

Lexington Institute
Overhead at the Pentagon
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This is a timely and compelling topic as the Pentagon faces downward pressure on their external topline of up to \$500 billion from sequester and internal unsustainable cost-growth in personnel, health care, benefits, and acquisitions. Defense-wide overhead spending alone has gone from 5% of the DOD budget to 20% of the budget over the last decade.

If there ever was a time to heed the warnings and recommendations of the five most recent Secretaries of Defense – starting with Secretary Cohen in 1997 – in the area of bringing world-class business practices to DOD and streamlining and reducing its overhead, management layers and regulatory processes, it's now. I want to indicate at the outset this is not a criticism of the military and civilian personnel who come to work everyday trying to do what's best within a system that can stifle their good efforts.

As the first speaker, I will spend some time describing the problems because solving them is going to involve educating decision-makers about some tough decisions few have been willing to make. We first need to focus DOD and Congress on outputs – not inputs. We need to spend more time analyzing what we get for what we spend and how to improve that result – not how much we spend.

Let's start by using DOD's own methods of dividing its spending and personnel into two major categories—forces and infrastructure, the so-called tooth-to-tail. DOD says that forces are 60% of the dollars and the people, and infrastructure is 40% of the dollars and the people. There are outside experts like Business Executives for National Security (BENS) who indicate the overhead to combat ratio is much worse and has argued it's more like 70 % overhead and 30% forces.

But if we take DOD at it's own word, then infrastructure is \$216 billion of their annual budget. If DOD's infrastructure was a gross domestic product, it would be the 54th largest in the world, bigger than entire economies of countries like Finland, Hungary, and Ireland.

If you look at just the Office of the Secretary of Defense, the Joint Staff, the Defense Agencies and the Combatant Commands, they have a combined total over 250,000 people, costing over \$116 billion a year, and nary a trigger-puller in the lot.

If you look at the acquisition empire, it has over 154,000 people working in it obligating over \$400 billion a year on good and services, supplies and equipment from over 2,500 buying entities following 20,000 plus pages of rules and regulations. It should be no surprise that the general trends in defense procurement continues to be spend more, take

longer and get less. Despite lots of hard work to change these outcomes, particularly by Ash Carter, Frank Kendall, and Admiral Sandy Winnefeld, the recent HASC testimony by the CRS and GAO experts validate the adverse trends continue.

If you ask people who are the largest defense contractors—a typical answer would be Lockheed or Boeing or General Dynamics. Wrong. The largest defense contractor is the Defense Logistics Agency which spent \$48 billion in FY 12 and has \$7 billion of inventory it now says it does not need. The Defense Commissary Agency has sales of over \$6 billion with over 10,000 civil service employees and the taxpayers have to subsidize their operations by over \$1.3 billion a year. In fact, of the top 12 defense contractors, DOD's own defense agencies are 6 of them. But government rarely follows 21st century management practices.

If you look at all the retail sales in DOD—PXs, commissary, Class 6 stores and gasoline sales, it totals over \$17 billion a year with over 96,000 personnel working in these areas. The government provides the land, the security, in some cases the facilities, while always claiming it does not cost the taxpayers anything, which is non-sense. We have to look at these activities with a clear eye, figure out what today's forces and tomorrow's forces need, and make decisions accordingly, particularly if these services be provided at a lower cost with fewer people.

And while I have singled out OSD and the Defense Agencies, most of the infrastructure is still in the military departments in terms of training, support, supply and administration and other overhead type functions.

These functions are so prevalent that we have over 323,000 active duty military personnel working in what DOD itself has categorized as inherently non-governmental functions. So we have our most expensive personnel—the active duty military- supporting functions that could be done by civilians and maybe some not done at all. This use of active military makes no sense, particularly when the Army and other services are looking at significant cuts in their warfighting forces. As the Army Chief of Staff recently noted if current trends continue, Army personnel and benefit costs will account for 80% of the Army budget within 10 years.

In fact, as defense-wide spending has increased, the fighting force has decreased. The tooth to tail ratio in the department has never been good; it is worse today and will be worse tomorrow. We are increasing the overhead and decreasing the warfight.

In a recent analysis I co-directed at the Bipartisan Policy Center, we concluded that if current adverse trends continue by the end of the sequester period in FY21, we will have a fighting force that is 50% smaller and at the same time less capable, less ready, and less well-equipped. This is a force that would both break the strategy and be incapable of providing the national security the nation requires. The point – the sequester makes all the overhead problem areas worse – it does not fix any of them. Sequester is not the answer as it is doing serious damage to our national security.

It is important to note that the current Secretary of Defense Chuck Hagel – like his four predecessors – is pushing the Department to make progress in reducing overhead, streamlining regulations, eliminating layers and staff. As I am sure our other speakers will note, the issue is not intent or how much has already been done or how far we have come—it is that we have so much further to go to insure that the taxpayers and the warfighters get more bang for the buck for the dollars we spend and that we focus those dollars on providing highly trained, well-equipped fighting forces and not on those activities in the rear with the gear.

How do we begin? Let's get the kind of actionable information that leaders need to make sensible decisions:

- Mandate a high-level process that identifies, tracks, and controls headcount – including military, civilian, and contractor headcounts in full-time equivalents. Start with OSD, the Joint Staff, COCOMs, and defense agencies, and direct the Military Departments to do the same. Most studies done outside the Pentagon have found the DOD bookkeepers significantly understate the headcounts. We should control overhead headcounts the same way we control active-duty end strength – firm legal caps.
- Determine the fully-burdened costs of all categories of personnel working for the Department —active military, the guard and reserve, the defense civilians, and contractors. We don't have that information now. DOD does not know nor track either the fully-burdened cost of personnel or their life-cycle costs. So in making decisions about which personnel are the most appropriate for a task, they don't know or factor the real costs of their most expensive assets.
- Related to this, we need to take a fresh look at how the PPBES system functions. It is the best strategic management tool of its kind in the US government – perhaps in any government. But in the era of “Big Data,” high speed data processing, and the internet, it needs to be configured to easily provide full-burdened personnel cost, detailed O&M expenditures, clear accounting, and a methodology for prioritization through cost-benefit analysis. This was the original aspiration in the 1960s, but the data storage and management tools did not exist; now they do.
- While we know how many active duty personnel we have, we don't have important information about them in the context of overhead. For instance, how many are in non-deployable portions of the services or have never deployed? Do we really want over 323,000 military serving in inherently non-governmental jobs? We shouldn't.

When we have the information we need, we must act on it. We know neither DOD nor the Congress is optimized for modern management practices. We don't need more civilian and military personnel generating more spreadsheets and PowerPoint presentations, and countless meetings “coordinating” on those documents. We need personnel experienced in running large, complex organizations in the key jobs commensurate with the size and complexity of the job.

A time-tested principle would significantly help – at a minimum we should fully embrace the CEO/COO concept for the Secretary of Defense and the Deputy. The Secretary should focus on external activities, policy, intelligence, legislative and public affairs, and most importantly, operational and military chain of command warfighting matters. The COO deputy should focus on management, budgets, personnel, acquisition, and should have the lead for the Secretary over the department’s “management chain of command.” This would give these leaders a more manageable span of control and allowing one to focus on policy and operations, and the other a shot at streamlining, reducing overlap, managing smartly, and reversing the adverse trends.

With the right approach in place, with the information we need to manage, and most of all, the will to use that information to make the tough choices in the executive and the Congress we can maintain our national security, take care of our troops, and provide the stewardship of our nation’s resources that our citizens and warfighters deserve.

Thank you.