



# From left, right and center, analysts beg DoD to tackle overhead costs

By: Jared Serbu – June 4, 2013

---

Prominent defense experts from across the political spectrum are lining up behind a new call to reduce overhead in the Defense Department's budget, saying that without fundamental management changes, internal bureaucratic costs are destined to crowd out the basic nuts and bolts of running a military in the not-too-distant future.

An open letter to Congress and to the Pentagon this week bore the signatures of an unusually broad array of defense thinkers: 25 well-known experts from 10 different think tanks, spanning the ideological range from the libertarian Cato Institute to the liberal Center for American Progress to the conservative American Enterprise Institute. All say it's urgent for Congress and DoD to begin tackling costs in three areas: military bases, civilian personnel and military pay and benefits, topics Congress has been less than enthusiastic about confronting.

"This is extremely hard stuff to do. But if we don't do it, doing what we should be doing, which is thinking about the right size of the force, the right deployment of the force and the right equipping of the force gets really hard to do," said Gordon Adams, a distinguished fellow at the Stimson Center and a former OMB official. "What we're finding is that if we continue on the track that we're on, the funding available for forces and for procurement essentially dry up by the end of this decade. You will have nothing left unless you grapple with these issues."

Can no longer be ignored

Adams spoke to Capitol Hill staff members Monday alongside six other signatories of the letter. The experts don't agree in every case on exactly how to grapple with those issues, but they're adamant that with a steep drawdown in Defense spending now in progress, Congress can no longer ignore them.

On military bases, Michael O'Hanlon of the Brookings Institution said there's a lot of merit behind the Pentagon's request for another round of base realignments and closures in 2015.

"We still have about 20 percent excess capacity in our infrastructure in the United States according to DoD's own assessments of what you need to train and prepare a modern military force," he said. "Why would you keep operating that? Even if you want to keep some of the property in, let's say, relatively remote areas as a hedge for an uncertain future, you don't need to keep operating those bases today."

O'Hanlon said there's room for debate as to whether the government should consider local economic factors or potentially unforeseen future strategic needs in deciding how and where to slice back on basing infrastructure.

But virtually no one in Congress has expressed a willingness for another BRAC under any circumstances. As recently as two weeks ago, the House Armed Services Subcommittee on Readiness voted to explicitly prohibit the department from planning for any stateside base closures.

Lawmakers generally argue that another BRAC would impose too many up-front costs, and that DoD should focus on closing overseas bases.

#### BRAC reality check needed

MacKenzie Eaglen, of the American Enterprise Institute, finds that suggestion laughable.

"Congress is purposely ignoring the fact that the Defense Department has been rapidly shedding and consolidating bases overseas for the last 20 years," she said. "It's a nice convenient thing that plays well to the folks back in your district, but it's incredibly destructive because it ignores reality. You can't cut active duty end strength and ignore the physical assets where those people would have trained, slept or eaten. The Army's on a path to shrink by 14 percent. The Marine Corps is going to fall by 12 percent. The Navy has already shrunk by 11 percent since 2005 and the Air Force has dropped by almost 10 percent. So we're going to shrink our bases by 0 percent? That's obviously not logical."

With regard to the civilian workforce, the experts don't make any prescriptions for reducing costs, but they do point out that it's grown at a rate five times greater than the increase in uniformed personnel over the past decade. They also fault the Pentagon for failing to do a thoughtful analysis of the right mix of military, civilian and contractor employees to perform the work of DoD.

For instance, in the case of contractors, the Pentagon still doesn't know how many workers it's paying, and the authors argue DoD has a track record of undercounting the costs of each federal civilian employee. They argue the civilian and contractor workforce should be reduced, but in a careful, targeted way.

"What we've learned from the last drawdown, where we cut 200,000 civilians from the Defense Department, was that the work didn't change, and so some other way was found to do the work," said David Berteau of the Center for Strategic and International Studies. "What are your choices there? Either the military does it, which is the most expensive way to perform almost any task, or you hire contractors. That's fine as long as it's for a surge capacity and then you reduce it. But what we've seen over the last 20 years is they bring it up and never draw it back down. In the 2000s, we built up the defense budget tremendously, but we only added about 4 percent to military personnel. We had an increase in civilian personnel of up to 60 percent by some measures, and doubled our contractors. So managing the entire workforce is an important part of that process."

The authors say DoD already has more civilians than it can afford, which is why most of them are being furloughed later this year.

But that's a temporary measure. In 2014, the Pentagon still will have the same number of people on its payroll, and virtually no one expects DoD's budget to increase next year. Berteau said as part of the inevitable drawdown of the civilian workforce, DoD will have to swallow the notion that it will have to do less with less.

"We have to find the things we can stop doing," he said. "If all you're doing is cutting people without cutting work, all you're doing is making everybody's job harder. You're going to see this with furloughs over the next few months. All it means is that everybody has to do the same amount of work in less time."

#### Out of date compensation system

Third, and arguably most politically difficult on the think tanks' list of cost cutting priorities is military compensation, including health care and retirement costs, a system that dates to the 1970s and has remained virtually unchanged except for acts of Congress to add further benefits.

The authors argue the system is outdated and hasn't kept pace with the forms of compensation a 21st century workforce cares about. But Larry Korb of the Center for American Progress, who served as DoD's assistant secretary for manpower, reserve affairs, installations and logistics during the Reagan administration, also acknowledged that any proposed changes will meet with fierce resistance from military retiree groups and others.

"Dealing with military compensation is much more emotional than rational," he said. "People will say that you're breaking promises, and they say, 'How much can you pay a man or woman to risk their life?' There's no answer to that, so we've settled on the [Employment Cost Index]. Congress has gone above that, and going below it wouldn't break a promise. If you want to add a deductible for TRICARE For Life, people say you're breaking a promise. But the program didn't even exist until 2001."

The program, which covers what would otherwise be out-of-pocket costs for Medicare-eligible military retirees, is frequently cited as one of the primary drivers of DoD's escalating health care costs in recent years. The department budgets roughly \$11 billion per year to cover the program's cost for future retirees.

But Todd Harrison, of the Center for Strategic and Budgetary Assessments, said there's a way for DoD to diffuse the politics behind military pay and benefits. He said the department should gather data from actual military members to determine which benefits they value versus how much they cost to provide.

He estimated overall military compensation costs have grown by 56 percent over the past decade, and in the case of health care spending, an increase of 110 percent. But he said simply slicing back existing programs is the wrong approach.

"Compensation is the primary tool by which we can induce people to volunteer for the military. You don't want to use a lawn mower approach that just whacks off whatever sticks out and grows the fastest," he said. "We've got to ask a different question. It's not about how to cut costs, it's about how to get better value for each dollar we spend, and for some of them, servicemembers don't value them commensurate with what they cost

to provide. We need to have these reforms so that we can actually get to the real debate, which is the strategic discussion about what kind of military capabilities we should have, what kind of force structure we should have and what the proper level of defense spending is. But until we get to these reforms, none of those things really matter."