of Defense.

Senator ERNST. Yes.

Dr. ROSTKER. We've never fought a war with this kind of rotation. And, as you say, the 14 years is the longest in our history. And we really do need to come to grips with what our services are, not only to the servicemember, but particularly to the family.

Senator ERNST. We have such a heavy rotation of deployments with certain types of MOSs [Military Occupational Specialties] or occupational skills, and maybe not others, but we need to make sure that there is plenty of opportunity for everyone to take advantage of those types of positions.

Admiral, of course, as we look at opportunities, there are a lot of different thoughts in this area, but I am a little bit concerned that the Department is really trying to mold our officers and even some of our senior NCOs [Non-Commissioned Offices] to aspire to be an intern at Facebook or Google. And those are great organizations, but with these types of assignments, they're lucrative, but we would rather see them being a platoon leader or a company commander or a first sergeant. And what impact will the Department's

efforts to place a greater emphasis or priority on these nontraditional broadening assignments—what impact will that have, then, to our force readiness, to actually win that next war?

Admiral ROUGHEAD. Yes, ma'am. Thank you for the question.

Before I get to it, I'd like to just comment on the deployment piece. As—

Senator ERNST. Thank you. Please.

Admiral ROUGHEAD. As you know, the Navy has been deploying for centuries. And I think it's important that, as we look to the future employment of the force, that the model that's used take into account the types of deployments. And not everyone will be going, because—as Dr. Rostker said, because of specialties and other considerations. But, I think that the—that, you know, it took the Navy awhile to define the deployment and readiness models. And I think we have to look at that in that particular service.

With regard to some of the fellowship opportunities that have been announced recently, my sense is that those are in very small numbers. And I do think that there may be some value in certain areas where people can go off, see how things are done differently than within the Department of Defense, and then come back in. But, again, I—you know, is this something that will stack on top of the joint requirement, the operational requirement, the educational requirement? And so, my sense would be, you know, would that be something that you would consider as a joint credit and then someone who would come back in?

Senator ERNST. And definitely something that we should keep an eye on. So—

Admiral ROUGHEAD. In limited numbers.

Senator ERNST. In limited numbers, that's absolutely correct. Thank you, Admiral.

Thank you, Mr. Chair.

Chairman MCCAIN. Senator McCaskill.

Senator MCCASKILL. Thank you, Mr. Chairman.

Just to underline some of the concerns of my colleagues. Senator Manchin, on contractors. I have obviously spent a lot of time, as Mr. Hale knows, on this subject in the time I've been here. And one of the most surreal experiences was when I discovered, one day, that the person testifying in front of me about contracting had hired a contractor to prepare them for the hearing. And that's when I realized, okay, this has gotten a little out of control.

It's not that contractors are bad. It's not that contractors aren't needed. As you indicated, Admiral Roughead, there are many places that we're using contractors that it's saving us money. They're performing functions well at a lower cost. But, the problem is, there's so little transparency that oversight is nearly impossible unless you have the tenacity of a bulldog that's very, very rabid. And—because you can't find them. You can't—it's amorphous. You can't figure out whether the contracting activity is justified or whether it's a safety valve. I mean, I think Dr. Chu just admitted they hired contractors to answer congressional letters. You know, I'm not sure that—we need to know this. We need to understand when contractors are being utilized. So, I think your idea for an authorization level on contractors is a valid one, and I would like to

see any response that any of you have for the record on that, going forward.

[The information referred to follows:]

Dr. Robert HALE. It is reasonable to consider a cap on contractors in the authorization legislation. The cap should be in dollar terms since some contracts, especially fixed-price contracts, do not specify the number of contractors. Importantly, before establishing a cap, the Committee should discuss with the Department of Defense what data can be made available. A cap would only be meaningful if the Department can supply data that are consistent and accurate, both for use in setting the cap and in measuring compliance.

More broadly, the Committee should consider changes that would reduce the use of contractors in cases where government employees (especially civilian employees) should be used. Contractors are sometimes employed because they can be put in place more quickly than government civilians. OPM is working to speed up hiring, an effort that the Committee should support and monitor. Contractors are also sometimes used because, compared with a government civilian employee, a contractor can be terminated much more quickly. As I indicated in my testimony, DOD needs authority to terminate poorly performing government civilians more quickly while still preserving protections against misuse of the civil service.

Admiral ROUGHEAD. Just to underline some of the concerns of my colleagues, Senator Manchin on contractors. I have obviously spent a lot of time as Mr. Hill knows, on the subject from the time I have been here. And one of the most surreal experiences was when I discovered one day that the person testifying in front of me about contracting had hired a contractor to prepare them for the hearing. And that is when I realized okay, this has gotten a little out of control. It is not that contractors are bad. It is not the contractors aren't needed as you indicated Admiral Roughead, they're many places that were using contractors that it's saving us money. They are performing functions well at a lower cost. But the problem is, there is so little transparency that oversight is nearly impossible unless you have the tenacity of a bulldog that's very, very rabid. And because you cannot find them. You can't—it's amorphous. You cannot figure out whether the contracting activity is justified or whether it's a safety valve. I mean, Dr. Chu just admitted they hired contractors to answer congressional letters. I'm not sure that—we need to know this. We need to understand when contractors are being utilized. So I think your idea for an authorization level on contractors is a valid one and I would like to see any response that any of you have for the record on that going forward.

IDA | David S. C. Chu  
President

February 24, 2016

Senator Claire C. McCaskill  
SH-730 Hart Senate Office Building  
Washington, DC 20510-2505

Dear Senator McCaskill,

During the December 2nd Senate Armed Services Committee hearing on DoD personnel reform, you asked my view on a statutory authorization for contractors. My presumption is you are interested in service contractors, as opposed to contractors who are producing physical articles. You expressed a concern with transparency, and I believe you are interested in whether such a practice would improve Congress' understanding of service contractor utilization.

I do not believe it would. My assumption is that such an authorization would take the form of a ceiling, expressed as a "head count" of personnel, much like that for military personnel (undertaken, of course, for a different purpose). Such a ceiling would not provide information about the nature of service contractor activities.

Moreover, as you emphasized at the hearing, DoD engages a service contractor when the contractor offers better value than performing the function itself—either enhanced quality (which could include technical expertise not available in the government's ranks), or reduced cost, or greater agility of response (e.g., for highly variable needs), or some combination of the three. Part of the improved solution offered by the contractor can lie in a different mix of personnel, or a different pattern of personnel utilization (e.g., part-time staff). A statutory authorization (ceiling) could undercut the ability of contractors to "mix and match", to deliver the results envisaged by the contract arrangement. Worse, it could tilt the use of contractors inappropriately toward more highly compensated personnel.

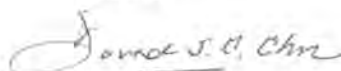
Indeed, I think it's noteworthy that, with a few exceptions, Congress has generally *proscribed* DoD from using strength levels ("head count") to manage civilian personnel. Such direction recognizes that control should be exercised via budget allocations, not by prescribing inputs, or limits on inputs. What counts is the output (or outcome) produced, and the cost to the government of achieving the desired result.

Moreover, as a practical matter some services rendered by contractors may be intertwined with the provision of physical articles (e.g., the Civil Reserve Air Fleet, or CRAF). Sorting out how this would be handled under any kind of statutory authorization (ceiling) on service contractors might only obscure understanding how DoD is meeting its mission needs, rather than enhancing it.

Institute for Defense Analyses  
4850 Mark Center Drive, Alexandria, Virginia 22311-1882 • 703.845.2300 • dchu@ida.org

A focus on outcomes, as mission-oriented budgeting attempts—rather than the object of expenditure structure the United States has long used—would be more likely to achieve the transparency you seek. Such a budget presentation could attribute the costs of acquired services by source (e.g., government vs. contractor) to the missions they support. That, of course, could require new data systems, and time for their refinement, given it is so different from current practice.

Sincerely,

A handwritten signature in dark ink, reading "Donald J. Chu". The signature is fluid and cursive, with the first name "Donald" being the most prominent.

CC: Senator McCain; Senator Reed





## Reforming the American Military Officer Personnel System

### Addendum: Thoughts on Contractors

Bernard D. Rostker

CT-446/1

Document submitted on May 24, 2016 as an addendum to testimony presented to the Senate Armed Services Committee on December 2, 2015.



For more information on this publication, visit [www.rand.org/pubs/testimonies/CT446z1.html](http://www.rand.org/pubs/testimonies/CT446z1.html)

#### Testimonies

RAND testimonies record testimony presented or submitted by RAND associates to federal, state, or local legislative committees; government-appointed commissions and panels; and private review and oversight bodies.

Published by the RAND Corporation, Santa Monica, Calif.

© Copyright 2016 RAND Corporation

RAND® is a registered trademark.

#### Limited Print and Electronic Distribution Rights

This document and trademark(s) contained herein are protected by law. This representation of RAND intellectual property is provided for noncommercial use only. Unauthorized posting of this publication online is prohibited. Permission is given to duplicate this document for personal use only, as long as it is unaltered and complete. Permission is required from RAND to reproduce, or reuse in another form, any of its research documents for commercial use. For information on reprint and linking permissions, please visit [www.rand.org/pubs/permissions.html](http://www.rand.org/pubs/permissions.html).

*Reforming the American Military Officer Personnel System  
Addendum: Thoughts on Contractors*

Testimony of Bernard D. Rostker<sup>1</sup>  
The RAND Corporation<sup>2</sup>

Before the Armed Services Committee  
United States Senate

May 25, 2016

The subsequent questions and answers found in this document were received from the Committee for additional information following the hearing on December 2, 2015 and were submitted for the record

Senator McCaskill requested for the record that the witnesses who testified before the Senate Armed Services Committee at the hearing “Department of Defense Personnel Reform and Strengthening the All-Volunteer Force” on December 2, 2015, comment on the need to understand when contractors are being utilized and putting in place an authorization level on contractors.

Let me first be clear about what kind of contractors I am talking about, since there are many different types of contractors. Contractors do many things and have delivered goods and services to the federal government since the founding of the republic. There is a class of contractors, however, that in recent times has been hired simply to get around staffing limitations that the Office of Management and Budget (OMB) and Congress have placed upon federal agencies. They are doing work that traditionally has been done by federal employees. Sometimes the contracts that place such workers in the federal workplaces are called personal service contracts, and the people so placed are sometimes called “core” contract personnel. An example of regulations that allow this is Intelligence Community Directive (ICD) 612, put into place on October 30, 2009. This directive says, “core personnel will not engage in inherently governmental activities.” It then lists a number of situations where departments and agencies of the IC can “retain and use core contract personnel,” which seem very appropriate. The list

<sup>1</sup> The opinions and conclusions expressed in this testimony are the author’s alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

<sup>2</sup> The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

includes: immediate surge; discrete nonrecurring tasks; unique expertise; specified services; transfer of institutional knowledge; and support and administrative services, where the provision of such services by contract personnel is determined to be effective or efficient. It also, however, independent of these situations, allows the use of contract personnel "to perform work that would otherwise have been provided by a United States government civilian given *sufficient resources*." Clearly the sufficient resources implied here is not the budget to pay the employees, because contractors must also be paid, but personnel authorized by the OMB and/or Congress. In other words, IC agencies can hire contract personnel simply to get around ceiling limitations without regard to a range of considerations, including efficiency or effectiveness.

In my judgment this is the problem Senator McCaskill is focusing on when she observed that "it is not that contractors are bad... there are many places that we're using contractors that it's saving us money. They are performing functions well at a lower cost. But the problem is, there is so little transparency that oversight is nearly impossible."

I hope I can provide some of the missing transparency by helping to explain how pervasive the problem is, how it came about, and what we might do to address it. To this end, in 2008, I wrote a report, *A Call to Revitalize the Engines of Government*, which dealt squarely with this issue. While I have not updated the analysis, I believe that the conclusions are still valid. Certainly, the concerns expressed by Senator McCaskill are the same ones that motivated me to write the report. Accordingly, I ask that the report be included in the record. (The report contains the full citations for the remarks that follow).

### How Did We Get Where We Are Today

At least since the 1970s, there has been a concerted effort to reduce the size of the federal government. Moreover, it has become fashionable to expound the virtues of contracting, because many saw the government bureaucracy as inflexible and unresponsive. Cost was the easiest metric by which to rationalize a move to competition and contracting, but it was by no means the only motivation. Policies developed during the Reagan administration (e.g., the 1983 rewrite of OMB Circular A-76) and later during the administration of George W. Bush codified a preference for contracting over in-house activities. Lost in these initiatives was the long-standing prohibition that contractors should not perform work that is "inherently governmental." Prior to May 2003, A-76 defined "inherently governmental" work as follows: "An inherently governmental activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. These activities require the exercise of discretion in applying government authority and/or in making decisions for the government." The Bush administration's May 2003 revision added the word "substantial" before discretion, with A-76 then reading, "An inherently governmental activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. These activities require the exercise of substantial discretion in applying government authority and/or in making decisions for the government." The key to the 2003 changes was to be "agency

oversight," which the Acquisition Advisory Panel<sup>3</sup> and the Government Accountability Office (GAO)<sup>4</sup> often found was lacking. As recently as 2014, the GAO found that

Within the IC, core contract personnel perform functions that could influence the direction and control of key aspects of the U.S. intelligence mission " Our prior work and OMB policies have underscored the importance of agencies having guidance, strategies, and reliable data to inform decisions related to the appropriate use of contractor personnel. Building on longstanding OMB policy, [the Office of Federal Procurement Policy's] September 2011 guidance requires agencies to develop internal procedures to identify and oversee contractors providing services that closely support inherently governmental functions. Yet, of the agencies we reviewed, [the Office of the Director of National Intelligence (ODNI)], [the Central Intelligence Agency (CIA)], [the Department of Justice], [the Department of Energy (DOE)], and Treasury have not fully developed such procedures or established required time frames for doing so. Without these procedures in place, ODNI, CIA, and the civilian IC elements within these three departments risk not taking appropriate steps to manage and oversee contract personnel, particularly those performing work that could influence government decision-making.<sup>5</sup>

The increased use of contractors over the last several decades also came about because hiring a civilian employee into the federal government often frustrates managers. In addition, limitations placed on the size of the federal work force by Congress and OMB in the form of "personnel ceilings," or restrictions on the number of federal employees that may make up an agency's headquarters staff, push managers to take the path of least resistance, and contractors were seen as a source of manpower that they could otherwise not hire.

Hiring contractors is much easier, especially when it can be done without having to compete individual tasks where contractors are prequalified and tasks can be added to existing contracts. With money and a contract in hand, managers are able to give new tasks to an existing contractor without competition. The contractor, unencumbered by having to compete for the task or to meet employment standards, can supply workers in short order, sometimes within hours" though usually at a substantial premium, by some accounts as large as 50 percent. Make no mistake about it, this is not new. It goes back decades, is well documented, and is not restricted to the Defense Department. In 1991, for example, GAO found the DOE had increased the money it spent on support services by 56 percent. DOE officials told GAO that "they did not compare

<sup>3</sup> Acquisition Advisory Panel, *Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress*, Washington, D.C.: Office of Federal Procurement Policy, 2007.

<sup>4</sup> U.S. Government Accountability Office, "Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services," in *Report to Congressional Requesters*, Washington, D.C.: U.S. Government Accountability Office, 2007.

<sup>5</sup> Timothy J. DiNapoli, *Civilian Intelligence Community: Additional Actions Needed to Improve Reporting on and Planning for the Use of Contract Personnel*, GAO-14-204, United States General Accountability Office, January 2014, pp. 29-30.

costs since they could not get additional staff to perform the work in-house because of personnel ceilings.”

### Cost of Contracting

At the December hearing, Senator McCaskill observed, “there are many places that we’re using contractors that it’s saving us money. They are performing functions well at a lower cost.” Unfortunately, as her statement implies, that is not always true, particularly when it comes to personal service contracting for core contract personnel. As early as 1991, the GAO compared the costs of contractors and government employees of 12 contracts at DOE and found that 11 of the 12 contractors were, on average, 25 percent more costly.<sup>6</sup> While cost comparisons raise many methodological issues,<sup>7</sup> in 2007, the House Permanent Select Committee on Intelligence found that, on average, a contractor costs almost twice as much as a government employee.<sup>8</sup> In 2008, the Office of the Director of National Intelligence estimated that the cost of salary, benefits, as well as full lifecycle costs, including pension costs and health benefits, for government employees was \$125,000, compared with a per-capita cost per contractor of \$207,000 for direct labor, not including overhead.<sup>9</sup>

This, however, is not the whole story when it comes to personal service support services. Contractors routinely bill the government for the supervision of contract workers and charge overhead for the operations of the contractor’s organization, even when the contract workers do their jobs in government facilities and sometimes have little direct contact with the firm that employs them.<sup>10</sup> All too frequently, the contract workers work behind the desk once occupied by a government employee, taking direction from a government supervisor. Anecdotally, some contract workers have never even been to their firms’ facilities. At the Naval Air Weapons Station China Lake, contractors are charged a fee for all the costs the installation incurs to support and housing them. This allows the base to generate the funds needed to maintain its facilities, since the public funds it receives are based on the number of government employees working at China Lake. The contractors do not mind paying the tax since it is just another cost that is added to the contract. Given all of this, one has to ask: what is it that the government really gets from the contractor that justifies the cost differences between government employees and contract workers?

<sup>6</sup> Dexter Peach, *Energy Management: Using DOE Employees Can Reduce Costs for Some Support Services*, Washington, D.C.: U.S. General Accounting Office, GAO/RCED-91-186, 1991, p. 2.

<sup>7</sup> See L. Elaine Halchin, *Sourcing Policy: Selected Developments and Issues*, Congressional Research Service, R42341, February 7, 2012; and *The Intelligence Community and Its Use of Contractors: Congressional Oversight Issues*, Congressional Research Service, R44157, August 18, 2015.

<sup>8</sup> House Select Committee on Intelligence, “Intelligence Authorization Act for Fiscal Year 2008,” Washington, D.C.: U.S. House of Representatives, 2007, p. 28.

<sup>9</sup> Ronald Sanders, “ODNI Transcript: Conference Call on the Results of the Fiscal Year 2007 U.S. Intelligence Community Inventory of Core Contractor Personnel,” Washington, D.C.: Office of the Director of National Intelligence, 2008, p. 8.

<sup>10</sup> This was the case when the author was the Special Assistant to the Deputy Secretary of Defense for Gulf War Illnesses and the majority of “his staff” were contractors.

### Remedial Action

To date, remedial action has been timid and does not address either the fundamental causes of or the needed changes to contracting. There have been moves to convert contract functions to in-house functions where appropriate, but the same forces that cause the problem in the first place generally frustrate efforts. In 2008, the U.S. Merit Systems Protection Board suggested a number of ways to address the contracting problem and improve the hiring process, as noted:<sup>11</sup>

- Eliminate the use of personnel ceilings at any organizational level as a means to control cost. The contracting for support services must be on a cost-effectiveness basis, with due regard to the restrictions on both “inherently governmental” work and personal services contracting.
- Implement “Manage to Payroll.” Managers at the lowest practical levels of management were allocated a payroll amount for the fiscal year and, within the limits of these allocations, were made responsible for determining the number and classification of the positions they needed to perform their operations.
- Improve the attractiveness of government jobs for new entrants to the labor market.
- Adequately resource a streamlined and effective government hiring process.
- Sustain commitments and funding for the training and career development of civilian personnel analogous to that provided to military personnel.
- Train and hold federal managers responsible to manage and use the flexibilities provided by the various federal personnel systems.
- Develop a transition program to ensure the continuity of work during “in-sourcing.”
- Eliminate the blended workforce. Prohibit support contracts that simply put contractor personnel at desks previously occupied by government workers, or at new desks because of arbitrary personnel ceilings.
- Implement the provisions of A-76 that restrict outsourcing to functions that are not “inherently governmental.”

Absent from the above list is any suggestion of imposing a ceiling on contractors, which would further tie the hands of federal managers in their efforts to accomplish their work. In my view, to correct this problem, the government must eliminate the statutorily set personnel ceilings, determine the proper mix and appropriate roles of contractors and government employees, and ensure that it can recruit, train, develop, and retain a skilled and qualified workforce. There needs to be a clear understanding of what should and should not be contracted out, especially when it comes to service contracts. The historic prohibition on contracting for personal services, which has most recently been interpreted in the most lenient way, needs to be tightened up and strictly adhered to. There needs to be a clear understanding that the government does not contract out jobs, but rather functions—functions that can be measured and for which the government can assess the quality of the work performed by a contractor and the cost it is being charged. But make no mistake about it, even with the elimination of ceilings, bringing essential government work in-house and providing oversight for appropriately contracted-out work will not be easy.

<sup>11</sup> John Crum, “Taking Aim at Federal Hiring,” *Issues of Merit*, July 2008.

### Summary

At this point in U.S. history, it is particularly important that the government address the use of contractors to accomplish the nation's business. Testimony before Congress suggests that current practices are not cost-effective, as suggested by the comparisons of costs of government employees and contract workers, as well as the number of firms that the government is taking legal action against. There needs to be a clear understanding of when it is appropriate to contract functions (never individual jobs) and the oversight that the government must provide. The government should strictly adhere to the concept of "inherently governmental" and the prohibition on personal services contracting. Contract personnel must never be put in a position where there is any semblance of a conflict of interest. The interests of a contractor are ultimately private gain, and do not necessarily align with the interests of the government. To think otherwise is to invite problems.

Converting positions from contractors back to the government will not be easy and will run counter to the canard that measures the efficiency of government by the number of people it employs. Not counting the hordes of service contractors engaged by the government paints a misleading narrative of smaller government. Clearly, there are things that should be contracted and that the government need not and should not undertake, but the unfettered use of contractors has skyrocketed and must be brought under control.





## NATIONAL SECURITY RESEARCH DIVISION

THE ARTS  
 CHIEF POLICY  
 CIVIL JUSTICE  
 EDUCATION  
 ENERGY AND ENVIRONMENT  
 HEALTH AND HEALTH CARE  
 INTERNATIONAL AFFAIRS  
 NATIONAL SECURITY  
 POPULATION AND AGING  
 PUBLIC SAFETY  
 SCIENCE AND TECHNOLOGY  
 SUBSTANCE ABUSE  
 TERRORISM AND  
 HOMELAND SECURITY  
 TRANSPORTATION AND  
 INFRASTRUCTURE  
 WORKFORCE AND WORKPLACE

This PDF document was made available from [www.rand.org](http://www.rand.org) as a public service of the RAND Corporation.

[Jump down to document](#) ▼

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world.

### Support RAND

[Browse Books & Publications](#)

[Make a charitable contribution](#)

### For More Information

Visit RAND at [www.rand.org](http://www.rand.org)

Explore [RAND National Security Research Division](#)

[View document details](#)

### Limited Electronic Distribution Rights

This document and trademark(s) contained herein are protected by law as indicated in a notice appearing later in this work. This electronic representation of RAND intellectual property is provided for non-commercial use only. Unauthorized posting of RAND PDFs to a non-RAND Web site is prohibited. RAND PDFs are protected under copyright law. Permission is required from RAND to reproduce, or reuse in another form, any of our research documents for commercial use. For information on reprint and linking permissions, please see [RAND's permission](#).

This product is part of the RAND Corporation occasional paper series. RAND occasional papers may include an informed perspective on a timely policy issue, a discussion of new research methodologies, essays, a paper presented at a conference, a conference summary, or a summary of work in progress. All RAND occasional papers undergo rigorous peer review to ensure that they meet high standards for research quality and objectivity.

OCCASIONAL  
P A P E R



A Call to Revitalize the  
Engines of Government

Bernard D. Rostker



NATIONAL SECURITY RESEARCH DIVISION

The research described in this report was prepared for the Office of the Secretary of Defense (OSD). The research was conducted in the RAND National Defense Research Institute, a federally funded research and development center sponsored by the OSD, the Joint Staff, the Unified Combatant Commands, the Department of the Navy, the Marine Corps, the defense agencies, and the defense Intelligence Community under Contract W74V8H-06-C-0002.

The RAND Corporation is a nonprofit research organization providing objective analysis and effective solutions that address the challenges facing the public and private sectors around the world. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors.

RAND is a registered trademark.

© Copyright 2008 RAND Corporation

All rights reserved. No part of this book may be reproduced in any form by any electronic or mechanical means (including photocopying, recording, or information storage and retrieval) without permission in writing from RAND.

Published 2008 by the RAND Corporation  
 1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138  
 1200 South Hayes Street, Arlington, VA 22202-5050  
 4570 Fifth Avenue, Suite 600, Pittsburgh, PA 15213-2665  
 RAND URL: <http://www.rand.org>  
 To order RAND documents or to obtain additional information, contact  
 Distribution Services: Telephone: (310) 451-7002;  
 Fax: (310) 451-6915; Email: [order@rand.org](mailto:order@rand.org)

## Preface

---

The increased role that contractors play in support of the federal government has become the subject of numerous reports by the U.S. Government Accountability Office (GAO), and Congress has taken note. Section 324 of Public Law 110-181, the National Defense Authorization Act for Fiscal Year 2008, promulgates "Guidelines on In-Sourcing New and Contracted Out Functions" that would start to rectify the current situation. This paper provides a comprehensive review of the issues raised by the GAO and Congress and suggests corrective action. It incorporates data presented by the Under Secretary of Defense for Personnel and Readiness at the annual meeting of the Western Economics Association in July 2008.

This research was conducted within the Forces and Resources Policy Center of the RAND National Defense Research Institute, a federally funded research and development center sponsored by the Office of the Secretary of Defense, the Joint Staff, the Unified Combatant Commands, the Department of the Navy, the Marine Corps, the defense agencies, and the defense Intelligence Community.

For questions about this document, please contact the author, Bernard Rostker, at [rostker@rand.org](mailto:rostker@rand.org).

For more information on RAND's Forces and Resources Center, contact the Director, James Hosek. He can be reached by e-mail at [James\\_Hosek@rand.org](mailto:James_Hosek@rand.org); by phone at 310-393-0411, extension 7183; or by mail at the RAND Corporation, 1776 Main Street, P.O. Box 2138, Santa Monica, California 90407-2138. More information about RAND is available at [www.rand.org](http://www.rand.org).



## Contents

---

Preface .....	iii
Figures .....	vii
<b>A Call to Revitalize the Engines of Government</b> .....	1
Factors Contributing to the Current Crisis .....	1
A Reduced Federal Workforce .....	2
Preference for Contracting .....	3
Defining "Inherently Governmental" Work .....	4
Ease of Contracting .....	5
But Contractors Can Actually Cost More .....	6
Faulty Rational for a "Blended Workforce" .....	7
Managing the Increased Workload After 9/11 .....	7
Pending Retirements Will Deprive the Government of Needed Talent .....	10
Lack of Appropriate Supervision Has Led to Abuses .....	12
Needed Action .....	12
Recent Congressional Action .....	13
Additional Action Is Required to Revitalize the Civil Service .....	13
Recommendations .....	15
<b>Bibliography</b> .....	17





## Figures

---

1. DoD and Non-DoD Employment Trends: 1982–2007 .....	2
2. DoD Total Budget and Personnel Costs, Then-Year Dollars .....	8
3. DoD Total Budget and Personnel Costs, 2007 Constant Dollars .....	8
4. Defense Spending as a Percentage of DoD's Total Budget .....	9
5. Overall Procurement Trends .....	10
6. The Federal Workforce Is Getting Older, with Many Eligible to Retire .....	11
7. Percentage of DoD Employees Remaining Employed in Years Following Retirement Eligibility .....	11



## A Call to Revitalize the Engines of Government

by Bernard Rostker<sup>1</sup>

We face an unparalleled crisis in the federal government's ability to do the nation's business. Decades of neglect and outright hostility toward the federal civil service by both political parties, together with the coming loss of experienced people due to an unprecedented number of retirements, will exacerbate problems that the U.S. Government Accountability Office (GAO) has been highlighting for years. While former GAO Comptroller General David Walker called on the U.S. Department of Defense (DoD)<sup>2</sup> to "reexamine its extensive reliance on contractors" (Walker, 2008), the fact is that the government's ability to provide appropriate oversight of contracts has already reached an alarmingly low level, one that will diminish even further with an unprecedented number of retirements over the next few years. Headlines in the *Washington Post* such as "Pentagon Auditors Pressured to Favor Contractors" (Hedgpeth, 2008) highlight both the political pressure that favors privatization of government functions and the poor state of government supervision of contractors. In reporting on the conviction of the Science Applications International Corporation, a multibillion-dollar provider of services to the federal government, for "making dozens of false and fraudulent claims for payments relating to the Nuclear Regulatory Commission (NRC) work," the *Post* noted that "organizational conflicts of interest are a disease that a decade ago were rare and now in Washington are an epidemic" (O'Harrow, 2008).

The current situation is the result of a number of factors. Although each of these factors is by itself benign, together they have resulted in a most unfortunate and dangerous situation. This paper reviews these factors and the current situation, and outlines actions that can be taken to revitalize the government's ability to do the nation's business.

### Factors Contributing to the Current Crisis

Since the 1970s, partly as a result of the loss of confidence in government after the Watergate scandal, antigovernment sentiments have been in vogue. Once seen as the grantor of a level playing field, the last quarter century has seen a steady increase in the role that the free market plays in our national life. President Ronald Reagan summed up the tenor of the times when, in his first inaugural address, he said, "government is not the solution to our problem; government is the problem" (Reagan, 1981). Starting with the Carter administration and its exten-

<sup>1</sup> The views expressed in this paper are the author's and do not necessarily reflect those of the RAND Corporation or its research sponsors.

<sup>2</sup> This paper focus mainly on the experience of the Department of Defense, but the story is consistent throughout the federal government.

sive deregulation of the oil, airline, and trucking industries, those that favor the “free market” became the dominant force in American economic and political thinking. In many ways, the Clinton administration of the 1990s reflected more the thinking of Reagan Republicans than the traditional policies of the Democratic Party (Krugman, 1994).

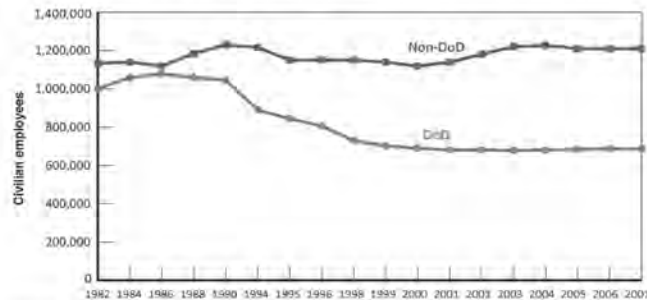
The “attack” on government has taken a number of paths, including extensive deregulation of the financial services industry, calls for a less progressive tax system and even a flat tax, and increased demands to privatize the provision of services traditionally provided by government. Reduction in the number of federal government employees became a measure of merit for both political parties’ administrations; to this end, federal administrators increasingly substituted contract personnel for government personnel, not only in the production of services, but in the very administration of the government itself.

This paper reviews these trends and suggests a course of action to correct the excesses that have resulted in the current situation. As a new administration prepares to take over in Washington, the issue discussed in this paper will have to be faced squarely. The old canard of reporting a reduction in the federal payroll while ignoring the increase in contractors and the cost of doing business must be addressed. The next president must be honest with the American people that it is not the number of government employees, but rather the efficiency and effectiveness of government that really matters.

#### A Reduced Federal Workforce

Efforts to reduce the size of the government, as shown in Figure 1, have unbalanced the workforce. The post-Cold War re-sizing of the Defense Department, for example, not only reduced the number of military personnel, but also had a profound effect on the size of the civilian workforce. The drawdown after the fall of the Soviet Union led to a sharp curtailment of hiring new DoD civilian employees. As a result, the number of new hires in the early 1990s was quite small, and the average age of incumbent DoD civilians became older. The small number of new hires meant that, from an overall organizational level, new cadres of DoD civil servants

Figure 1  
DoD and Non-DoD Employment Trends: 1982–2007



SOURCE: U.S. Office of Personnel Management, *The Fact Book: Federal Civilian Workforce Statistics*, 1998.  
BAND 07/10:1

were not being developed. Since 1999, the number of civilians employed at the Department of Defense has been relatively stable, but the demands on that workforce have increased as a result of the Global War on Terror and two active military conflicts in Iraq and Afghanistan. Contractors have largely filled this gap.

#### Preference for Contracting

Since the Carter administration, it has been fashionable to expound the virtues of contracting, because many saw the government bureaucracy as inflexible and unresponsive. Cost was the easiest metric by which to rationalize a move to competition and contracting, but it was by no means the only motivation. Policies developed during the Reagan administration (e.g., the 1983 rewrite of OMB [Office of Management and Budget] Circular A-76)<sup>3</sup> and during the administration of George W. Bush (e.g., the President's Management Agenda [OMB, 2002]) codified a preference for contracting over in-house activities.<sup>4</sup>

The Bush administration's President's Management Agenda identifies "competitive sourcing"<sup>5</sup> as one of its five "government-wide initiatives" (OMB, 2002, p. 17). It is the policy of the Bush administration to "achieve efficient and effective competition between public and private sources . . . to better publicize the activities subject to competition and to ensure senior level agency attention to the promotion of competition" (OMB, 2002, p. 17). To accomplish this, the administration developed "specific performance plans to meet . . . goals of completing public-private or direct conversion competition on not less than five percent of the full-time equivalent employees" (OMB, 2002, p. 18). The President's Management Agenda for competitive sourcing, places a new emphasis on selection of the best service provider, public or private,

<sup>3</sup> The roots of Circular A-76 can be traced to the former Bureau of the Budget's Bulletin 55-4 (issued January 15, 1955), which stated that the federal government would "not start or carry on any commercial activity" that the private sector could do. Revisions have been made periodically ever since. The policy first appeared in its current "A-76" form on March 3, 1966. It has been changed four times: in 1967, 1979, 1983, and 2003. In 1979, a "Supplemental Handbook," which spells out the complex details on conducting competitions, was issued. The handbook also has been revised three times (first in 1983, then in 1996, and again in 1999), and has been abandoned with the current OMB Circular A-76, which was published May 29, 2003.

<sup>4</sup> The congressionally mandated Acquisition Advisory Panel described this change in their recent report (Acquisition Advisory Panel, 2007, p. 414):

The past fifty years [under both political parties there has been] . . . a global transformation in public administration from government to governance, whereby our federal government has increasingly come to rely on non-governmental actors to perform core "governmental" activities, and the achievement of public goals has been accomplished by a mix of state, market and civil society actors. This development has presented a challenge to the ability of federal government officials to retain the capacity to supervise and evaluate the work of the government, whether such work is performed by contractors or federal employees. During the same period, civil service personnel ceilings have been imposed, which has ensured that, as the government has grown, reliance on contractors has also increased. To compound the challenge, many agencies have been unable to recruit and retain an adequate number of skilled professionals to be able to do the complex types of work that are now part of their missions.

<sup>5</sup> While many reviews (such as the numerous GAO reports) use the term "outsourcing" generically, strictly speaking, there is a distinction between "outsourcing" and "competitive sourcing." Outsourcing refers to a decision to contract without the A-76 process, while competitive sourcing complies with OMB Circular A-76. Public-private competitions under the Circular can only be conducted on activities performed by government personnel. Before Section 324 of the FY 2008 National Defense Authorization Act went into effect, new commercial activities could be contracted without conducting a public-private competition so long as the activity was not "inherently governmental" or commercial but exempted from private-sector performance. Policy that implements Section 324 now requires DoD Components to conduct a cost comparison to determine whether commercial activities that are not otherwise exempted from private-sector performance should be performed by DoD civilians or contractors.

as determined through competition (U.S. Army IMCOM Installation Management Command, 2008).

#### Defining "Inherently Governmental" Work

However, the competitive sourcing initiative makes no reference to a central feature of the A-76 process, namely its long-standing prohibition that contractors should not perform work that is "inherently governmental." Prior to the Bush administration's May 2003 revision, A-76 had defined "inherently governmental" work as follows:

An inherently governmental activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. These activities require the exercise of discretion in applying government authority and/or in making decisions for the government. (Daniels, 2003)

The May 2003 modification added the word "substantial" before discretion. A-76 now reads, "An inherently governmental activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. These activities require the exercise of substantial discretion in applying government authority and/or in making decisions for the government" (Daniels, 2003). This change, which was opposed by the American Federation of Government Employees, AFL-CIO (see Simon, 2005), reduced the impact of the provision by allowing outsourcing of many activities that were previously considered "inherently governmental." The key to the 2003 changes was to be "agency oversight," which the Acquisition Advisory Panel and the GAO found was lacking.<sup>6</sup>

The administration's actions were based on the presumption that "increased competition consistently generates significant savings and noticeable performance improvements" (OMB, 2002, p. 18). The GAO found, however, that early studies that showed the benefits of outsourcing select government jobs have been extrapolated way beyond the original studied contracts. Projected savings have never materialized, as lessons from these early studies have been extended inappropriately into new areas, especially into the area of support services, with unexpected results. For example, the GAO notes, "while the 1995 Commission on Roles and Missions projected savings of 20 percent from outsourcing," such savings have not materialized (Walker, 2008, p. 27). In fact, when public activities were allowed to compete under A-76, they won about half the competitions. (The GAO also questioned the Defense Science Board's projections of \$30 billion in annual savings from privatizing [Walker 2008, p. 29]).

<sup>6</sup> In reviewing activities at the Department of Homeland Security, the GAO found that

DHS management and oversight of contracts for selected services did not provide assurance that DHS had adequately mitigated the related risk. Federal acquisition policy requires enhanced oversight of contractors providing professional and management support services that can affect government decision making, support or influence policy development, or affect program management. However, most contracting officers and program officials we spoke with were unaware of this requirement and, in general, did not see a need for enhanced oversight of their professional and management support services contracts—even though they acknowledged these contracts closely supported inherently governmental functions. According to some officials, their contracting experience and training enabled them to determine if enhanced oversight was needed. However, we found the level of oversight provided did not always ensure accountability for decisions or the ability to judge whether the contractor was performing as required. In addition, training was not targeted to provide the necessary skills to determine whether enhanced oversight was needed. Failure to ensure appropriate oversight increases the potential for a loss of management control and ability to ensure intended outcomes are achieved. (GAO, 2007, p. 4)

The importance of the A-76 competition is not, as some have contended, that the private sector can do things more efficiently than the government, but that the competition itself often frees government employees from rigid ways of doing business and opens new avenues for innovation. Transferring work to the private sector without regard to the outcome of the A-76 competition is antithetical to the very purpose of the competition. Rather than saving money, which was the original basis for outsourcing and competitive sourcing, it appears that, at least in the area of support services, the current course is costing the taxpayers more money.

#### **Ease of Contracting**

Hiring a civilian employee into the federal government often frustrates managers. The U.S. Merit Systems Protection Board (MSPB) has identified four challenges for the federal government in hiring civilians: “the length and complexity of the hiring process, the Government’s ability to market its jobs to attract high-quality applicants, the ability of Government assessments to distinguish the most qualified candidates, and the capacity of human resource (HR) staffs and supervisors to adequately carry out Federal hiring programs” (Crum, 2008). The MSPB found that hiring commonly can take as long as five months, with the decentralized system adding to the complexity rather than simplifying the process. Limitations placed by Congress and OMB—largely in the form of “personnel ceilings,” i.e., restrictions on the number of employees that may make up an agency’s headquarters staff—push managers to take the path of least resistance. Hiring contractors is much easier, especially when it can be done on a sole-source basis. With money and a contract in hand, managers are able to give new tasks to an existing contractor without competition. The contractor, unencumbered by having to compete for the task or to meet employment standards, can supply a qualified worker in short order, sometimes within hours—though usually at a substantial premium, by some accounts as large as 50 percent. The resulting so-called “blended workforce”—comprising both government and private employees—is problematic.

In recent years, outsourcing has become easier, with agencies skirting the provisions of A-76, as “most of the growth in service contracting has occurred outside of the A-76 process” (Walker, 2008, p. 5). The lack of competition of current practices has not been lost on the Congress. The Senate Government Affairs Committee found that through the use of task order contracts,<sup>7</sup> with their “broad categories of ill-defined services,” competition has “unnecessarily diminished” (Acquisition Advisory Panel, 2007, p. 29).

In the world of support services, the problem is not the definitions used in the A-76 process. While the A-76 competition process provides a certain rigor, the fact is that in fiscal year 2004 nearly one-third of the government’s contracting dollars obligated was awarded without competition.<sup>8</sup> The problem of contracting for support services, however, is not new. As early as 1991 the GAO noted that the U.S. Department of Energy (DOE) had increased the money it spent on support services by 56 percent, and the GAO told Congress that “guidance does not call for cost comparisons when contracting for services needed to fulfill new agency requirements or when federal performance is not considered feasible” (Peach, 1991, p. 1). DOE ofi-

<sup>7</sup> A task order contract, also known as an indefinite quantity contract, allows the government to add a new task to an existing contract. The government uses task order contracts when it cannot predetermine the precise quantities of supplies or services it will require during the contract period.

<sup>8</sup> The Acquisition Advisory Panel reported that the amount of noncompetitive awards is underreported (2007, p. 9).

cials told the GAO that “they did not compare costs since they could not get additional staff to perform the work in-house because of personnel ceilings” (Peach, 1991, p. 6).

#### **But Contractors Can Actually Cost More**

The GAO found that contracting outside of A-76 can actually cost the government more than doing the work in-house. In 1991, the GAO compared the costs of contractors and government employees of 12 contracts at DOE and found that 11 of the 12 contractors were, on average, 25 percent more costly (Peach, 1991, p. 2). In 2007, the House Select Committee on Intelligence made a similar cost comparison for the intelligence community and found that, on average, a contractor costs almost twice as much as a government employee (House Select Committee on Intelligence, 2007, p. 28). In 2008, the Office of the Director of National Intelligence reported that the cost of “salary, benefits, as well as full lifecycle costs; . . . [including] pension costs and health benefits” (Sanders, 2008, p. 8) for government employees was \$125,000. It also found that “per-capita cost per contractor was \$207,000 [for] direct labor, [this] does not include overhead” (Sanders, 2008, p. 8).

Understanding why contract labor costs more is key to correcting the current situation. Often the difference in the cost of a government employee and a contract worker is *not* reflected in the pay the workers actually receive. Typically, support contracts are not “cost plus fixed fee contracts,” but are MOBIS contracts.<sup>9</sup> Under this type of contract, when the government replaces a government employee with a contract worker, it has no assurance that it is getting a qualified person or that it is not overpaying for the services of the worker the contractor assigns. Contractors establish labor rates for broad categories that carry ambiguous titles, such as “Principal Management Consultant.”<sup>10</sup> The standards for the “Principal Management Consultant III,” for example, are so general (e.g., “Generally requires a business-related masters degree and 6 years of relevant experience”) that a very wide range of people can be assigned to that category. The payment the contractor will receive is very specific, however; according to one contractor on the GSA MOBIS schedule, it would be \$373,000 per year. Moreover, the government is charged the labor rate regardless of the actual pay a worker receives. The government does not compare the actual pay of the assigned contract worker with the labor rate it is being charged. As a result, contractors have an incentive to assign workers who actually earn less than the rate they charge the government.

Contractors also charge the government for the supervision of contract workers and overhead for the operations of the contractor’s organization, even when the contract workers do their jobs in government facilities and sometimes have little direct contact with the firm that employs them. All too frequently, the contract workers work behind the desk once occupied by a government employee, taking direction from a government supervisor. Anecdotally, some contract workers have never even been to their firm’s facilities. At the Naval Air Weapons Sta-

<sup>9</sup> The MOBIS [Mission Oriented Business Integrated Services] schedule enables the government to award contracts to companies to help improve management and organizational effectiveness of government agencies. Today, the MOBIS contracts are increasingly how the federal government responds to a continuous stream of new mandates. MOBIS contractors provide support services to agencies, to include “Contract administration support services, including assistance with reviewing [other] contractor performance, developing contract modifications, and investigating reports of [other] contract discrepancies” (U.S. General Services Administration, 2008).

<sup>10</sup> The category, qualifications, and the associated labor rate in the example given here were taken from a firm’s MOBIS listing on the MOBIS schedule approved by the U.S. General Services Administration and posted on the Internet on November 6, 2008.



tion China Lake, the base even charges contractors a fee for all the costs it incurs from housing contractors. While this allows the base to generate the funds needed to maintain its facilities, since basing it on the population of government employees would undercount the number of people actually working on the base, it is just another cost that is added to the contract. One has to ask: What is it that the government really gets from the contractor that justifies the cost differences between government employees and contract workers?

#### **Faulty Rational for a "Blended Workforce"**

While some exalt the benefits of the blended workforce (Thompson and Mastracci, 2005), others are concerned about the loss of in-house expertise (Senate Appropriations Committee, 2008, p. 14), lack of ethical standards for contractors, and the "pirating" of government employees by contractors (Negroponte, 2006). In a blended workforce, the lines of authority are often confused, with contractors not only supervising other contractors but contractors even supervising government employees. Today, many conflict-of-interest requirements apply only to federal employees. The *Washington Post* reports there are "more than 900 cases alleging that government contractors and drug makers have defrauded taxpayers out of billions of dollars" (Johnson, 2008) pending at the Justice Department.

The blended workforce undermines the very fabric of the federal workforce. Although the congressionally mandated Commercial Activities Panel recommended that federal sourcing policies and practices "be consistent with human capital practices designed to attract, motivate, retain, and reward a high-performing federal workforce" (Walker, 2002, p. 46), this has not happened. There is an inherent conflict between the Bush administration's human capital goals and its competitive sourcing policies. Opportunity for professional challenge and career advancement within the federal civilian workforce has been diminished by the large increase in contracted work. This may be demotivating to civilians and discouraging to potential civilian new hires.

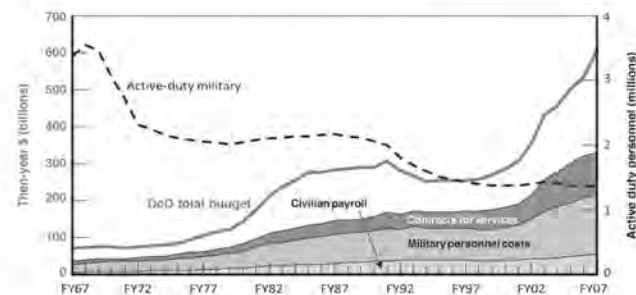
Competition in the private sector is supposed to produce incentives for efficient production, technological innovation resulting in new and improved products, and the reallocation of resources to their most productive use. Using contract workers simply to overcome limits placed by arbitrary personnel ceilings does none of these things.

#### **Managing the Increased Workload After 9/11**

The increased demands placed on the government after 9/11 have almost entirely been met by contracting, not only for the needed goods and services, but also to perform inherently governmental functions. For example, the former Director of National Intelligence recently complained,

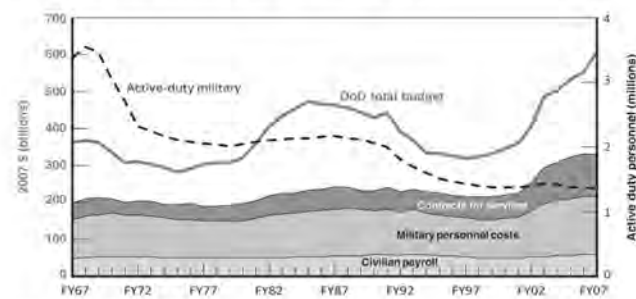
increasingly, the Intelligence Community finds itself in competition with its contractors for our own employees. Confronted by arbitrary staffing ceilings and uncertain funding, components are left with no choice but to use contractors for work that may be borderline 'inherently governmental'—only to find that to do that work, those same contractors recruit our own employees, already cleared and trained at government expense, and then 'lease' them back to us at considerably greater expense. (Negroponte, 2006, p. 6)

**Figure 2**  
DoD Total Budget and Personnel Costs, Then-Year Dollars



SOURCE: Chu and Eanes, 2008.  
RAND OR240-2

**Figure 3**  
DoD Total Budget and Personnel Costs, 2007 Constant Dollars

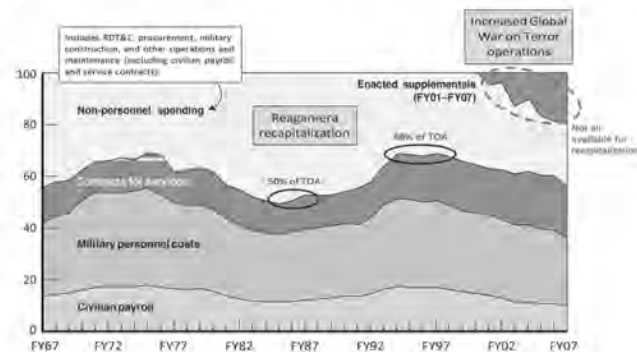


SOURCE: Chu and Eanes, 2008.  
RAND OR240-3

The increase in workload, especially at the Department of Defense, is reflected in the following charts prepared by the Office of the Under Secretary of Defense for Personnel and Readiness.

Figure 2 shows the sharp upturn in expenses that started at the end of the Clinton administration and accelerated after military operations started in Afghanistan and Iraq. The increase in the cost of military personnel reflects higher wages, health costs, enlistment and reenlistment

**Figure 4**  
Defense Spending as a Percentage of DoD's Total Budget



SOURCE: Chu and Eanes, 2008.

NOTE: RDT&E = research, development, testing, and evaluation; TOA = Total Obligation Authority.

RAND OVV-14

bonuses, and active-duty pay for reserve personnel. In contrast, the chart shows the decrease in the size of the active-duty military. The largest increases are in the cost of contractor services.

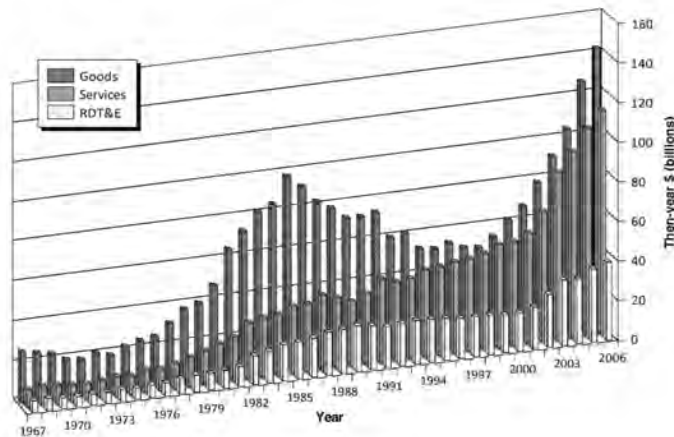
Figure 3 shows this same picture in constant 2007 dollars. Here again, the largest increases are in contractor services. Viewed this way, the largest increases have been for military personnel and contractors. The cost of DoD civilians has been relatively constant since the late 1960s, even though the increasingly white-collar nature of the workforce alone should have resulted in higher costs.

Figure 4 shows that, while the share of personnel costs of the DoD total budget have grown over time—from a low of 50 percent during the Reagan buildup (i.e., significant extraordinary capital expenses) to over 68 percent during the post-Cold War drawdown (i.e., reduced capital investment)—today it is about where it was in 1967, before the transition to an all-volunteer force. However, in contrast to 1967, the biggest difference is the growth in the cost of support contractors. The shares spent on civilian personnel and military personnel have dropped, but the proportion spent on support contractors has increased.

The Department of Defense estimates that in 1967 contractors made up 11 percent of the total force. In 2007 they made up 23 percent of the total force, even though the absolute number of the total force has held relatively constant. In 2007, contractors accounted for 35 percent of personnel costs, as compared with 24 percent in 1967. The proportion of costs for Reserves is the only other manpower segment that saw an increase over 1967, from 3 percent to 6 percent (Chu and Eanes, 2008, p. 13).

Over the last decade, government contracting for services has grown sharply, such that, in 2006, "procurement spending on services accounted for more than 60 percent of total

**Figure 5**  
**Overall Procurement Trends**



SOURCE: Chu and Eanes, 2008.

NOTE: RDT&E = research, development, testing, and evaluation.

RAND OPR&D 5

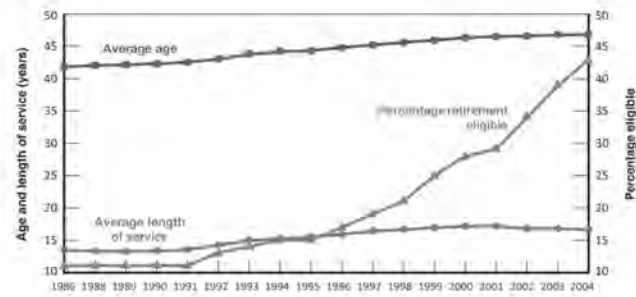
procurement dollars in the federal government. In FY 2005, DoD obligated more than \$141 billion on service contracts, a 72 percent increase since FY 1999" (Acquisition Advisory Panel, 2007, p. 3). The largest service contract category is "professional, administrative and support services." In FY 2006, the Department of Defense spent over \$32 billion in this category alone (Chu and Eanes, 2008, p. 14).

The growth in the services category relative to other contracts over time is shown in Figure 5. This growth has been largely outside the A-76 process, using task order contracts that are extremely broad in their scope of work. According to the Acquisition Advisory Panel, use of task order contracts "fails to produce meaningful competition" (Acquisition Advisory Panel, 2007, p. 102).

#### **Pending Retirements Will Deprive the Government of Needed Talent**

As the federal workforce was first reduced in size, and then just maintained with relatively small yearly losses barely replaced, another dynamic was taking place. What appeared to be stability covered an insidious creeping reality that the number of employees eligible to retire was sharply increasing, resulting in what the U.S. Merit Systems Protection Board has called "a 'brain drain' as the result of an aging workforce and high retirement eligibility rates" (McPhie, 2008a). Figure 6 shows how the existing workforce has grown older over time and the sharp increase in the number of civil servants who are eligible to retire. However, not everyone leaves when they are eligible to retire.

**Figure 6**  
The Federal Workforce Is Getting Older, with Many Eligible to Retire



SOURCE: U.S. Office of Personnel Management, *The Fact Book: Federal Civilian Workforce Statistics*, 1998.  
BAND 06/2008

**Figure 7**  
Percentage of DoD Employees Remaining Employed in Years Following Retirement Eligibility



SOURCE: U.S. Office of Personnel Management, Division of Strategic Human Resources Policy, 2008, p. 9.  
BAND 06/2008

Historically, although not all employees retire when they are first eligible to do so, 50 percent of them do retire within the next four years (U.S. Office of Personnel Management, Division of Strategic Human Resources Policy, 2008). Because the number of civilian employees reaching retirement eligibility has increased sharply in recent years, even the historic rates of retirement will mean that large numbers of experienced federal employees will be leaving.

While the government loses less than 20 percent of its retirement-eligible workforce per year, the cumulative effect reduces the number of experienced workers over time. Figure 7 shows that, nine years after reaching retirement eligibility, almost 80 percent of these workers have retired. While, for some agencies, having 45 percent of the workforce eligible to retire has not been an immediate problem because of historic retirement patterns, the sharp increase in the numbers who are eligible to retire will present new challenges for federal managers. Although in the short term the government can rehire retirees as "re-employed annuitants," which can facilitate the transfer of knowledge to new employees, by the end of the decade an unprecedented number of experienced federal employees will be gone.

Contractors who aggressively recruit can reverse the historic retirement pattern if those who are eligible to retire decide to avail themselves of the very attractive financial opportunities to be both a retiree and a contract worker. For example, in the area of military intelligence, where there are many opportunities for former government personnel to join a contractor, we find lower retention rates, with relatively more intelligence retirees going to work for contractors than do their colleagues who do not have an intelligence background. To counter this, some have proposed that the government aggressively recruit older workers from the private sector and former military personnel to ensure that a broad range of experiences is available (McPhie, 2008b; Gates et al., 2008, pp. 48–49).

#### **Lack of Appropriate Supervision Has Led to Abuses**

Overtime, as the size of the contract workforce has increased, government oversight has waned. For example, the GAO found numerous cases at the U.S. Department of Homeland Security (DHS) in which "components lacked the capacity to oversee contractor performance due to limited expertise and workload demands. These deficiencies may have resulted in a lack of control over and accountability for decisions" (GAO, 2007, p. 22). The Washington Post recently reported that "more than 900 cases alleging that government contractors and drug makers have defrauded taxpayers out of billions of dollars are languishing in a backlog that has built up over the past decade because the Justice Department cannot keep pace with the surge in charges brought by whistleblowers, according to lawyers involved in the disputes" (Johnson, 2008).

#### **Needed Action**

Remedial action has been the subject of a number of GAO reports and special congressional commissions. Their recommendations have tended to be conservative and do not address either the fundamental causes or the needed changes.<sup>11</sup> Arguments over the provisions of A-76

<sup>11</sup> See, for example, the recent statement by David Walker before the House Committee on Armed Services. Walker said,

(believe) that we must engage in a fundamental reexamination of when and under what circumstances we should use contractors versus civil servants or military personnel. This is a major and growing concern that needs immediate attention. In general, I believe there is a need to focus greater attention on what type of functions and activities should be contracted out and which ones should not. Inherently governmental functions are required to be performed by government personnel, not private contractors. Government officials, in making decisions about whether to use contractors for services closely supporting inherently governmental functions, should assess risk and consider the need for enhanced management and oversight controls. Once the decision to contract has been made, we must address challenges we have observed in ensuring

are increasingly irrelevant, as most of the growth in service contracting has occurred outside of the A-76 process. While it has not been fashionable to argue that increasing the size of the in-house workforce is the only way to provide appropriate government oversight and to ensure that inherently governmental work is done by federal civilian employees, the recent action by the Congress did just that (Section 324 of the National Defense Authorization Act for Fiscal Year 2008 [P. L. 110-181]).

#### Recent Congressional Action

The Senate Appropriations Committee told the Department of Homeland Security to “establish an aggressive plan to convert contract functions to in-house functions where appropriate. The Department should also consider projected savings or costs of replacing contractor positions with full-time Government employees” (Senate Appropriations Committee, 2008, p. 14).

Section 324 of the National Defense Authorization Act for Fiscal Year 2008 provides “Guidelines on In-Sourcing New and Contracted Out Functions” that require the Defense Department to “devise and implement guidelines and procedures to ensure that consideration is given to using, on a regular basis, DoD civilian employees to perform new functions and functions that are performed by contractors and could be performed by Department of Defense civilian employees.” This provision challenges the 2003 rewrite of A-76 with its insertion of the word “substantial” before the words “inherently governmental.” It directs

special consideration ... be given to using Department of Defense civilian employees to perform any function that—

(1) is performed by a contractor and—

(A) has been performed by Department of Defense civilian employees at any time during the previous 10 years; (B) is a function closely associated with the performance of an inherently governmental function; (C) has been performed pursuant to a contract awarded on a non-competitive basis; or (D) has been performed poorly, as determined by a contracting officer during the 5-year period preceding the date of such determination, because of excessive costs or inferior quality; or

(2) is a new requirement, with particular emphasis given to a new requirement that is similar to a function previously performed by Department of Defense civilian employees or is a function closely associated with the performance of an inherently governmental function. (U.S. Department of Defense Inspector General, 2008, pp. 1–2.)

#### Additional Action Is Required to Revitalize the Civil Service

If, as a result of Section 324, the government were to start to bring jobs that have been contracted out back in-house, a number of things must happen. The government must eliminate the politically set personnel ceilings, determine the proper mix and appropriate roles of contractors and government employees, and ensure that it can recruit, train, develop, and retain a

proper oversight of these arrangements—especially considering the evolving and enlarging role of contractors in federal acquisitions. (Walker, 2008, p. 29)

skilled and qualified workforce. *Let's be clear: The government will not be able to effectively control the use of contractors if it continues to impose arbitrary manpower ceilings at any level.*

There needs to be a clear understanding of what should and should not be contracted out. Much has been written about the provisions of A-76 in terms of "inherently governmental," but more is needed. The historic prohibition of not contracting for personal services,<sup>12</sup> which has recently been interpreted in the most lenient way, needs to be tightened up and strictly adhered to. There needs to be a clear understanding that the government does not contract out jobs, but rather functions — functions that can be measured and for which the government can assess the quality of the work performed by a contractor. This fits into the realm of the classic A-76 competition, but does not fit well with support service contracts under which contractors supply workers to do the work traditionally done by government employees.

Even with the end to ceilings, bringing essential government work in-house and providing oversight for appropriately contracted-out work will not be easy. The U.S. Merit Systems Protection Board in a recent study suggested a number of ways to improve the hiring process by treating hiring as a critical business process and not just an administrative process (Crum, 2008). Actions include the following:

- t Eliminate the use of personnel ceilings at any organizational level as a means to control cost. The contracting for support services must be on a cost-effectiveness basis, with due regard to the restrictions on both "inherently governmental" work and personal services contracting.
- t Implement "Manage to Payroll"<sup>13</sup> with appropriate incentive structures for managers to ensure adherence to human capital principles as outlined by the 2002 Commercial Activities Panel (Walker, 2002).
- t Improve the attractiveness of government jobs for new entrants to the labor market.
- t Adequately resource a streamlined and effective government hiring process.
- t Sustain commitments and funding for the training and career development of civilian personnel analogous to that provided to military personnel.
- t Train and hold federal managers responsible to manage and use the flexibilities provided by the various federal personnel systems.
- t Develop a transition program to ensure the continuity of work during "in-sourcing."
- t Eliminate the blended workforce. Prohibit support contracts that simply put contractor personnel at desks previously occupied by government workers, or at new desks because of arbitrary personnel ceilings.
- t Implement strategic sourcing (as opposed to competitive sourcing) that fully implements the provisions of A-76 that restrict outsourcing to functions that are not "inherently governmental."

<sup>12</sup> According to Federal Acquisition Regulations (FAR), personal services contracts are characterized by the employer-employee relationship they create between the government and contracted personnel. Agencies of the federal government are not allowed to award personal services contracts unless specifically authorized by statute.

<sup>13</sup> "Manage to Payroll" is a managerial approach developed by the Department of the Navy in 1986. It gives managers maximum flexibility in selecting the mix of people to employ, regardless of arbitrary ceilings or grade restrictions.



### Recommendations

At this point in U.S. history, it is particularly important that the government address the use of contractors to accomplish the nation's business. Current practices are costing the taxpayers billions of dollars, as suggested by the comparisons of costs of government employees and contract workers, as well as the number of firms that the government is taking legal action against. There needs to be a clear understanding of when it is appropriate to contract functions (never individual jobs) and the oversight that the government must provide. The government should strictly adhere to the concept of "inherently governmental" and the prohibition on personal services contracting. Contract personnel must never be put in a position where there is any semblance of a conflict of interest. The interests of a contractor are ultimately private gain, and do not necessarily align with the interests of the government. To think otherwise is to invite problems.

As envisioned in Section 324, converting positions from contracting back to the government will not be easy and will run counter to the canard that measures the efficiency of government by the number of people it employs. The new administration should not try to fool the American people, perpetuating the myth of smaller government by not counting the hordes of service contractors it engages. Clearly, there are things that should be contracted and that the government need not and should not undertake, but the unfettered use of contractors has skyrocketed and must be brought under control.



## Bibliography

---

- Acquisition Advisory Panel, *Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress*, Washington, D.C.: Office of Federal Procurement Policy, 2007.
- Chu, David, and Jeffrey Eanes, *The Trajectory of Personnel Costs in the Department of Defense*, Washington, D.C.: Office of the Under Secretary of Defense for Personnel and Readiness, 2008.
- Crum, John, "Taking Aim at Federal Hiring," *Issues of Merit*, July 2008.
- Daniels, Mitchell E., Jr., "Circular A-76 Revised," Washington, D.C.: U.S. Office of Management and Budget, May 29, 2003. As of November 13, 2008: [http://www.whitehouse.gov/omb/circulars/a076/a76\\_rev2003.pdf](http://www.whitehouse.gov/omb/circulars/a076/a76_rev2003.pdf)
- GAO—See U.S. Government Accountability Office.
- Gates, Susan M., Edward G. Keating, Adria D. Jewell, Lindsay Daugherty, Bryan Tysinger, Albert A. Robbert, and Ralph Masi, *The Defense Acquisition Workforce: An Analysis of Personnel Trends Relevant to Policy, 1993–2006*, Santa Monica, Calif.: RAND Corporation, TR-507-OSD, 2008. As of November 13, 2008: [http://www.rand.org/pubs/technical\\_reports/TR572/](http://www.rand.org/pubs/technical_reports/TR572/)
- Hedgpeth, Dana, "Pentagon Auditors Pressured to Favor Contractors, GAO Says," *Washington Post*, July 24, 2008.
- House Select Committee on Intelligence, "Intelligence Authorization Act for Fiscal Year 2008," Washington, D.C.: U.S. House of Representatives, 2007.
- Johnson, Carrie, "A Backlog of Cases Alleging Fraud; Whistle-Blower Suits Languish at Justice," *Washington Post*, July 2, 2008.
- Krugman, Paul, *Peddling Prosperity*, New York: W.W. Norton & Company, Inc., 1994.
- McPhee, Neil A. G., *Attracting the Next Generation: A Look at Federal Entry-Level New Hires*, Washington, D.C.: U.S. Merit Systems Protection Board, 2008a.
- , *In Search of Highly Skilled Workers: A Study on the Hiring of Upper Level Employees from Outside the Federal Government*, Washington, D.C.: U.S. Merit Systems Protection Board, 2008b.
- Negroponte, John D., *Five Year Strategic Human Capital Plan*, Washington, D.C.: Office of the Director of National Intelligence, 2006.
- O'Harrow, Robert, Jr., "Potential for Conflict Grows with Government's Use of Contractors," *Washington Post*, August 18, 2008.
- Office of Management and Budget, "The President's Management Agenda," Washington, D.C.: Executive Office of the President, 2002.
- Peach, J. Dexter, *Energy Management: Using DOE Employees Can Reduce Costs for Some Support Services*, Washington, D.C.: U.S. General Accounting Office, GAO/RCED-91-186, 1991.
- Public Law 110-181, National Defense Authorization Act for Fiscal Year 2008, January 28, 2008.
- Reagan, Ronald, "First Inaugural Address," Washington, D.C., January 20, 1981.

Sanders, Ronald, "ODNI Transcript: Conference Call on the Results of the Fiscal Year 2007 U.S. Intelligence Community Inventory of Core Contractor Personnel," Washington, D.C.: Office of the Director of National Intelligence, 2008.

Senate Appropriations Committee, "Department of Homeland Security Appropriations Bill, 2009," Washington, D.C.: United States Senate, 2008.

Simon, Jacqueline, "Statement by Jacqueline Simon, Public Policy Director American Federation of Government Employees, AFL-CIO, Before the Acquisition Advisory Panel/Section 1423 Panel," Washington, D.C., December 19, 2005.

Thompson, James R., and Sharon H. Mastracci, "The Blended Workforce: Maximizing Agility Through Nonstandard Work Arrangements," in *Human Capital Management*, Washington, D.C.: IBM Center for the Business of Government, 2005.

U.S. Army IMCOM Installation Management Command, *Brief History and Overview of Competitive Sourcing and the Circular A-76*, Washington, D.C.: U.S. Army, 2008.

U.S. Department of Defense Inspector General, *DoD IG Report to Congress on Section 324 of the National Defense Authorization Act for Fiscal Year 2008: Review of DoD Guidelines on Considering Civilians for New and Contracted Functions*, Washington, D.C.: U.S. Department of Defense, 2008.

U.S. General Services Administration, "Mission Oriented Business Integrated Services (MOBIS)," Web page, 2008. As of November 13, 2008:

[http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentId=9944&contentType=GSA\\_OVERVIEW](http://www.gsa.gov/Portal/gsa/ep/contentView.do?contentId=9944&contentType=GSA_OVERVIEW)

U.S. Government Accountability Office, "Department of Homeland Security: Improved Assessment and Oversight Needed to Manage Risk of Contracting for Selected Services," in *Report to Congressional Requesters*, Washington, D.C.: U.S. Government Accountability Office, 2007.

U.S. Office of Personnel Management, *The Fact Book: Federal Civilian Workforce Statistics, 1986-2004* editions, Washington, D.C.: United States Office of Personnel Management, 1987-2005.

U.S. Office of Personnel Management, Division of Strategic Human Resources Policy, *An Analysis of Federal Employee Retirement Data: Predicting Future Retirements and Examining Factors Relevant to Retiring from the Federal Service*, Washington, D.C., 2008.

Walker, David M., "Commercial Activities Panel: Improving the Sourcing Decisions of the Federal Government," in Testimony Before the Subcommittee on Military Readiness, Committee on Armed Services, House of Representatives, Washington, D.C.: U.S. Government Accountability Office, 2002.

—, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*, Washington, D.C.: U.S. Government Accountability Office, Report 08-572T, 2008.

Senator McCASKILL. I want to talk a little bit about what we have come to refer in this committee in the last several hearings as the deputy deputy dog syndrome. That is, in the civilian force, the springing up like mushrooms at a certain time of year of a new deputy to the deputy to the deputy. And where is that coming from? Why is there this seem-to-be growth of people with titles? Is it just the need for titles, in terms of, you know, how you're viewed within the civilian force—the civilian workforce at the Pentagon? Is there really a need for all these many, many layers of personnel that seemingly have some kind of authority over someone else? Has this thing gotten too layered? I mean, it appears to me it's gotten too layered, but I would love your take on that.

Dr. Rostker?

Dr. ROSTKER. We have a whole layer in the Defense Department that never existed when I came to town. We had Assistant Secretaries reporting to the Secretary of Defense. Today, we have Assistant Secretaries reporting to Deputy Secretaries to Under Secretaries who report to the Secretary of Defense. So, the whole Department has grown at least one layer.

Senator McCASKILL. And why?

Dr. ROSTKER. The desire to do coordination. So, in the area of personnel, we have an Under Secretary and then we have a series of Assistant Secretaries. At one point in time, those Assistant Secretaries were all Deputy Assistant Secretaries, and the Assistant Secretary have—we've just mushroomed the whole—my judgment, the whole Department up one layer. And it just grew out of hand.

Senator McCASKILL. How can you—how can we crank that back?

Do you have any ideas, Mr. Hale? How could we, from—as overseers, as—in an oversight capacity, trying to get a handle on the way we're using resources, how do we stop that?

Dr. HALE. Well, let me just start by saying, for the record, that the organization I ran, I think, was, by Pentagon standards, relatively flat. There were no Assistant Secretaries in that Comptroller's shop. But, I understand your concern. I mean, you've tried to put limits on headquarters. That makes sense to me. I think, in the end, you're going to have to let the Department decide how to organize that more limited numbers, that what I would appeal to you when you're trying to do this, too, is to try to reduce the workload, the sunseting of reports, is an excellent idea. We—

Senator McCASKILL. Right.

Dr. ROSTKER.—spent a lot of time preparing reports. But, if we're going to reduce the size of the headquarters, at least in my experience, people over there were working hard, for the most part. There were a few slackers, but, for the most part. We've got to reduce the demand on them. Some of that's Congress, but some of it is internal, as well.

In the end, Senator McCaskill, I think you've got to let the Department figure out how to organize itself within those more limited numbers. Hopefully, the more limited numbers will engender some reduction in the concerns that you're expressing—

Senator McCASKILL. Okay.

Dr. ROSTKER.—about hierarchy.

Senator McCASKILL. Okay.

I'm out of time. I would, at some point, like to have some input from this expertise that's presented here today on acquisition force, the notion that the folks that rotate out of there every year and a half are really—were being outgunned by the people who are buying—who are selling stuff to us. Big time, we're being outgunned, because there's not the buildup of expertise in acquisitions that you're going to have to have at the leadership level. And it's like the special corps you talked about, Dr. Rostker. There are certain functions within the military that we need not put one-size-fits-all. Because I think acquisitions is a great example of where we've wasted a lot of money because we didn't have the expertise there we needed.

Thank you, Mr. Chairman.

Chairman MCCAIN. Isn't it also true that every time there is a crisis or a problem, we create another bureaucracy and, in some cases, an entire command that—as a solution? And I don't think that's necessarily the long-term solution.

Senator Lee.

Senator LEE. Thank you, Mr. Chairman.

And thanks, to all of you, for the insightful testimony that you've offered this morning.

As we've already discussed, there are a lot of benefits to our country that come from having an All-Volunteer Force. We also know that it's not a perfect system. And I'd like to take a few minutes to address some of the criticisms and some of—what some have characterized as the unintended consequences of having an All-Volunteer Force, and perhaps ask some of our witnesses about possible drawbacks to the All-Volunteer Force and what can be done to address those.

Now, some have argued that the All-Volunteer Force creates a circumstance in which the burdens—the risks and the real-world consequences of war disproportionately affect members of the military and their families, while the vast majority of the public is largely shielded from the really awful effects of war. General Stanley McChrystal has made this point with respect to the wars in Iraq and Afghanistan.

Now, some critics take the argument even a step further than this and say that if these burdens were extended more evenly across the population, the United States would be far more cautious in determining when, whether, and how to engage in any type of armed conflict overseas.

So, Secretary Chu and Secretary Rostker, let's start with you. Can you comment on these criticisms and on the long-term conflicts, or consequences, rather, of an All-Volunteer Force? And then, Admiral Roughead, can you comment on the potential negative impacts of having our military actions being initiated and executed by roughly 1 percent of the United States population, a population that consists of decisionmakers in Washington, D.C., and servicemembers, who tend to be stationed at our Nation's military bases?

Dr. CHU. Senator, thank you. It's an important issue.

I do think that we should keep in mind that the 1 percent, the small fraction of the country that serves, is really a function of two key elements. First, what's the size of the military, Active Duty especially, that we maintain? Much smaller now, relative to our population base, than was true 20, 40, 60, 80 years ago. Second, what's the size of the population cohort that would ordinarily be looked at for military service?

One reason the draft was needed, I would argue, in the '50s, is, in fact, the United States, given it was an all—essentially an all-male force, needed almost every able-bodied young male to serve. It's just a function of the small birth cohorts in the 1930s during the Great Depression. So, I would observe that it's—for the size military maintained today, given the size of our population, it's always going to be true that only a small fraction see military service.

To the question you raise about "Should the country be more involved with that serve as an important element in the national discussion of whether we should or should not commit forces?"—I'd observe that we did involve the country, in the last 15 years, in a significant way, because we mobilized the Reserves. The Reserves really are a cross-section of the United States, and touch every community in the country, every State in the Union. And so, while it's not quite the same as the old draft model that some put up, it does involve the country in that. And I think it's a great tribute to the people who volunteered for the service, that they answered that call. The Reserves served with extraordinary performance levels in this last long conflict, which continues to this day.

Senator LEE. And so, for that reason, in the future, continuing to rely, or perhaps expanding our reliance, upon Guard and Reserve units could have that effect, that—the effect of distributing more broadly the people who were involved.

Dr. CHU. In my judgment, yes, sir.

Senator LEE. Okay.

Dr. ROSTKER. I don't know whether you know, Senator, but I'm a former Director of the Selective Service System, and have dealt with the questions you've asked, literally for decades.

The fundamental question that led to the reform of Selective Service in 1970 is, "Who serves when not all serve?" And that deals with the issues that Dr. Chu talked about, the size of the military and the cohorts that support it. The notion that a sizable portion of the country will be involved in the military, given the size of the military and the technology of the military, is just not realistic.

The second is the nature of today's military. It's not a matter of giving a soldier a rifle and 6 weeks of training, and shipping him over—or her—now her—overseas, but a very technical force that requires a great deal of schooling and skill and knowledge. And we've talked about preserving and managing that talent. Are we to turn that talent off and throw that talent away just to create the opportunity to bring more unskilled people into sharing in the experience of the military? I think the use of the Reserves talks to the involvement of the community. But, the fundamental issue is the size of the population and the size of the military that we have today.

Senator LEE. Admiral?

Admiral ROUGHEAD. Yes, sir. I echo some of what's been said here. And I think that what we'll find as we go into the future, particularly with the force levels that are deployed now, especially on our ground forces, the—that number of Guard and Reserve will come down significantly, so we're going to lose that connectivity into society.

I think the other thing that's happening is that we're, in a way, moving from an All-Volunteer Force to what I would call an All-Professional Force, that the number of people serving in the military today who have relatives who have been in the military is going up. And so, are we going to end up with a military that is more removed from society?

I—on the broader issue of voluntarism, I'm a proponent of a national service, but how do you devise a plan that's equitable and that some people get to go in the military and go in harm's way,

and other people go off and do things in the homeland that are perhaps a little more benign? And I don't know how you get to that. But, I do think that there's a need for a commitment to national service.

Senator LEE. Thank you very much.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman.

I'd like to paraphrase something you said, Admiral, the—when you acknowledged that the All-Voluntary—Volunteer Army was, I think, the single biggest change to the military. Can you think of another change that could have this kind of a profound impact on the military? Could it be the number of women who are serving in the military, or some other example of something coming down the pike that would result in a profound change to the military?

Admiral ROUGHHEAD. I think that the example that you cited, women serving in the military, will transform the military, but it will not be the change in the total model that we're using. I really do think that there may be an opportunity, however, as was mentioned here—How do you fuse and how do you design the government civilian force and the military force that can better share in responsibilities, particularly in the headquarters areas? And I think a redesign in the aggregate may approach the monumental change that occurred with the All-Volunteer Force. And I think it's time to take a look at that.

Senator HIRONO. Mr. Rostker, you noted that flexibility was of—I think you used the words “the most critical” or a key component to what we ought to be instilling in the military. Can you give an example, perhaps, of where you see flexibility not existing? And how would we ensure flexibility in a system, a department that is massive and is still operating under old paradigms in many, if not in most, cases?

Dr. ROSTKER. I think the most important issue in flexibility is to manage the individual skill sets, the careers, in ways that make sense for that career. And I would do that by removing the statutory limit of 30 years of commissioned service and let that be determined by the needs of the individual service. We heard about the acquisition corps. And we have the same issues in the intelligence area. We have the same issues in the chaplains corps and the like. And that would give us the flexibility to use people to the maximum extent.

Senator HIRONO. I think this panel has made a really strong case for looking at DOPMA and the fact that it really doesn't make sense to use a one-size-fits-all and everybody leaves at age 52, where—but, actually, people make decisions to leave much sooner than at age 52. Don't they make decisions earlier and—when they see that, if they're going to have to leave at 52, they're going to decide at a much earlier age to leave.

Dr. ROSTKER. Absolutely. I can remember a young JAG [Judge Advocate General] officer who was—came to me at 20 years of service. He had a wonderful career. He was looking forward. Was in the congressional legislation—legislative office and said he was given the opportunity to lead one of the military service organizations, but he really wanted to stay in the Navy. And I said, “You can't



stay in the Navy. The—we cannot offer you more than the possibility of 10 more years of service, and then you will not be in your early 40s, you'll be in your 50s." Chances of making admiral—there are two admirals—were not—you couldn't take that to the bank. And so, I had to counsel him to leave. He would not have left if he saw the full career that he could have aspired to, even if he did not make flag.

Senator HIRONO. So, the changes to DOPMA should be made at the congressional level? Is that—

Dr. ROSTKER. That provision would have to be made at the congressional level. There is a provision today that the Secretaries in military departments could institute special boards and the like. But, I think we need to tell the managers of the Department that each of the competitive categories, each of these occupational groups, should have a career structure that makes sense for that group. We allow them to compete against each other in the competitive category, but within the limits of the DOPMA career structure. We should open up that career structure.

Senator HIRONO. As I said, I think you all have made such a strong case for making those kinds of appropriate changes to DOPMA that I certainly hope that this committee will follow through.

Thank you very much. I yield back.

Chairman MCCAIN. Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman.

Gentlemen, thank you for your service, and thank you for being here with us today.

Just a real quick down-the-line response, please, on this. Do you see Goldwater-Nichols jointness requirements as an aid or an obstacle to the system itself right now? And if it's an obstacle, how would you make it better?

Dr. Chu?

Dr. CHU. I think it is both, unfortunately, so it has a very good feature, which is to encourage a joint experience, especially for those who aspire to more senior positions. It has improved the quality of headquarters staffs. I saw that when I served in the Department in the late 1980s and it was first instituted. At the same time, as I suggested, it's a bit too mechanistic and too much oriented through the inputs that we think will provide a joint orientation, and not concerned enough with whether the outcomes are the ones that we want.

And I think I would move to more flexibility about how you can decide that someone has achieved the experience level that you'd like to see that produces the kind of joint orientation we'd like to have.

Senator ROUNDS. Dr. Rostker?

Dr. ROSTKER. I think Dr. Chu is probably right, but I saw the negative sides of Goldwater-Nichols. I spent most of the '90s on—in service secretariat as the Assistant Secretary of the Navy for 6 years and then as Under Secretary of the Army. And I saw officers coming into senior ranks who had never served on the service staffs. And the model before that was to, in fact, serve on the service staff so that great admirals, like Carl Trost or Mike Boorda had served to learn their craft of managing the enterprise. And man-

aging the business of the Navy is not going to be done in the joint arena, it's going to be done in the Navy. And the—that next generation spent their time being jointed. And then, when it came back to serve on the service staffs, they largely did not have that experience.

I could adjust that, if you give me that 5 more years of career content, so they could do both. But, the impact of Goldwater-Nichols, because of its statutory requirements, was to force out this very valuable time that was spent on the service staffs. They still did their sea time, but they did not do their service management time, which was so critical for the future.

Senator ROUNDS. Mr. Hale?

Dr. HALE. So, I would not get rid of Goldwater-Nichols or the joint requirement. I fear, as Admiral Roughead said, a return to the tribal approach. But, more flexibility does sound like it is appropriate.

I'll reiterate what I said earlier. I think the civilian system worries me more, and we may need some analog to the Goldwater-Nichols approach to demand some more rotational experience for those who will be our civilian leaders. Perhaps we can learn from the experience of the military and avoid the adverse consequences. But, it did change behavior, and I think some kind of effort on the civilian side would change behavior, also, and it needs to happen.

Senator ROUNDS. Admiral?

Admiral ROUGHEAD. Yes, sir. As I've mentioned, I really do believe that we have to keep the joint imperative on the force. It needs to be reinforced at a more senior level. And by lifting some of the mandated requirements in the junior ranks, I think that we can rebalance the competencies in the service staffs.

You know, we talk a lot about acquisition reform, but a lot of how we enter into the acquisition process deals with setting requirements and budget decisions and things like that. And by forcing in more people earlier into the joint structure, we're not building those repetitive tours that give the people the experience and the knowledge to really take on some of the hard things of acquisition and man training and equipping.

And so, I think there are some levers that can be pulled to adjust the Goldwater-Nichols requirements, but then it also needs to be done in conjunction with DOPMA. Because if you don't adjust some of these other constraints that you have in DOPMA, then I think you're going to impose some new problems that you have.

So, as this is looked at, my recommendation is: look at Goldwater-Nichols, look at DOPMA, look at the civilian force, and how do you blend them together to get the design that will be good for the next couple of decades. And I would submit, after 20 or 30 years, it's probably going to be time to take a relook again, because times will change.

Senator ROUNDS. Thank you, Mr. Chairman.

Chairman MCCAIN. Senator King.

Senator KING. Thank you, Mr. Chair.

I'd like to follow up on that exact point, Admiral, thank you. That was a very succinct statement.

Tour lengths. A mundane question. I had the opportunity to interview or to chat with General Dunford as he was leaving Af-

ghanistan a couple of years ago, and I was overwhelmed by his level of expertise and knowledge. He knew everything about Afghanistan, and yet he was leaving after 18 months. And I thought, nowhere in the public sector would you do something like this, take this amount of expertise and knowledge and say, "Okay, time's up, you've got to go up to Sheboygan."

Talk to me, Mr. Rostker, about tour lengths. Could we—and how much money could we save if we just made tours 4 years instead of 3 years? I mean, the cost of moving people, is it—are we—is this a remnant of a prior manner of thinking? Is there—are there ways to adjust this, both to save money and also to maintain expertise?

Dr. ROSTKER. If you made that change, you'd get an immediate savings, and it would set back into a steady-state, and you really would not get that much savings, because the force is still built on some notion of rotation.

Tour lengths should be handled in the same way that Dr. Chu's talked about, as increasing the opportunity for people to volunteer. We just finished a study for the Defense Department in which we posed the question, Would people be willing to extend their tours overseas? And only about 40 percent of the population said they would. And then we asked the next question, If you had a financial incentive, would you be willing? And we varied the financial incentive so we could understand what was going on. And, for very little—relatively little money, we could get up to 60 to 70 percent of the people to extend their tours.

So, we can use tools to better manage the Department and have people make voluntary decisions rather than force them to say, "Well, now you're here and we're going to give you another 4—another year, even if it's a bad place." Let people have the opportunity to stay, and let's use reasonable financial incentives to encourage them, where that makes sense. And I call your attention to the Navy's outstanding program to allow this, in initial assignments, to fill hard-to-fill areas. We're not making use of those kinds of incentives.

Senator KING. Dr. Chu, slightly changing the focus: force structure in the 21st century. And we've—been a lot of talk about contractors and civilians. But, it seems to me that the—what we ought to be doing is having warfighters be warfighters. And if that's what they're trained for, and it's very expensive to train them, then the other functions, whether it's maintaining the aircraft or serving the meals, should be done by somebody other than uniformed personnel who have that expensive and extensive training.

Dr. CHU. Sir, I couldn't agree with you more. And that actually was an initiative of the—one of the Secretaries I had the privilege of serving was Secretary Rumsfeld—worked hard on looking at which functions should be carried by military personnel, which are our most expensive asset, pure dollars-and-cents perspective, and which ought to be performed by civilians. And interesting, the Department made—and, in fact, he succeeded in converting about 50,000 slots. So, the military numbers weren't up because of these in the war, but he did convert about 50,000 billets from military to civilian status, which could be either Federal civilians or contractors, depending upon the nature of the task.

Interestingly, the government does—Department does maintain a database on this matter. This—inherently a governmental commercial activity database, which can serve as a guide and does argue that there's a number of positions to which we could use civilian personnel, whether those are Federal civilians or contractors. So, I think there's more to be had, there. And I think that's an important—as I argue in my testimony, it's important source of both performance improvement and cost savings for the Department. Choose the right mix of personnel for the task at hand.

Senator KING. And as long as the contractors are managed properly, that's one—one of the long-term bears in the room here long-term personnel costs and the tail costs, in terms of healthcare and pensions. If you manage contractors properly, they bear that risk, and not the taxpayers.

Dr. CHU. Yes, sir. And I think that's one of the issues in thinking about Federal civilians versus contractors—and back to the issue of low performers on the Federal Civil Service. One of the reason entities within DOD and other government agencies find contractors so attractive, in my judgment, is they can turn the contract on and off. If the need diminishes, you can stop the activity. It's much harder to do that under the U.S. Federal Civil Service practices, not necessarily the statutes, but the way they are implemented. And I think that's one of the issues that the committee might usefully address.

Senator KING. Thank you.

Thank you, Mr. Chairman.

Chairman MCCAIN. Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

And thanks, to the witnesses.

I have a—one question about recruiting and one kind of about structural issues during the tenure of someone's service.

On the recruiting side, there was an Economist article in late October, and the title was "Who Will Fight the Next War?" And it was about difficulties in recruiting young people into military careers. You know, even with only 1 percent serving, so the number may be small relative to the general population, there's been some challenges recently—I think mostly—most of the publicity has been around the Army. But, you know, you take the cohort of young people you're trying to recruit, and you put out anybody who is, you know, barred either because of academic misperformance or a felony or poor physical conditioning, then you really whittle down the available core. And then that available core has other opportunities, too.

Obviously, better pay is one recruiting mechanism. But, as you think about the recruiting needs, you know, the—we want to continue to bring in the best and the brightest for the very long term. What advice would you have for us as we think about things to do, separate from the salary side? Because we can figure that out. But, what are things that make the career an attractive one that, from that available component of young people, would get more to say, "I want to make a military career"?

Dr. CHU. I'll be delighted to start. I think I'd come back to something that Mr. Hale emphasized, which is how the country values the service of the individual. One of the things I thought was very

interesting in the surveys—the Department does those surveys of young people’s attitudes, as you know, the surveys in the early part of the century—is that the reasons cited for being interested in the military changed from what had been true 10-20 years earlier, which had focused, in that earlier period, on learning a skill. And it may sound a little bit old-fashioned, but a good deal of the responses focused on patriotic values of one sort or another. And so, I think the way the country honors the service of the individual and speaks to service as being a calling that is part of your duty as a citizen, as opposed to something that is something somebody else does, which is too much, I think, part of the current American conversation, I think that is of enormous help to the Department’s recruiting apparatus.

Admiral ROUGHEAD. Senator, I—

Senator KAINE. Admiral Roughead.

Admiral ROUGHEAD.—as I looked at the future, the thing I watched most were the economic predictions, because that’s what’s really going to drive your recruiting. And compensation is important, but it really is the total compensation. And how do you deal, particularly with the force now that is more married than when I came in—that’s a significant component that has to be taken into account.

But, with regard to the positive experience, the one thing that we discount—and I’ve been through this cycle in my career—that when you take away the means for a young professional to properly maintain their equipment, to have the resources to go out and do the things that they enjoy doing, whether it’s flying or being out on a submarine, or whatever, that is huge. And, as we struggle with the departmental costs, and as we come down on those operation and maintenance funds that allow for proper maintenance and pride in what they do, the opportunity to do what they love to do, cutting those funds is going to have a significant impact. When those go up, you can see the attitude of the force change, because they’re given the tools and the means to do that which they came in the military to do.

Senator KAINE. Just to close the circle on that, I want to make sure I understand your point. So, if we’re dealing with budget caps or a tough budget environment, we’ve tended to—while we can’t take it all out of personnel, and if we did, we’d have to grandfather it, and we’d only see the savings way down the road. And we can’t cancel weapons acquisitions midstream, so we tend to take it out of readiness and O&M expenses and, you know, decrease the number of flying hours that are available to people who want to be aviators or decreasing the training that’s available for people who want to do that, and then that becomes kind of a demoralization factor that either will make people not come in or maybe more likely, when they’re in, make them decide to hasten their departure.

Admiral ROUGHEAD. Yes, sir. And I go back in my earlier days in the Navy when I had young sailors bringing their own tools from home to maintain the equipment that they were responsible for. When that changed, things changed dramatically. And I—and so, this O&M dimension is more than just how many ships you have deployed or how many airplanes you’re flying. It’s much, much more substantial than that.

Dr. HALE. Senator—

Senator KAINE. Please, Mr. Hale.

Dr. HALE.—Kaine, at least in the last 5 years, we've actually cut back primarily in the procurement areas to meet the budget caps, in that services have tended to try to maintain the operation and maintenance funding, I think, because of the readiness concerns. Moreover, as I said in my testimony, I mean, the Congress has made some changes, or allowed changes to be made, in compensation that have freed up funding, and, depending on the recruiting climate, some modest additions to that may be appropriate. Because, as Admiral Roughead said, it's not just the money, it's whether or not you are trained, you feel you can actually operate. That's maybe particularly true with the Reserves. Ironically, I think we used the Reserves heavily—and I take my hat off to them—over the last 14 years. I worry that we'll use them a lot less now, and they want to be used in militarily meaningful ways—not all the time, but occasionally. So, the services, I think, are pushing hard to keep the O&M budgets up, and the Congress needs to help them, where that's appropriate.

Senator KAINE. Thank you. I had a second question dealing with the use of kind of a specialist designation, which I know services have used to try to provide non-career—non-traditional, non-up-or-out career paths, but I think I'll ask that one for the record, since I'm over time.

Thank you, Mr. Chair.

Chairman MCCAIN. Go ahead.

Senator KAINE. Well, I just—if I could on that, several of the military services have had a fairly extensive rank structure known as “specialists” that went beyond the current system, not so much “up or out,” for the recruiting of specific technical skills. Is that something that's still done? Should it be done more? Does that provide some of the flexibility that a number of you have talked about in your testimony?

Dr. CHU. Yes, absolutely. The classic case, in my judgment, is the Army use of warrants for helicopter pilots. So, you can aspire to a long career at the flight controls. It has a small cadre of what we call—classically have called “commissioned officers” who are prepared for the more senior responsibilities in the enterprise. The Navy has used limited duty officers for some elements of that. We have that in the professions. So, the judge advocate generals corps, although—except for what Dr. Rostker said about promotion opportunities—career limits—but, for doctors, chaplains, health professional service kinds, we have carved out somewhat different paradigms over time. The Navy's supply corps is another example of that approach.

So, there are other ways to do this. They may not be used as aggressively and as immediately when a new issue like cyber comes up. So, cyber comes up, we immediately turn to the line structure as our model, not to these other opportunities as a way to proceed, including, I might emphasize, back to Senator King's question, Federal civilians who could hold Reserve appointments if that becomes an important issue from a Law of War perspective.

Senator KAINE. Thank you, Mr. Chair.

Thanks, to the witnesses.

Chairman MCCAIN. Senator Gillibrand.

Senator GILLIBRAND. Thank you, Mr. Chairman.

On January 24th, 2013, the Secretary—then Secretary of Defense Leon Panetta announced the repeal of the Combat Exclusion Policy. The Secretary gave the three services and Special Operations Command until January 1, 2016, to open all positions to women or formally request an exception to keep certain positions closed.

Admiral Roughead, can—what can the other branches learn about the Navy—or learn from the Navy about integrating women once these positions are open? And we know that women attain advanced degrees at a higher rate than men, suggesting they may well be positioned to offer expertise to the DOD, yet about half the women separate from the service after their first commitment. What are the reasons women do not remain in the military? Why do they make up such a small percentage of the services? And how could the military better recruit and retain women?

Admiral ROUGHEAD. Thank you very much for the question.

I think that what the Navy has done is open certain specialties, early on, which one would classify in a combat category. And only now are we beginning to see women rise to positions of leadership, where young women who are coming in the Navy today can look up and see themselves, and also having in place the types of programs that allow family considerations to be emphasized. And so, now we have young women coming in the Navy that can see themselves, can see having a professional fulfilling career, and also see their personal life fulfilled. And it's going to take a little bit of time, but I think we have to open up those opportunities and look at supporting both professionally and personally as young women progress through the ranks.

Senator GILLIBRAND. So, one of the supports that you've put in place is a very good paid leave policy. Do you think that's relevant for your ability to retain women?

Admiral ROUGHEAD. I think that that is important. One of the things that we did during the time that I was on Active Duty, with the help of Congress, was to put in a pilot sabbatical program. I think that's helpful. But, it—I think it's also important to recognize that it's not always the young woman that will take advantage of the sabbatical. It may be that, in a dual-service family, that the male spouse takes over that responsibility.

Senator GILLIBRAND. And we've seen, in the civilian world, that that really makes a difference. When men and women both take paid leave, it enhances people's values to support families overall. And it doesn't marginalize the woman because she's the only one who ever takes time off for the dying mother or the sick child or the new infant. So, it makes a difference that you do encourage it to be gender-neutral, because then you become a family-friendly place, and it's not just the women who are being sidelined.

Admiral ROUGHEAD. Exactly. And the family will decide what career they want to prioritize over the other. And that's—

Senator GILLIBRAND. At a given time.

Admiral ROUGHEAD.—a decision that they have to make, and—  
Senator GILLIBRAND. Right.

Admiral ROUGHEAD.—not one that should be made by the service.

Senator GILLIBRAND. Yeah. I think that's wonderful. Thank you.

Do any of you have anything you want to say on these topics before I move to the next topic?

[No response.]

Senator GILLIBRAND. Okay.

Traditionally, military training has followed a generalist or a one-size-fits-all approach. However, technology is becoming increasingly complex, requiring a specialized set of skills. We have also seen emerging threats in new areas, such as cyberwarfare. The private sector offers more money and no requirements, like boot camp. All together, these trends suggest that there might be a benefit for the military to consider different models that would allow at least some of our servicemembers to be recruited and retained in a different way. What changes do you think would be needed, in terms of recruiting and training personnel, to better position the military to develop cyberwarriors? How might we better leverage our Reserve components to address recruitment and retention of cyberwarriors? And are there ways the military can collaborate with the private sector to improve cybersecurity specialties and capabilities?

Dr. CHU. Senator, I think you raised an important issue, and it does open the door on a conversation about one matter we have not discussed today, and that is the opportunity for lateral entry. We do allow it for the professions—so, the chaplains, health professionals, lawyers, that's okay. But, we don't for the rest of the structure, as a generalization. The Reserves are better at it, for a variety of reasons. And I think this notion of encouraging people who are mid-career in the civil sector to think about a period of military service under rules that are available to the Department, or could be made available to the Department, would be an important step for the future.

Senator GILLIBRAND. Would you, for the record, give me a letter on that describing what you would envision for lateral service and what type of accommodations you would make. Because I envision someone who's brilliant behind a computer that's never going to be brilliant behind a rifle. So, I can imagine that, when you can designate someone to be a cyberwarrior, to be a cyberdefender, necessarily—being in the field is not necessary, because they can be behind a computer anywhere in the world at any given time. So, I'd like you to be specific about what that would look like, because I'd like to have that for the record.

[The information referred to follows:]



**IDA** | David S. C. Chu  
President

January 29, 2016

Senator Kirsten E. Gillibrand  
SR-478 Russell Senate Office Building  
Washington, DC 20510-3203

Dear Senator Gillibrand,

During the December 2<sup>nd</sup> Senate Armed Services Committee hearing on Defense personnel reform, you asked that I sketch my views on the potential for using "lateral entry" as a means of securing additional talent.

I was referring principally to uniformed military service, since there are good mechanisms for lateral entry in the civil service (although they could conceivably be strengthened).

As I believe you concur from your interest in "cyber", there are some skills for which prior civilian preparation and experience may have military value. The Department already recognizes that value for the professions (clinicians, lawyers, clergy). Individuals are awarded commissions at grades above entry level based on their civilian career record—hence the characterization "lateral entry". And at some times in our history we have awarded a slightly higher entering grade to enlisted personnel based on their civilian educational achievement.

Reserve component appointments, in limited numbers, may likewise recognize civilian achievements (e.g., for Civil Affairs, or Intelligence). But I believe that lateral entry could be helpful in skill areas and circumstances beyond those to which it has been applied thus far.

Indeed, in the last administration some staff planning began for such an effort to deal with the need for spectrum management expertise (a niche issue). The initiative was part of a broader effort to encourage a "continuum of service", i.e., welcoming movement back and forth between active and reserve service, as a way to bring expertise into the active military that largely resides in the civil sector (among other objectives).

How would you set the standards for such lateral appointments, whether to the enlisted ranks or the officer corps (including warrants)? Most important, of course, is judging the degree of civilian skill, and deciding how the civilian skill relates to military needs. Next, you need to decide on the status and grade with which it is best to recognize that skill level. It is easier in the professions, because you must possess the appropriate degree (and often a formal license); it may be harder in other areas, although academic degrees and certifications by professional societies could be employed. Physical standards, I would argue, depend on the degree to which the specific elements apply (e.g., those related to stamina, and the ability to accept the conditions of military service). Other elements might be waived.

Institute for Defense Analyses  
4850 Mark Center Drive, Alexandria, Virginia 22311-1882 • 703.845.2300 • dchu@ida.org

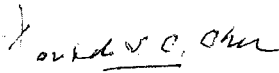
If those brought into service through lateral entry are to serve for an extended period of time, you would also need to address the issue of promotions. And if the lateral entrants increase the number of individuals serving in particular grades beyond the levels currently planned, you would need to address how grade limits are to be adjusted.

A key issue in managing lateral entry is how those who join in this manner are viewed by other military personnel. That will be especially important if the lateral entrants occupy leadership positions. For the professions, the Services provide the new officers a limited degree of preparation, but a more significant effort may be required.

One issue often raised in this regard is, in my judgment, the proverbial "red herring", and that is grooming standards. Careful empirics might not confirm the popular impression that some skill communities gravitate toward practices on which the military frowns (e.g., long hair for males). But even if there truly are such issues, it's my conviction that if the military opportunity is sufficiently attractive, the individuals involved will rethink their preferences. The military success in recruiting top-flight talent for its musical groups, despite the somewhat different standards in civil life, demonstrates how true that is.

I hope these thoughts are helpful, and would be pleased to discuss them further at your convenience.

Sincerely yours,



CC: Senator McCain; Senator Reed

Institute for Defense Analyses  
4850 Mark Center Drive, Alexandria, Virginia 22311-1882 • 703.845.2300 • dchu@ida.org

Dr. CHU. Delighted to do so. Thank you, ma'am.  
Senator GILLIBRAND. Thank you, Mr. Chairman.  
Chairman MCCAIN. Thank you.

Just briefly, would the witnesses agree that, although it's a beginning, this change in the retirement system is the right thing to do?

Dr. CHU. Yes, sir.

Dr. ROSTKER. Yes.

Dr. HALE. Yes.

Admiral ROUGHEAD. Yes, sir.

Chairman MCCAIN. Thank you.

On the issue of tours, very briefly, Dr. Rostker, there's a—different kinds of tours, as you know. There's the overseas tour at a base in Germany, where we have the school and the hospital, et cetera, and then we have the rotational through our joint base in Australia. I mean, there—when we talk about "tours," it's—I think we ought to define it a little bit.

And, Admiral Roughead, I'm informed that the carriers are now on 10-month deployments. I think that's too long. And I think it's harmful. Do you agree?

Admiral ROUGHEAD. I agree completely. We've been through this before, and, when we talk about retention, the longer you stretch those deployments out, the—you'll see the effect in retention. And I would submit that the model of getting to 6-month deployments worked out very well for us. It seemed to strike the right balance between familiarity with the region in which you're operating and retention.

Chairman MCCAIN. And time in different ports is drastically reduced, as well. It's too tough on these people and their families, this kind of separation. And maybe I have some bias, but clearly I'd—I'm even—I understand that our obligations are expanded, but to keep people at sea for that long a period of time, I'd be interested—maybe we can get a readout from the Navy on what it does to retention.

Chairman MCCAIN. Finally, could I say—I thank the witnesses—the complexities of these issues, I'm aware of. And I know that Jack and I appreciate it. But, this testimony today, I think, emphasizes to me that we really have scratched the surface, to start with; and, second of all, the—none of these issues are simple. None of them are—that there's just a easy solution to them. And I think your testimony today, with the benefit of probably a century of experience on personnel issues, has highlighted the complexities of many of these challenges we face, and the need for us to act. But, we want to remember the old adage about "First, do no harm."

So, I appreciate the witnesses here today. I appreciate your long, many years' service to the Nation. And, unfortunately, we will be interrogating you again in the future.

Thank you.

[Whereupon, at 11:29 a.m., the hearing was adjourned.]

