

THE BROOKINGS INSTITUTION  
WARRIORS AGAINST WASTE:  
CUTTING DEFENSE SPENDING THROUGH REFORM?

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## P R O C E E D I N G S

MR. O'HANLON: Good morning, everyone. Welcome to Brookings. Thank you for being here on this snowy day. I'm Mike O'Hanlon from the 21st Century Security and Intelligence Center, and we welcome you here. We have a very exciting topic today, and I think we've tried to capture it in the title of the event, "Warriors Against Waste."

As you know, we've been trying to figure out how to avert national fiscal and economic calamity for much of the last two years. There's been a big Budget Control Act. There's been a super committee that tried to find forward on deficit reduction. When that didn't work out so well, we had the looming specter of sequestration and the fiscal cliff. We've now temporarily averted that in some sense, but with uncertain prospects for the next couple of months.

And central to this whole conversation is how much can the military budget be cut at a time when the country is clearly tired of war, concerned that we've been spending too much or least more than we really can afford at this kind of a juncture in our nation's history, and at a time when political dynamics are making it harder to look at other aspects of the federal budget -- entitlements, revenue increases -- for deficit reduction. So there's an increased amount of pressure on the Pentagon budget, and I think much of that scrutiny is appropriate.

But, of course, what we want to do in this kind of a forum is ask how much can defense be cut without harming our nation's security? That's the broad context in which we gather today, and that's why we've created this concept of a discussion on warriors against waste. In other words, today's focus

will not be necessarily on each and every aspect of the defense debate, but specifically on what we can do by way of making the Pentagon more efficient, eliminating waste, making reforms that allow things to be handled more effectively.

We'll talk more about that in just a few minutes. The way we're going to proceed today is we're very honored to have Alice Rivlin speak to open things up. What Alice, I think, will do is set a broader context for us about where we stand in the fiscal debate more generally today.

As you know, Alice is an amazing public servant and scholar. I think she's the greatest scholar, government servant, in Brookings's history. She founded the Congressional Budget Office. She was the Director of the Office of Management and Budget under President Clinton. She was Vice Chairman of the Federal Reserve. And instead of taking any kind of a retirement after that, she decided to take on maybe one of her biggest challenges of all -- helping D.C. with its finances -- as she returned to Brookings about a decade ago, and she's been here ever since.

She's one of the colleagues that I've been most honored to spend time with and learn from. And as you know, in the last few years she's been central in these deficit reduction commissions, a member of the Simpson-Bowles Commission and obviously a charter member and central figure in the Rivlin-Domenici Commission that same year, which put out their reports on how we should think about reducing spending and raising revenue so that our deficit would decline to an acceptable level.

So I'll leave it to Alice to now offer a few opening remarks and then handle a few questions before we switch to our panel discussion at about 10:00. But, again, one of the things I think we can learn from Alice's comments is some sense of how much more deficit reduction is needed -- from at least one economist's perspective -- to frame the subsequent discussion about how much we should be looking to reduce Pentagon spending in our campaign against waste and for reform that we'll talk about thereafter.

So without further ado, please join me in welcoming Alice Rivlin.

MS. RIVLIN: Thank you very much, Mike. As Mike said, I'm here just to kind of set the stage and give a general context within which we will be hearing from real experts on how to improve the effectiveness of our defense and save some resources into the bargain.

I think that "Warriors against Waste" is a wonderful title; I commend Mike. I think he was the one who thought that up. I'd like to expand it a little bit. I think we should be thinking about "warriors against waste and low priority spending." And we might expand it a little further to say "warriors against waste and low priority and politically motivated spending" because we all know that much of what has driven the defense budget over the years is the fact that it creates jobs in a whole lot of places. And we need to resist that kind of thinking and justification for military spending.

But first, why are we talking about the defense budget at all? Primarily because the United States faces a prospect of seriously weakening its economy if it does not get its whole budget onto a sustainable track. We are facing the prospect, looking forward, of having a debt that rises faster than our

economy can grow. It's already high, but it's only commonsense. It's not economics, it's just commonsense to think that if your debt is rising faster than your economy can grow, it's like your family debt is rising faster than your income. After a while, that's not sustainable, and that's the position that we're in.

Why are we in it? Well, not because of the defense budget or because of things that have happened in the past, although they have driven our debt to a high ratio to our GDP. The problem going forward is one of demographics and rising health care. You all know that. It is the baby boom generation retiring. It's the fact that everybody is living longer. It is the fact that both political parties and the public in general over a long time has made promises under programs -- principally Medicare, Medicaid, and Social Security - - that will provide health care and pensions for a larger and larger number of people. Now, that's not unique to us. It's happening all over the developed world. It's a good thing, but it does require some thinking about how we're going to pay for it.

Those three programs -- Medicare, Medicaid, and Social Security, primarily the health care ones -- as we look ahead, will drive federal spending up faster than the GDP can grow and faster than revenues are likely to grow at any set of tax rates. Now, that's dangerous. If we don't do something about it, we could have much slower economic growth. We could have a crisis and a prolonged recession. Those are not fantasies. We are seeing some of this playing out in Europe.

What happens if you don't face up to the fact that your debt is rising too rapidly? You don't want to face up to it in a recession all at once and

impose austerity, but if you don't gradually get your budget onto a sustainable track, you are bound to be in trouble. And a weaker economy and the prospect of a crisis that could precipitate us into a long depression threatens our power. It threatens our respect in the world as a country that can get on top of its problems. It threatens our ability to support our military and everything else we do. In other words, Admiral Mullen was right when he said, "This is the biggest national security threat that we face."

Now, we've spent a lot of time in this past election in talking about whose fault it is. This is not a productive question. And the answer depends a little bit on whether you're looking back -- how did we get to be a country with a debt held by the public equal to 73 percent of its GDP? -- or the more important question, how did we get into this situation in which our spending will rise faster than our revenues in the future? But either way you look at it, having a whose-fault-is-it argument is not productive.

If you're looking back, sure, the two wars through which we are just emerging contributed. Cutting taxes contributed, so did adding benefits to Medicare. Those were all decisions of which the public approved and members of both parties supported. So the blame game doesn't help very much. We are where we are because we wanted to be.

Looking ahead, it's clear that discretionary spending, whether domestic or defense, is not the clear driver of future debt increases. I worry, actually, about nondefense discretionary spending that we have already restrained drastically, as we have defense, in the Budget Control Act; and I worry that we are getting into a situation in which we will not be able to maintain our

investments in younger people, our investments in future growth, and the core functions of government. We have to protect those, and further cutting of nondefense discretionary spending -- as in letting the sequester happen -- strikes me as a very high risk thing to do.

Similarly on the defense side, defense spending as you look ahead is not driving the rising debt. The wars are winding down. The Budget Control Act, which ended the disgraceful episode of our going to the brink of default in August of 2011, has already imposed essentially a freeze on both defense and nondefense discretionary spending.

So that's not what is driving the debt in the future, and it's very easy to say not part of the problem. We shouldn't cut defense any further. It's easy to compare going back to the Cold War years when we were spending close to 10 percent of our GDP on defense because we thought we had to -- and it was a lower GDP, remember -- and now we're spending much less, down in the 3 or 4 range. That is, again, not a productive approach.

So how should we think about where we go to get back to a sustainable budget? First is to recognize the centrality of aging and health care cost increases to this problem. And it shows up not just in Medicare and Medicaid and Social Security, but everywhere. It shows up in state and local budgets, which are struggling with large pension commitments and large health care commitments, especially to retirees, and it shows up in the Defense Department budget. We should have an across-the-board rethinking of how we handle pensions.

Pensions and TRICARE are an expensive part of the defense budget, and we've been talking about this for a very long time. We were talking about pension reform and moving the military pension system so that it is a more effective recruiting tool and a less expensive long run cost. We've been talking about that since I was the Director of the CBO, and we haven't done very much about it. And we have recognized, I think rather belatedly, that the commitments under TRICARE for Life are very expensive. And we need to reform them not just to save money, but to improve fairness and to reduce wasteful health care expenditures.

The military can take the lead here rather than dragging its feet, and politics is the main impediment to doing some more sensible reforms here.

Second in our general view of what to do, we need to recognize that we can't absorb the baby boom generation and its health care without a serious effort to deliver health care more efficiently, publicly and privately, that that will involve moving away from a fee-for-service delivery system, changing the incentives across the system, including as I said, in the military systems.

Third, I think, we need to recognize that we will need more revenue. We will need a larger percentage of our total resources devoted to government not to do more things, but to do our core functions, including defense, well, and to absorb a larger portion of the population to which we are committed for benefits, pensions, and health care. Those who say, well, for years, decades, we ran the country with about 20 percent of our GDP going to the government. Why can't we go back to that? Well, we could go back to that, but only if we are willing either to make the benefits for this much larger



generation less generous than we had hoped by a long shot, or if we're willing to cut into core functions of government, including defending the country.

And most importantly, and this comes to the subject of this morning, we have to recognize that we can't afford waste or low priority spending anywhere. This is not a blame question. This is a question of asking ourselves continually, in the defense budget and in the nondefense budget, how can we produce the public services that this country needs as efficiently and as effectively as possible? And that's what we're here to talk about on the defense side.

I think it should be obvious that mindless across-the-board cuts are the wrong way to go. The sequester was a bad idea. It was supposed to be a bad idea; that was the whole point, to say let's erect a barrier that is so stupid that nobody will want to do it. And that includes cutting the defense budget across the board, program by program, by equal percentages and doing the same with most of the domestic budget -- dumb way to do anything. Not only that, but it occurred too rapidly.

Our economy is recovering, I think, quite well from the deep recession that followed the unnecessary crash of 2008, but we're not growing nearly as fast as we ought to be. And to subject the economy to a shock like increasing everybody's taxes and reducing spending across the board, which is what the cliff meant, would have been truly stupid. It would have been austerity at the wrong moment and, again, the Europeans are showing us that doesn't work. So it's a good thing we have postponed the sequester. We've got to postpone it forever and do something more sensible.

The right way will mean facing up to some tough questions, which I expect will be raised by this panel. Besides health care and pension reform, are there ways to save money that will not impair effectiveness? Is military pay looking forward in an economy that has higher unemployment than it used to have? Is military pay higher than it need be to attract the kind of military that we want? Our incoming Secretary of Defense has talked about a bloated Pentagon. He may regret that remark as he faces confirmation, but it's a serious question. Can we reduce the overload of administration? Do we need commissaries and other retail and so forth?

Turning to the acquisition and modernization process, is it as efficient as it could be? I think everybody knows the answer to that is no, but the resistance comes very quickly to any talk and it always comes to the scare tactics about impairing the military industrial base. Is this a cover for keeping a good thing going? Do we need as many bases as we have here and overseas? We're all Keynesians in military politics. Those who say government spending doesn't create jobs always have this little asterisk that says except for military. And any cut in the defense budget is always alleged, usually rightly, to be a threat to jobs, especially in states where military and military-related jobs are extremely important.

Could we get along with fewer ships if we rotated them more efficiently? Would a modest downsizing of our forces be a threat? These are all the kinds of questions that I expect we will get expertise on, pro and con, this morning. They come under the heading of: Can we reduce waste? Can we reduce low priority spending? Can we reduce politically motivated spending?

But in the end we should not avoid the big questions. Should we avoid or try to avoid war itself, especially wars of occupation, which bog us down for a very long time, occupying countries far from here at great cost to our military effectiveness and flexibility? Should we resist the temptation to intervene in regime changes that may end up being extremely costly?

I don't know the answers to those, but we shouldn't be afraid to talk about them. We shouldn't be afraid to look as clearly at what we are spending for in the military budget as we should be doing everywhere else.

Thank you. Mike, I don't know whether you intended a few questions at this point. I could take them or we could just go directly to the panel.

MR. O'HANLON: If anybody has a couple, why don't you go ahead and then we'll move right in.

MS. RIVLIN: Yes? I should say, please wait for the mic so we will know and identify yourself before you ask a question. And here comes the mic.

MR. NICHOLSON: George Nicholson with Strat Corp. I attended all your sessions over at CSIS on the panels you were on, and I think that one of the things that came across crystal clear that Senator Nunn talked about is maybe the only way to make this whole thing happen is to bundle everything together. If you try to vote just on entitlements, it's going to fail; tax reform, it's going to fail; all those other things, but bundling everything together just like what we did on the BRAC Commission. What are your thoughts on that?

MS. RIVLIN: My thoughts on that are mixed. I think a year ago or two years ago, I would have said right on, I agree. The grand bargain as we're calling it is the only way to go. And I still think that's probably right; that we

should put together the needed restraints in the growth of the entitlement spending, especially health care, with a thorough going tax reform that raises more revenues, and with as much restraint on the discretionary side as possible. You will recognize that set of things as exactly what the Simpson-Bowles Commission said and what the Domenici-Rivlin Commission said and what the Gang of Six or eight or however many they ended up being was saying, and it's still basically right.

I think we need to get both the leadership -- the President and the leadership of both houses -- back to the table to craft a grand bargain or maybe not quite as grand a bargain as we were thinking, but still something that addresses the primary problem, the increase in the entitlement costs, and the fact that we're going to need more revenue.

Now the part of Simpson-Bowles and Domenici-Rivlin that we've already done is the Budget Control Act. That actually was approximately what both commissions recommended. The freeze saved approximately \$1 trillion over the 10 year period -- I hate this way of doing the calculation, but it's the way we do it -- and that was about what these commissions recommended. A trillion out of what? Well, at that time we were talking about stabilizing the debt at 60 percent of GDP. We've blown way past that, which from the then baseline would have cost about or would have required about \$4 or \$4.5 trillion in savings. So we did one. We did another .6 in the New Year's Day act known as the Taxpayer Relief Act. So if we were to get back to the 60 percent, we need another several trillion.

Maybe that's too ambitious for right now. Maybe we try to stabilize roughly where we are. That's risky, but at the 70-some-odd percent of GDP. That wouldn't be so much. That would be another trillion-four or something like that, and it's got to be entitlements and tax. I would say not discretionary spending or not much because I think we're not quite ready to have the conversation about how much real efficiency can we get out of the defense side and the nondefense discretionary side and put it into law. We need more conversations like we're just about to have before we can quantify that number.

MR. LEATHERMAN: Dr. Rivlin, my name's Matt Leatherman. I'm with the Stimson Center. I have a question about the distinction you drew today between low priority spending and waste. Can you clarify that distinction? And then also comment on whether it's predominantly waste or predominantly low priorities that are afflicting the Defense Department.

MS. RIVLIN: That's a very hard question because waste is in the eye of the beholder, and what's waste and what's low priority -- if we took a few examples, we'd have different views in this room and in a lot of other rooms. I don't think we need to draw an exact distinction. But there are plenty of things that are done in the defense budget that are good things to do. They've been there for a long time, and they serve some purpose, but they may not be as important as they used to be.

All I meant to suggest was we need to go beyond what's purely waste -- everybody's against waste and fraud and abuse -- and that's probably a pretty narrow category if you're going to get full agreement that this is really

wasteful. But low priority is a much broader category and does relate to things like the perception of the threat and is, I think, more productive to talk about.

MR. LOVELL: Mac Lovell, Brookings Advisory Council. There's one strategy that I've been recommending for some time that nobody pays much attention to, and that's requiring doctors to post online their charges. The medical profession is not a competitive one these days, and if you could have that one constraint on the increase of medical costs, I think it would be valuable. How about you?

MS. RIVLIN: The question was, how much would it help to have doctors post online what they charge? I think more transparency on what health care costs is important, but your question suggests sort of a traditional view of fee-for-service medicine. I charge this much for an office visit and that much for taking out your appendix. I think we need to get away from that view and be rewarding providers much more on taking care of whole episodes or whole people for a period and doing it well. It has to involve rewarding performance as well as just the activity.

I think we should get on to the experts.

(Recess)

MR. O'HANLON: Well, again, everyone, thank you for being here. Thank you, Alice.

The discussion we're going to have now will begin by my asking some -- posing some broad questions to our panelists. We'll get some of their initial thoughts on the table, and then we'll ultimately, after discussing a few ideas amongst ourselves, go to you. And Alice may then wind up with a couple of

observations or thoughts from her broader perspective on deficit reduction.

As you know, we're focusing on issues of reform, not just against waste but against lower-priority programs, a very useful addendum in the recent conversation. And I think one central question I've got on my mind that I'll hope the panelists will address as one of the matters they talk about today is how much money we really can realistically save over 10 years in the defense budget without cutting capability. I'm not saying that all capabilities need to be preserved exactly, but today's focus is on reform.

Not all of this is going to be painless, because one of the topics is going to be military compensation, and the idea that this is wasteful because it may be slightly greater than it needs to be by some metrics is not something I'm trying to argue. Perhaps others will or will not, but that's not necessarily our scope to say just what's waste.

We want to talk about what I would say are the ABCDs of saving money in defense through reform, A being acquisition reform -- we may or may not get into each one of these topics equally -- B being base closures; C, compensation; and D, depot maintenance; and related to that, other matters of infrastructure and weapons, custodianship. So, the ABCDs you can think of as a way to summarize the many topics we're looking at today.

We may also get into information technology and management. But we have a fantastic panel to do this, and I'll just briefly introduce my co-panelists and then begin the conversation.

Jack Mayer, just to my right, is one of my longstanding friends. He was also my first boss, at least in Washington. I'd had a previous job in grad

school. We tried to disprove Einstein's general theory of relativity. So, I guess Jack was my second boss after that. (Laughter) And when Jack and I were talking about this -- I think I was replacing Jeff Merkley, who had been at CBO up until then and, as you know, is now a junior senator from Oregon -- Jack was saying whatever that project on trying to disprove general relativity, we've got a little harder job here. It's reducing the general deficit. And, actually, thanks to people like Alice and Bob Reischauer and Jack, we made some progress in that period of time. The question is can we do as well in this era?

Jack is an executive vice president now at Booz Allen Hamilton. He is also an Army veteran, a graduate of West Point, and has had various jobs in the area including with the Homeland Security and Defense Business Council, of which he is the chairman. And so Jack is immediately to my right.

After Jack is Nick Avdellas, who is at the Logistics Management Institute, LMI. He and Bill Moore, just to his right, who's an executive vice president there, focus a great deal on infrastructure, weapons maintenance, depots, and related topics.

I think the best way to sum up where Nick's coming from -- and you'll see it in his bio, and it's a great way to describe anybody, but certainly for this panel it's perfect -- is that he is a Black Belt in lien Sigma technologies and concepts for reforming institutions and making them more efficient. So, he's a Black Belt against waste, a Black Belt warrior against government waste (laughter).

And Bill, like Jack, is a West Point grad and also an engineer and has been at LMI running their Infrastructure Management Unit for a number of



years and contributed greatly in this debate.

And then, finally, Colonel John Barnett, my colleague here at Brookings this year, is probably the first Marine to appear in public after yesterday's announcement that women would now be allowed into all combat positions. That's not actually the reason that we've asked him to be on stage. To try to get him in trouble with anybody in his leadership or elsewhere, we've asked him to talk about this general subject of reform at the Pentagon, and specifically it would be, I think, most appropriate to have a military voice, an active-duty military voice, in any discussion of military compensation reform, not because John's only job is going to be to defend every aspect of the compensation system, but we certainly need to know how this will affect our men and women in uniform who have been doing so much for us.

And also Colonel Barnett has the experience of having been involved not only in combat tours in Iraq and Afghanistan but also in recruiting. So, he has some sense of what kinds of incentives speak to today's young men and women as they consider military service, which has to be a big part of any discussion of compensation reform.

So, after all that, if I could begin, Jack, with you, and I'd really just like to ask a broad question, which is: In this range of topics that we've put on the table today, where would you argue we have the greatest opportunities now to save money that -- you know, opportunities we haven't yet seized?

MR. MAYER: So, I start this not being someone who's optimistic, that you can really make defense more efficient, and I come at that from my years of experience in OSD(PA&E) and then at CBO writing the annual budget

priorities and reductions that were never accepted by DoD, and then some of the work that I've done at Booz Allen with trying to get efficiencies that although from a business sense make really a lot of sense, it is very, very difficult to be able to get buy-in from the different communities within DoD. So, I'm fairly pessimistic about being able to get at the efficiencies.

I believe that there are two levers that you can pull in order to affect the defense. One is the budget. You just start latching it down and drive people to have to make decisions over time. I don't think that's the most efficient way of being able to do it, but I do believe that that is the mechanism, when you've got the power of the purse, to be able to drive it in the direction that may be sustainable in the long run.

But the second is actually the missions, and I think Alice touched on this. I think we're in a position right now, with the way people talk about government and the type of government that we want to have for the future and what government should be doing, that we ought to have that same discussion about defense.

From my observations, we don't have necessarily the military we want. We use the military we have, and we use it to do a lot of different things that it was never envisioned that the military would do. I would argue that now is the time to be able to say what it is that we want our military to do in the future. Define what those missions should be very carefully; and then fund the force to be able to do those missions. So, that's where I would start if I were going after this. It would be with the missions.

The second thing, and Alice talked about this quite a bit, is the

way we compensate the force that we have. I find it absolutely unbelievable that the way we compensate the military has changed has almost none at all since I graduated from West Point. The fact that we have people, able-bodied, whose life expectancy has increased dramatically since 1968 to what it is today, that we still pay them half of their salary at the age of 42 when they retire and we pay that forever and they go on to work longer in the civilian world than they ever did in the military -- that is something that, as a citizen, is hard for me to grasp. I think that's something that we've got to be looking at. I'd probably start with the Office of (inaudible) in order to be able to get that in first. But that is a very, very tough thing to be able to do, but we ought to be having that discussion.

We ought to consider about how we pay in terms of fixed pay and variable pay. You know, in the civilian world you would find a much better combination of the two rather than be purely based on a fixed salary that gets driven by what we need to have during wartime. And I would argue that you ought to have a fixed compensation and then a variable compensation, and the variable compensation is what changes depending on the circumstances.

I think you've got to go after the health care. The fact that TRICARE increases at a much faster rate than the cost of health care in this country is old is killing the military. It is one of those sacred cows that is very, very difficult for them to be able to give up. Yet, I'm hard pressed with the number of health plans that exist either in the federal government or in the private sector why the military can't be part of some of those health plans as opposed to having one for themselves that is completely out of line with what everybody else in this country is paying for health care.

Those are the primary things, I think, where there are big opportunities, Michael, to be able to go after. There are a lot of things, I think, where people are going immediately. If you looked at the paper today and the front page of the *Washington Post*, you saw an article about General Dynamics with the \$2 billion restructuring charge that they were taking and arguing that is primarily driven by defense cuts in IT. Well, I mean, that's exactly what you would expect to be going on, because it's an easy spend in order to be able to get initially early on. But if you look at it over time, it is probably an inefficient spend in order to be able to do that because of this current age of technology. You really want to be looking at what are the things that you can do to drive you to be more efficient and more effective in the future.

I think I should make one last point. We still hear people saying that we need to be able to do more with less in defense. Personally, I find that absurd, all right? I attribute to the can-do attitude that permeates throughout the defense community. I think you've got to be able to say we cannot do that. I think you can do better with less; I don't think you can do more with less.

MR. O'HANLON: Thanks. That's a fantastic framing. I may come back to you in a couple of minutes and ask if you have a feel of order of magnitude savings on either the pension or the health care, but we'll save that for a little bit later, because this was a great way to just get some of the big issues on the table and very powerful argument.

Nick, if I could go to my Black Belt against waste and ask you to, again, take the broad topic before us and really just hone in on whichever parts of it you think you have the most specific ideas for where we could save money,

whether it's in base closures, whether it's in other aspects of infrastructure management. Over to you.

MR. AVDELLAS: Thank you very much. I appreciate being here. I guess I would have two points that kind of reinforce on what we heard but maybe bring it a little bit more into the logistics realm a bit, which is kind of where my focus is, primarily on maintenance and currently working with the Office of the Secretary of Defense to form some of their approaches and having worked through some of the Secretary Gates efficiency initiatives that started in '10 and moving forward.

In thinking about this broadly, when you look at all what we used to call the integrated logistics elements but maintenance in particular, which has a spend, depending on how you look it, but it's a lot of money. It's about \$80 billion a year, the maintenance enterprise. You could look at supply transportation. They all have this kind of regulating aspect to them that I think has been touched on, and it gets to the broader question when we talk about reforms and efficiency, and it really gets to what are we going to fix? And our costs are costs are going to increase and decrease, depending on a couple of things. And you can see this pretty well looking at things over time.

Basically, our fore-structure and our numbers and ages of the kinds of equipment that we've got -- as we all know, a lot of that equipment has been used in the second point, which is their OPTEMPO in their operating environment. So, we can expect, if we are going to go to a younger force that is less involved in the world, that we should see our logistics costs or our maintenance costs decrease.

If we continue to use sort of the systems that we have -- we know that a lot of them are aging, particularly in certain areas -- we can expect in the logistics world to have either a stable or a slightly decreasing with inflation costs. I mean, so that kinds of gets to the what-are-we-fixing question, which if you really take a look at it, it gets it gets into things like okay, then how do we fix this stuff, which gets into the Lean Six Sigma thing, which is -- and these can be very big questions. I mean, you may say, hey, we've got too many of these types of people fixing this thing, or we don't like our public and private sector mix here, or we could really do that faster, better, cheaper. And a lot of people have done that over the last 10 years and are still doing it. And those savings are out there I think. They can be smaller if you're not talking about a huge BRAC or a huge consolidation of workload, for example.

And then the Department's got those going on now. I mean, the military depots and a lot of the private sector have done a lot with Lean Six Sigma and kind of the process improvement things. But I think kind of the bigger question I looking at it and getting at it is there's this relationship between what we're doing with that and our maintenance practices and how we approach it.

So, the only other thing I'd add to that is we looked at it and really, in the logistics world, it is tying the requirement, the effectiveness, the mission of our soldiers with the kinds of maintenance and logistics that we need to try to do that most effectively and efficiently.

As we've moved through the two wars and we've got this reliance on the OCO funding and we move into relying more on base budgets and particularly looking at things like maintenance funding and that sort of thing, kind

of the tendency, I think, if we don't kind of get that requirement straight is that we may do some dumber things than we really ought to in taking a look at it. And I know, you know, having looked at it that particularly in some of the ground services there was a tremendous reliance on OCO funding. And as I --

MR. O'HANLON: What's OCO funding?

MR. AVDELLAS: The other contingency operation funding that was very substantial on many of the services.

MR. O'HANLON: (off mic)

MR. AVDELLAS: Yes, exactly.

So, that's the other kind of thing that I think is a good focus for the department as we look at effectiveness and efficiency -- is getting that requirement piece correct so that we can then shape the logistics infrastructure in a way that corresponds with that.

MR. O'HANLON: If I could follow up, Nick, you talked about the kinds of efficiencies that you've already seen, that we've already been able to create. Can you give -- just so we frame sort of the big picture of what kinds of plausible savings are out there, can you give a sense of what percentage savings you sometimes get by applying this method and then how much further could we go? So, if we've all -- because one big challenge we have that the Department of Defense is already counting on a lot of savings from a lot of ongoing reforms in the savings that are already part of the plan

MR. AVDELLAS: Right.

MR. O'HANLON: And so if those estimates prove optimistic, we're actually going to need to cut more compensation, forces, weapons, what have

you, just to meet that 487 billion in budget reductions that we claim to have already accomplished but actually may not be so easily realized. So, above and beyond what's already on the books, what's already in the plans, what's already in the bank, so to speak, how much further can we go with this process?

As you can see, what I'm trying to do is extrapolate out towards what might be plausible additional savings over 10 years. If you don't want to answer that question in big-picture terms, though, can you give us pieces of the information in quantitative terms that we need to answer it?

MR. AVDELLAS: Well, if you took a look at some of the -- and these were called these sorts of things, and I think they still exist this way in kind of islands of excellence, if you will, throughout the Department, and the maintenance depots, the 17 public depots, were kind of doing very well in many percentage point reductions in cycle time throughput, that kind of thing that you see there.

And we're talking, you know, 20 to 25 percent ringing kind of the process elements out of that in terms of cost, material, overhead, that kind of stuff that you look at when you're doing those sorts of things.

The problem, though, and what's kind of difficult to extrapolate, is a lot of those savings that were kind of taken and used, you know, we'll say at the field level, found it really difficult to go back into the budget process and worked in that way. And I think that's a lot of times what makes a lot these things difficult, and to have them stick is to kind of get that feedback back into the system, if you will.

So, to do it more broadly is kind of difficult. I mean, in a normal



process improvement type event or approach, the savings can be quite substantial. But I think, too, in sort of the doing-more-with-less comment, there's been a lot of that that's already been done, and we're pretty good at it.

MR. O'HANLON: And, by the way, what's the overall annual cost of the activities that you're discussing here today roughly?

MR. AVDELLAS: Roughly, when you kind of take a look at the maintenance enterprise, we're talking about \$80 billion. And you look at, but we look at it kind of at the depot and field level, and we can get the cost information from various sources.

But on the depot side if you will, which is the kind of heavy repair, it's about 32 billion a year. The majority of the costs, though, you know, the 48, 50 billion, are in field level, a lot of which is in military personnel.

MR. O'HANLON: Good. Thank you.

MR. AVDELLAS: Sure.

MR. O'HANLON: Bill, over to you. Please feel free to pick up where Nick's been or Jack or launch into a new area of perspective reform and efficiency. I'd like to hear your thoughts.

MR. MOORE: Thank you very much, Mike.

Let me address my comments to the support organizations that are predominantly federal civilians. They have some military in there, but let's think about the federal civilian component of it.

I think there are kind of four things that you can do to look at those support structures and where the efficiencies. One, as Mike talked about, is base closures out there. There are some opportunities for continued savings in

base closure. They're tough to get in the short run. And so I think that the one problem I see with base closures is that you're going to make investments up front, and in the first three to five years it's going to be real hard to see any money. In fact, depending on who talk to you and what you want to argue about, it could be a long time before you see savings.

I'm going to take the heroic effort here, Mike, to make an estimate in each one of these, so.

Jack would caution me not to do this but for sure. (Laughter) I should listen to him, because he's a senior (inaudible). But having a -- what do they say -- a fool's errand. Mike gave me the errand and then I'm answering, so I guess that means I'm the fool.

I think it's the low single-digit billions, and on an annual basis, is probably savings.

Another area is what I'll call horizontal integration, and that's where you look at the things that the Department and there's a whole bunch of the same thing being done in a lot of places. And so are there ways to go out there and do those in one organization. This is not a new idea. We've tried this a lot of times. And, quite honestly, there aren't a lot of success stories. They also tend to have a big system component associated them and a big investment up front. So, it's got the same kind of problem as base closures: Kind of first three to five-year savings are hard to get at. I'd probably say those are low single-digit billing kind of opportunities there.

Another opportunity is called vertical integration, and that's where we get parts of the Department to accept what other parts have done, and that

seems a little funny until you think about it, but many times oversight in the Department means redoing what somebody else has done. So, cost estimates are done at multiple levels in the organization, and there's generally an unwillingness to accept what somebody else has done and would do some kind of minimal oversight. So, there are savings there. They're probably not large. And they're hard to get at, because it requires a lot of coordination and a lot of trust between organizations. So, again, those are probably low- to single-digit billions worth of savings.

The fourth area, which I think has the greatest promise, is what I'll call mission alignment, and we've done a number of these studies at LMI, and this is where you go in and you start off as a "let's just look at what your mission is." And I think, to Jack's point, there are new missions that should be created or have changed over the years, and what we've found when we've done that is that the alignment between mission and what the products and services that the organization delivers to make good on that mission is oftentimes not very good. So, if you go in and you start off and say: Forget what we're doing today; forget what kind of service delivery model we have for delivering those things; what are the things that we should be doing to make good on whatever our current mission is; and then you look hard at what you're doing, and you say: There's a lot of things here that don't align with this, I can stop doing these. And then you look at your service delivery model and say: How do I change my organization to get those kinds of savings? And then eventually it ripples through people and all that sort of thing. We found that the kinds of savings you can get doing that sort of look is 5 to 20 percent, depending on what you're looking at and how tough of

things you're going to take off.

And to say well, so, what does that mean in terms of opportunity, well, there are a number of opportunities that all of us could think of that, quite honestly, people don't have the will to take on. And, in fact, when we've done these things with some of the parts of the Department in the past, we've come up with some areas where it was pretty obvious -- oh, geez, this stuff's not aligned and these are savings and we could take them -- and then there are reasons why they don't get taken, and they tend to be political in nature, both big P and little P and sometimes just in a too-hard box from the culture of the organization.

But if you said we have something less than about \$80 billion worth of federal civilian salaries and this kind of stuff across the Department, and if you said about half of that, the military component of that, is already getting counted as savings somewhere else. They've already take in strength cuts, so if you find a savings what we found was that you really didn't reduce military positions, they just were moved around on the greater scheme inside of cuts that were already being taken.

But the federal civilian positions typically go away, as well as contract and others, and if you said that you have 80 billion, if you said half of that potentially had these alignment issues and then you do the math on that, that means you probably have the potential savings in this area somewhere from 1-1/2 to, say, about \$4 billion.

And the advantage, though, I guess over the other three that I talked about is that it doesn't take, typically, a large investment. These are not things that you have to move, then, a bunch of people around, so it's not a BRAC

kind of cost but a facilities cost. And you don't have systems investments, typically, on these things. So, they tend to be savings that you realize pretty quickly, and you can also do them on chunks of things. You don't have to do it everywhere at one time, so you can do it at a command level or a community or a particular service -- in community I'm talking about chaplains or other things -- or agencies. So, you can kind of do it at a level that you can get your arms around and you can get done in a short order and you can make it happen. So, I guess that's where I see probably, in the short run, the greatest opportunity for savings.

MR. O'HANLON: That's fantastic. I'm just going to keep a little running tally here, not that we're trying to come up with an answer -- and, again, Jack will counsel some of to be careful about this -- but I'm going to also reiterate the principle that I always teach my students, which is: In defense analysis of whatever type, certainly looking ahead to possible future wars but even doing budgeting you need a range. Whenever you're doing an estimate, don't think you can make a point estimate and have any kind of fidelity to the accuracy of that figure.

So, again, in the spirit of creating a range what I think I heard you say, Bill, is four different areas of potential savings, all in the low billions per year once they are implemented. But the implementation process itself can be lengthy and even costly.

And so if you're thinking about a 10-year time horizon and you're looking at, let's say, realistically by 2020, 2022 you could be saving 6, 8, 10 billion a year from all these things combined, but getting there is going to take

time, maybe even take money, and so a 10-year cumulative estimate, from all the things you laid out, even if you could overcome the politics, is probably less than 50 billion -- may be in the 20 to 50 billion range broadly defined. Is that not unfair?

MR. MOORE: No, I think that's fair -- and, Jack, you warned me, so. (Laughter)

MR. O'HANLON: And, Nick, what I think I heard you say is that out of 80 billion in general, equipment maintenance, including 30 billion at the depots, that there are ways to do reforms that have already proven that at a unit level, at a micro level, they can save 20 percent or so once implemented, but a lot of areas within that broader depot budget either have already been reformed or are going to be relatively hard to reform. And so realistically speaking, we're talking about looking into the future, maybe trying to save 20 percent out of a small subset of that remaining chunk of money. And so we're probably going to be talking again about, I don't know, 3 to 5 billion a year as a realistic target over the longer term. Is that not unfair?

MR. AVDELLAS: That's probably fair.

MR. O'HANLON: Okay, so, again we're not going to hold anybody to these numbers. We're trying to get a sense of what's doable. But, again, the Congress and the President have to decide in five more weeks how much more they're going to cut defense. So, we might as well at least try to have an informed discussion in the spirit of what Alice said. And that's what I'm trying to help these great comments lead us all towards.

So, Colonel Barnett, you may want to speak about some of these

other questions, too, but I'd certainly love your thoughts on military compensation, please, and whatever else you want to address today in this broad subject of reform and efficiency.

COL. BARNETT: Okay. Thanks, Mike, and I appreciate the opportunity to participate today, not necessarily as a representative of the Department of Defense or my military service but as an individual service member providing context and opinion.

Okay, now that that caveat is out of the way, I do appreciate the opportunity. This is a good discourse. I think, just like our military planning process as we go through it and we do problem framing, pretty much everything is usually on the table. There's nothing that's off limits or any red lines that we're kind of forbidden to talk about, at least when we do good mission planning.

I'd like to talk about two of the topics that are sometimes considered red lines, though, in this realm with regard to military compensation. That's probably our personnel pay and then, tied to it, our retirement program or our current retirement system.

There is probably some room for efficiencies in our personnel pay, now, since from 1989 to 2009 the basic pay -- not the additional compensation that's computed, non-cash compensation but basic pay from 1989 to 2009 -- has gone up 100 percent in nearly every rank, so over those 20 years. In some ranks, some of our middle enlisted ranks, it's gone upward of 115 percent increase over that 20-year period.

There was probably justification for doing that. They were considerably underpaid when compared to their civilian counterparts for a period

of time in the late '80s. I think we've caught back up the annual pay increase, which isn't tied to the employment cost index. Those continue. But in addition to the ECI adjustment every year, there continues to be a half percent to a percentage above that that's added to that pay increase every year. So, there's probably some room to flatline that a little bit as well.

As far as the overall military pay, it's hard to put an actual number on what we would save every year, but knowing that the personnel budget is 60 percent of the DoD budget, I mean, you can start to adjust it based on that. There are four-year projections for the reduction in the number of personnel in some of the services as well, so that makes it kind of a unique variable and difficult to actually pinpoint what the savings would be, depending on how many personnel we have.

Now, as far as the retirement system, we've adjusted the retirement system three times over the last 40 years. We repealed the last adjustment, for lack of a better term, because we thought it was unfair, or perhaps we rushed into it, and that was the reduction of retirement pay. Currently, when you retire at 20 years you get 50 percent of your basic pay. We went to a redux or reduced version of that in the late '80s where you begin at 40 percent of your basic pay. It only lasted, I believe, 4-1/2 to 5 years until it was repealed, and now we're back to 50 percent of your basic pay.

There have been a variety of commissions in the last couple of years. The Defense Business Board looked at it. They showed what the savings would be with not a benefit compensation but a contribution competition similar to a 402(k) or a thrift savings plan. I think it's worth discussing. What we would



really need to do and what the Defense Business Board did not do -- they looked at the amount that would be saved but what are some of the second- and third-order effects that it would have on personnel maybe 10, 15, 20 years later that we would suddenly have to readjust with special pays and incentives in order to make up for something that we hadn't anticipated. And one of the things I would look at as -- you know, not all cliffs are bad. We talk about, well, the military requirement program has this 20-year cliff. You either retire at 20 years and get half your pay, or you get nothing if you get out prior to that.

Well, offering a matched contribution program might have a detrimental second-order effect for our mid-level officers and enlisted personnel. In other words, we might see individuals who it's common in the military to reach a decision point at the 10- to 12-year mark -- hey, do I want to stay in and continue to serve? Or do I just want to leave and continue to try to find employment elsewhere while I'm still young and marketable? We might suddenly have this huge vacuum or loss of our middle-tier officers and enlisted, because now they've got something that they've already contributed to that they can fall back on and they can go start again. In order to retain them, we'd suddenly have to start paying them a considerable amount of bonuses and incentive pay.

So, those are the things that need to be looked at in order to figure out, yes, there are some savings we can have now, but what's the effect on our personnel system 10, 15, 20 years from now that are going to require extra compensation just to keep it a high-quality force?

MR. O'HANLON: That's great.

Let me -- from what I think I heard from Jack and John, let me see

if I can also, in the same spirit, put out some numbers, and I won't attribute them to you --

MR. MAYER: Thank you.

MR. O'HANLON: -- but I will attribute them to CBO. (Laughter). I see Dave Mosher here from CBO and others who have worked in this general enterprise, and CBO puts out the reports where they work through the math, and of course you're very familiar with the way the math is done. DoD spends about 50 billion a year right now on health, and of that amount -- again I'm speaking in broad terms and forgive me for a couple of imprecisions, but it's no more than 10 percent or so that's currently paid by Personnel towards their own premiums. The other 90 percent is paid by the government, whereas in the private sector -- and Alice obviously knows this a lot better than I do -- the ratio is much different, maybe 25, 30 percent paid by the individual. Anyway, it's much more.

If you were just going to work through the math and bring DoD gradually up to a normal civilian level, then that sounds like roughly a \$10 billion a year savings to the government over time -- ballpark. So, if that's right, then -- and, again, I'll give you guys a chance to object here in a second -- that means you could work towards a 10-billion-a-year savings from health care reform within DoD, but it's going to take you probably that whole decade to do the reform so maybe the average savings per year over the period is much less. Maybe you're saving, I don't know, 30 billion, 40 billion in cumulative 10-year savings assuming the Congress would go along with any of this. The Congress would not even go along with the modest changes recommended last year, and that gets to your point on politics.

But just imagine what's doable or what's hypothetically, you know, arguably doable. Maybe you get that kind of money in health care reform, and maybe you get, from what I've seen from the -- I think it was the Hadley-Perry commission and the Defense Business Board -- a roughly comparable amount of potential savings from pension reform. In other words, you might aspire towards 5 billion, 7 billion a year in savings if you go to something more like a redux and then possibly lose some of the savings through a thrift savings plan or 401(k) kind of equivalent for people who don't stay in 20 years and make this an argument partly about equity, not just about reform.

So, again, if my numbers are correct, if CBO's numbers are correct and I'm recalling them correctly, you've got maybe 30 to 50 billion potential 10-year savings from health care reform within the Department and maybe a comparable amount, broadly speaking, in pension reform. Does anybody want to object to that range at least being a way to think about the problem in terms of our hypothetical choice? Not one that you're advocating or forecasting but still a reasonable way to think about some of the policy options? Any amendments or objections?

MR. MAYER: So, you won't get me to give you a number, Michael. I am too well trained to know that without it being --

MR. O'HANLON: Well, you could call me crazy. You could say that's way off, and then you wouldn't have to say a number.

MR. MAYER: I mean, certainly your analytic approach is valid.  
(Laughter)

MR. O'HANLON: John, any comment?

COL. BARNETT: That sounds about -- you know, Colonel Karl Gingrich, who was the Army Fellow here last year, I think through out some of those same numbers in his research he did last year.

MR. O'HANLON: Yeah, although he was against pension reform, which is interesting. He was willing to -- and one of the things he wanted to say, like you, is remember the second order of facts and also don't do too many things at once. If you start piling all these reforms on top of each other and you do start to have an issue with recruiting retention attention.

One last question from me for the panelists. I'm going to ask it to Jack, but anybody else can comment if they wish, and then we'll go to you. And the question is -- again, you don't want to be recommending policy changes from your current position; nonetheless, you raise the idea that ultimately to save money you've got to think about missions and you've got to be willing to at least think about certain missions that you're not going to do and maybe not even have the capability to do. Without asking you to recommend any such change in mission, can you at least mention a couple of specific examples of things we should be debating -- the kinds of missions that we sort of retain the ability to do by default or we often lapse into but that we should at least have a more serious debate about whether we want to invest I the capabilities and then carry out these missions if and when the opportunities arise?

MR. MAYER: Sure, the one that immediately comes to mind is what is the role of DoD and homeland security? Why would I want to have a full command that is supposed to be doing homeland security, have an Army command under that that's doing homeland security, when I have a department

who's responsible for homeland security? Why do I want to have a national guard that is oriented toward fighting toward overseas when the homeland security mission is more in line with what the vision for a national guard was 300 years ago? And why do I want to outfit something like a national guard to fight wars overseas when we'd be better off using them to be able to help secure our borders?

So, I mean, I don't think that type of debate has occurred. I think we've had a discussion about how important homeland security was, although we never had anything about that in this election. But, you know, that to me is an example of mission creep. Who's responsible for homeland security? The Department of Homeland Security is responsible for it. Once we made that decision and instituted that 10 years ago today, that's where the role have been put, and there shouldn't have been an overlap between DoD and Homeland Security. That's one example.

MR. O'HANLON: Thank you. That's excellent.

Anybody else want to speak in this vein on broad mission sense?

COL. BARNETT: I think -- and, again, hopefully during the 2013 Quadrennial Defense Review this is an opportunity for them to look at some of these missions and take that opportunity. But the amount of forward presence whether rotational or permanent for our military forces is something they should look at as far as mission sense. And I'm not speaking of places where we're in conflict necessarily but places where the potential for conflict or the potential for partnership exists for the next decade. I think that's a mission worth looking at.

MR. O'HANLON: Thank you.

MR. MOORE: I would just say there's probably a second order below that and some of the support stuff where it's the same kind of thing as there's missions that are out there that are being done other places. The one that comes to mind for me is we have many parts of the Department of Defense that look at weather and forecast weather. And then as you peel back on that, you ought to find that what they do is go to the NOAA website. (Laughter) So.

MR. O'HANLON: And, Nick, anything.

MR. AVDELLAS: But just broadly. Some of the nation and state building functions -- just an example, a real world example working with it recently is we had a lot of people helping the Iraqi security forces look at some of their logistics training and so forth, and that I think gets to the Department of State and DoD sort of rules and mission-type issues. I think that's, again, framing that the date is an important one to have. Tremendously difficult work, as we know, and there's a lot of talk about, you know, missions of particular services in terms of should they be their whole sort of ethos? So, that's a big question. I think it's worth what we're talking about.

MR. O'HANLON: Excellent.

So, now we can go to you. I'm going to just let the panelists know, however, that at some point in the discussion I hope either you or I will bring up the question of acquisition reform as well. It may not be something that people wanted to focus on as their main area of expertise, but the broad question of can we make weapons more efficiently is also within the broad rubric of reform and efficiency.

And just people's instincts on what they think about that because,

again, what you define as waste by one person may be seen as inefficiency or even a useful kind of capability, a useful kind of gold plating that at sometimes the defense industry is accused of building weapons that are fancier and more expensive that they need to be. But it also is nice to have them when we go to war, and so the broad question of whether we have a lot of waste in the acquisition system is one I'd hope to get people to comment on later. But you may beat me to that punch.

So, over to the crowd. Let's start over here, and then we'll work our way around. Please, again, identify yourself after you get the microphone. Please, again, identify yourself after you get the microphone and if you can be specific about who you'd like to start the answer, that would be great as well.

MR. KILEY: Greg Kiley, Potomac Strategic Development. I'm also an alumna of the Congressional Budget Office and having done those budget option drills that went nowhere. So, Jack, I'd appreciate your comments.

There's one facet that I wanted to get your thoughts on, especially in the logistics part. Nick briefly mentioned it. But it's the budget process itself. That also has to be reformed. I mean, you can do the wag ideas and I'll stick with depots as an example to explain what I mean.

The requirements process is completely divorced from who's paying the bills, and its divorce from who's actually doing the work. So, there's this Lean Six Sigma attempt in the public depots, but they don't control their own budgets. In Transportation, some of those bills are paid by the Army and the Marine Corps and the Navy being shipped around through the working capital fund rates. So, there's no incentive to fix or to get at savings.

So, without recognizing that, that the budget's part of the problem, the process of how we build our defense budget, is 2014 realistic to start seeing savings? There will be a bogey, but if the process doesn't change are we just going to see across the board salami cuts?

And then when realistically could we see savings, even with a BRAC -- '15? '17? -- given that the process is still the current process.

MR. O'HANLON: Anybody want to begin that one?

MR. MAYER: I would, I guess, kind of start by saying that there is an incredibly complex, very difficult system to link our requirements, the way we require what weapon systems, the way we sustain them, too, you know. And the way we've called in and worked with several sort of clients again in various places of this sort of puzzle that you talk about is an outcome orientation. Whether you're at the depot and your outcome orientation is toward, you know, faster airplanes out, whether you're in an inventory control point and you're trying to manage an inventory of items, whether you're running a PBL contract and you're trying to at least focus on that particular facet of it from an outcome orientation, I think that's a way to kind of eke out smaller-scale savings from this sort of very large system that obviously doesn't kind of play very well together.

I think another part of it that I've often thought about in terms of the breadth of some of these systems -- now, if you look at our maintenance enterprise, we have roughly 17 public sector depots, many contractors, a bunch of folks in the field. Is there some kind of reform or initiative from a management perspective, and I'm not saying that -- you know, I think one myth that sometimes is sort of OSD -- it has, you know, this management information and they're kind



of running this that kind of way. I think, you know, what they're more doing is setting broader direction, and I think maybe what some of the answer is -- and I know it's been tried before and I know these get very large very quickly, but how do you create a command structure or perhaps a management structure that can get their arms around tying individual budgets and outcomes from more of the hierarchical orientation so that you can really get your hands on your own enterprise and what that means to make tradeoffs and that sort of thing. And it's difficult. And I think you're right to say it'll take a long time, and I think it'll take leadership, it'll take metrics, and it'll take a lot of fortitude to get it done.

MR. O'HANLON: Let's go back here.

MR. HUGHES: Philip Hughes from the White House Writers Group.

This seems more like a CBO alumni reunion.

I don't have a particular panelist to address this to, but I'll pick up on Mike's suggestion about addressing acquisition reform.

Two of the most obvious wasteful things in the acquisition process are long-term development programs that get canceled before they're ever actually fielded because of a whole bunch of institutional proclivities that lead to, well, over-designed and over-expensive systems. A second is incumbent technologies with entrenched bases of support that have to keep being funded, often at the expense of next-generation technologies. Both of these things have built in institutional proclivities and incentives that cause them, and we've grappled with them for decades. Do any of you have any epiphanies about how to address these long-term problems?

MR. MAYER: So, over the years one of the things that I've witnessed is that the requirements process is completely broken. And the reason it is broken is that the users are the ones who define what the requirements are and they are completely unconstrained. And I don't blame users for wanting the absolute best that you can have out there I mean, certainly everybody wants to do that. But if you don't link it with the engineering and the technology, the people who are actually going to have to produce this, and link it with the people who control the money. Collectively, at the beginning of the process, you will always end up with a system that is driven by requirements, that the technology and manufacturing people say yeah, we can do that -- not necessarily in the time frame was -- and the budget people are going to say okay, because they've been told that it's a requirement and they have to have it and so they're constantly going to be putting money at it, but they're going to be putting at it incrementally.

The second thing is, I think, that in the acquisition core we've got to be willing to have professionals that we're going to hold accountable for systems over the long term. If you look at what happens to systems, every time you change your major program manager, it is re-baselined, and it never baselined down. And the reason is that no program manager in a takeover of a major system says that it is doing well. They're always going to re-baseline it, because that's what you have to do to protect yourself in the system for the next two to three years that you're going to be there. But if we have people in there that are going to be there, that is job until it is done and held accountable for that and be willing to f they don't be successful to get rid of them and out someone in there who can be.

I don't think that you can solve it. So, I think it's the requirements process and the Acquisition Corps.

MR. O'HANLON: Is the Acquisition Corps, by the way, about the right size? Do we have an overall acquisition workforce that's roughly right-sized? I mean, if we get that incentive system better designed, do you think it's got the right capacity? Is it too big? Too much red tape? Is it too small? Too little oversight? Do you have a rough feel on that?

MR. MAYER: I think it's a function of the recording requirements are. So much of the people that are involved in acquisition are doing the paperwork to put in reports that go to DoD and to the Hill. I mean, that's what's driven by it. If you want to reduce the size of the acquisition corps, I think you've got to go after what the paper trail is for everything that they're asked to do.

MR. O'HANLON: Thank you.

In the blue shirt towards the back and then after that in the red sweater and then we'll swing over.

MR. FREEMAN: Hi, Ben Freeman, Project on Government Oversight. Well, we talked a lot about military compensation, but what we haven't talked about is contractor compensation. DoD spends about a billion dollars a day on contractors. A big part of that cost is compensation fees. Right now the DoD can build up to \$750,000 for an individual contractor. And we're talking three times as much as a four-star general. So, I'd like to get any input from you guys on how we could possibly reform that or if it should be reformed. Maybe start with Colonel Barnett.

COL. BARNETT: My counterpart tonight -- the other service

members have been discussing this a little bit over the last couple of weeks, but part of that -- the contractor issue -- is depending on what service performing. It's not hidden in the personnel budget or I can't find it there. It's in an OKO -- overseas contingency ops -- or in the ops and maintenance budget. How do fix how much you're spending on certain contractors? We didn't come up with an answer when we were discussing this. A lot of it takes discipline.

You know, we -- I guess probably the best example I could give you that we discussed is years ago some of the services closed down or reduced their military cooks, the amount of cooks they had. What did we do? We started contracting those cooks to run those garrison-based stateside chow halls, dining facilities. So, in the long run we save money, because we're not paying those employees of Sodexo, the same folks that do Brookings, for example, long-term military compensation when it comes to their retirement benefits and everything else that goes with that. And we can also terminate that contract a lot easier than get rid of a lot of service members if we needed to. So

MR. O'HANLON: Anybody else want to comment on the general question of contractor workforce?

MR. AVDELLAS: So, part of what you're seeing right now is a change in the federal government in terms of what their willing to compensate contractors for.

During the high point of Iraq, if you had people with SCI clearances, the government wanted them so bad that contractors were paying whatever you had to to get the people to put on the job, and the government didn't care, because that was this great demand.

Now what you're seeing is contracts coming out where the government -- whereas they might have said they needed somebody with 10 years' experience to do the job, they're now coming in and saying, oh, I only need two years' experience now. So, that in itself is driving the cost down.

And what you're seeing in the private sector -- some of the people who were rewarded well during the war and had salaries at higher levels than are being demanded right now are actually having pay reductions in order to be able to keep their jobs. So, I think the government has some control over it the way they're operating right now. I think it would be hard to go into legislation to do anything. I mean, this is a capitalist country, and, you know, I'm somebody who has worked in the military; I've worked in the government; and I've worked in the private sector. There are advantages and disadvantages to each of those systems, and I wouldn't press that one is better than the other, you can probably get richer in one than you can in the other. But, you know, the government does have control, and I think they're exercising that control right now.

MR. O'HANLON: In the red sweater, and then we'll come this way.

SPEAKER: Hi, my name is (inaudible). I'm here with the *American Spectator*, Colonel. I want to make sure I get this number right, because all the numbers involved in this discussion are rather big. Did you say something about there's, like, 60 percent of the DoD budget is personnel? What was that percentage? 60?

COL. BARNETT: Yes. Sixty. Operations and support, that's generally right.

SPEAKER: Okay. So, with that understood, why does the conversation focus on acquisitions so much with, you know, every little piece of a fighter jet made in a different state? Why not focus more on that issue, which is apparently very much in need of reform as well?

COL. BARNETT: To refine the question --

SPEAKER: Why isn't personnel budget -- why aren't personnel budget matters a greater part of the conversation in general?

COL. BARNETT: I think within the Department of Defense they surely are, and one of the easiest ways to adjust that rheostat quickly and bring that percentage of what we're spending on personnel down is to reduce the number of personnel. And then you get back into, okay, well, if I go down to x-number of personnel in a particular service, I no longer can achieve that mission set which you've asked me to accomplish. I mean, for example, we've increased the amount of personnel within the Department of Defense by 16 percent since 2007 as a result of this surge or the sustained operations in Iraq and Afghanistan, so we know that for the next four years there's a projected -- I believe it's 16 to 20 percent personnel decrease within the Department of Defense. So, that is always a topic of discussion, because there are savings in there.

SPEAKER: (off mic)

COL. BARNETT: Sixteen to 20 percent I believe.

MR. O'HANLON: I'm just going to add one quick additional point, which is if you think about the politics of talking about military compensation, it's usually a very hard thing to do. Go back to the 1990s. We were not at war. But

we had had a successful buildup in the 1980s where the military gained a lot more support in the country. The Reagan legacy was very influential certainly on both sides of the political aisle, and one thing that President Clinton, who of course had a somewhat challenging personal history with the military and some perceived vulnerabilities -- he didn't want to ever be seen as challenging military pay in a major way. Meanwhile, Congress is always pushing in the upward direction, and it was difficult to push back. And the civilian economy was doing well enough that you had some pressures to keep people in. It required some targeted areas at least of compensation increase even though the overall civilian-military gap had long since disappeared and the military was not being systematically undercompensated to the point where even this TRICARE for Life concept, paying virtually all the health care costs of retirees became popular and became a cause (inaudible) in the Congress even at a time we were not at war, and these people were no longer part of our active duty military. And then of course in the last 10 years, we've had an all-voluntary military at war, and the last thing people have wanted to talk about is paying them less.

You'll notice that today we are not talking about the Veterans' Administration budget. There may be savings in there, but we are not broaching that topic, because of course the first-order assumption, at least for my sake -- I'll speak for myself -- is that those benefits for our wounded veterans and for the survivors of those who have been killed -- those are especially difficult to reform or curve in any way and probably should not be in general. So, today we're talking about a different subset, but that by itself is politically hard enough.

And you just saw what the Congress did in the last year. The

administration asked for some very limited changes to compensation, and the Congress said no, we're not even going to do that. So, the topic -- it's a huge amount of money, but politically it's very hard to broach this subject. So, you're right to underscore the importance with your question.

We'll go over here to Jeremy and then we'll go to this side.

MR. LIN: Thank you. Jeffrey Lin, mostly with George Washington right now.

So, I was wondering how we're going to (inaudible) -- to go back to Ms. Rivlin's point about cutting low-priorities and also adjusting for technological risks and surprises, because Moore's Law sort of dictates that as technology gets cheaper our adversaries or potential adversaries would have increased capability. So, this is more about acquisitions question, I think. How do we balance making acquisitions more efficient while also building room to account for technological surprises?

MR. O'HANLON: So, the broad issue of how do we make sure modernize well enough and quickly enough even as we scale back and economize.

Anybody want to, at a broad philosophical level or at a more specific level, take that one on?

MR. MAYER: I mean, it depends on what technologies you're talking about. But if I'm talking about, let's say, information technology, we know how fast that that changes every year. We're also aware right now of the threats to information technology, the cyber war that's going on, which is something that 10 years ago might have been talked about in very small circles but was nothing



that was really critical.

So, that's an example, to me, of something where we've got to be able to continue to pay the money to be able to buy the new technologies that get more security built into them at the same time and should allow us to receive savings through efficiencies if we're willing to give up manpower when we do that.

But at the same time, we've got to be able to then hire other people with different skill sets in order to be able to worry about the cyber threat that's constantly coming at it. So, I think that the dimension is a little bit different than -- you can do that, and you can buy these things efficiently as long as you start looking at it as a whole.

So, for instance, right now with cyber in the DoD, every service goes out and buys its own cyber force. Now is that the most efficient way to be able to get the people who can best do cyber or to buy the technology you need to counter cyber? Probably not. Okay - we know that you can get efficiencies in procurement by buying at scale.

So, I mean, I think those are some little things that when I think about technology for the future, not about big technology that I'm putting on planes or boats or things like that. There are things like that that -- things like that that -- I mean, those are some of the things that come to mind.

MR. O'HANLON: Let's go over here, the gentleman in the yellow tie.

MR. NUCKLES: Hi, Will Knuckles with W. Knuckles Consulting.

I want to think for a moment about efficiencies in terms of the

national picture not just the defense picture. And as you're talking about missions and the common reactions of narrow, narrow, narrow, to think about not just things like the weather, which often is an example, but there's the counter-drug mission support, which just had some big successes. There are lots of things that have had some success, like military laboratory development and technologies and even bigger budget pieces like DARPA overlap with the civilian world and that possibly being more maximized.

I was wondering about, thinking about this not just in terms of efficiencies as it relates to the DoD mission as we narrowly typically think of it but in terms of efficiencies for the nation, in terms of dollars invested. As we could think about ways to culturally change, how can we get programs to think about delivery to the nation for the dollars spent, as well as what statutory reforms are going to have to go along with that, because there are a there are a lot of impediments currently in the system (E-4). Highly motivated people in the DOD System. So, you know, what are those changes do you think are possible right now, given this environment that seems to just be about cut, cut, cut? So, it seems to be about shrinking budget input as opposed to maximizing the nation's budget output, given that there seems to be this hunkered down mentality, and let's actually narrow the mission as opposed to be thinking about output.

MR. MOORE: Well, I think one issue is the labs. It is clearly an area -- we can take a look at that. You know, we have a lot of labs in defense. We have labs in DoE. We've got labs in other places. There have been efforts to try to reconcile those over the years, and they're tough. They're tough, because each of these labs and sets of labs have constituencies. Sometimes

they have unique capabilities. Sometimes they say they have unique capabilities that really aren't so unique.

I think in the short run, those are probably into (inaudible) box, but they're certainly out there.

MR. MAYER: I think of it -- kind of a technique and something that's been relatively successful in the DoD. But I think the -- sort of the aperture on it could be broadened substantially -- is this idea of public-private partner. When you look -- we've had some of it in the depot community within DoD. But the whole idea is having sort of different relationships around delivery. You know, not the public versus private, not sort of the traditional kind of walls and barriers that are built into a lot of the structures that are out there but how to look at partnerships in a way, as you say, to try to, you know, go after, you know, more of an energy efficiency perspective and those sorts of things that are, you know, tremendous challenges for the Department.

That worked several years ago on a couple of key weapon systems within the Army. But, again, it was mostly focused, at least in the depot community, on kind of touch labor on the public sector part and, you know, other engineering and other things on the private sector part. But I think if you look at various commodities or technologies, that we as a nation think really need to be critical capabilities or core capabilities moving forward from a defense perspective, there are ways that industry and government could partner more effectively to deliver those and probably for some kind of profit, you know, some kind of structure that may be different than the ones we're typically used to and sort of the weapons acquisition-type model.

MR. O'HANLON: Here in front, please.

MS. ERWIN: Thank you. Sandra Erwin with *National Defense* magazine.

Last week Vice Admiral Copeland -- or Copeman -- I'm sorry, the commander of Surface Naval Forces -- he talked about the crisis of readiness in the Navy. He said they don't have enough money to maintain the ships in the fleet and they're hollowing themselves out. He recommended a cutback in the force structure. He said we need to be smaller.

We've also heard the Air Force say that. The Secretary, the Chief -- they said they have to become smaller, because they can't maintain the fleets that they have.

So, we have the senior leaders in the military speaking about cutting back on the size of the military. Why isn't -- I mean we already know the politics obviously, but why wouldn't those messages get more traction and more reaction from the leadership everywhere?

MR. AVDELLAS: There are a lot of issues surrounding that one -- missions, employment, other things. I do think, too, and not that those readiness sorts of numbers -- we need to take those seriously and sort of look at them. I think some of the timing, if you will, of some of those pronouncements -- I think it would be interesting to just kind of think about that in the context of some of the debates that are currently going on in terms of funding and force structure and that sort of thing. And I know within the services those are issues in balancing that they're doing all the time. But there are so many components to that. It's just really, really tough. It's a good question.

MS. ERWIN: (off mic)

MR. MAYER: But this is a debate that occurs after every big event. It occurred in the '70s after Vietnam. It occurred in the '90s after the fall of the Wall. And it's going to occur right now, and it's going to be the debate about fore-structure versus readiness. And what you can afford with so much money. You end up with a balance.

One of the difficult things about readiness is it's so difficult to measure. And when I was at CBO I remember that I was dealing with this lots, and it is virtually impossible, even for DoD, to give you quantitative analysis, with the difference between whether a pilot does 20 flying hours a month or 19. Now, you can calculate the budget savings for that real easily. But you have no idea what the effect on readiness is when you do that. And I remember when I was young and flip I had a question from a reporter: Well, how do you know that you haven't cut readiness too much? And the answer is you don't, you wait until it starts bleeding and then you have to put it back in -- because nobody knows, all right? I mean, I think the military has a gut feel for what they feel is enough to be able to do it. But if you start asking for quantitative data that shows you what's the difference of readiness between a delta in one hour flying time or so many hours of (inaudible). You can't get it.

MR. O'HANLON: Reminds me, by the way, of a book that was published by Brookings that Richard Betts wrote, and one of the chapters was called "Lies, Damned Lies, and Readiness Statistics." (Laughter)

Dave Mosher.

MR. MOSHER: Thanks. Dave Mosher, CBO.

Two -- a comment first. Well, as you look at the budget and divide it, you can sort of divide it, we think, into three pieces. There's a piece that we're calling investment packages, RDT&E, and procurement and also military construction -- so the investment piece. There's a third of it that we consider military compensation, which is the military personnel account plus the health care piece that's all in there. And then there's the leftover -- everything else in operations.

What we've been talking about today has been ways that you might be able to stop the growth in a lot of those accounts, maybe start drawing them down in a few years. But to comply with the Budget Control Act, you're going to have to cut 10 percent on average out of each one of those categories this year or next year and stay at those levels.

So, I guess my question to you guys is where would you see the places to cut in those areas other than cutting force structure and really ratcheting back on acquisition?

The other comment I wanted to make was that, Jack, you're absolutely right about measuring readiness, and it's no better today that it was when you were at CBO just a few years ago. We have the same problem, and Congress has the same problem, and they can't -- you cannot know, if I increase the budget by 10 percent or cut it by 10 percent, what that does to my readiness in the short term and in the long term. There's just really no very good metrics for that

MR. O'HANLON: I think what I'll do is make that the last question with apologies to anybody else who was hoping to get in and invite each panelist

to respond to this very good and broad question, so it allows for either specific answers or broad answers on whatever else you may want to touch on, and then we'll ask Alice to sum up for the day.

So, Jack, would you like to begin?

MR. MAYER: So, David, I don't have any great ideas to help make your job easier. You know, we know that the sequester in cutting the 10 percent across the board for every program in DoD doesn't work. I mean, having lived through Graham-Rodman in the '80s and seen what a disaster that was is why I would never believe that sequester would happen, although reading the paper today they say it may happen in March now.

You know, when we get beyond where we are right now, my sense is that we go back to where the traditional way we look at the defense budget, and, you know, during wartime I think it was usually 60 percent operations when I put in military compensation in there, 40 percent investment, and at least time it flips, okay? So, we get 40 percent operations and 60 percent investment. And then you're going to get into the debates about the readinesses, too, you know, exactly how much is enough. And on the acquisition side, it's going to be whether there are going to be any big ticket items we buy or whether we're going to go back to the idea that we're going to skip a generation and do investments in new technologies, which is kind of a copout but it's a good way to be able to save money in the near term.

COL. BARNETT: Yeah, I would say from a maintenance and a practicality if that were to be the case. You know, what you'll start seeing is kind of retrograde returning back that was meant to be reset or there was a certain

pattern for it. I think what we'll start doing is, rather than putting those into repair, we're going to store them, and we're going to start doing some things kind of operationally from a logistics perspective that, you know, begins to look at -- and this is, you know, this term is used, and I know it's sort of -- there's a lot behind it but a tiered readiness-type look where you start making choices about basically how you managed the pipeline of the various systems and things that we have now.

You know we're in pretty good shape for a lot of our, you know, MRAPs and Strikers and things that we've used. You know, the whole idea is to try to be ready for the next thing, which is, you know, we're not ever really very good at. But I guess, to answer your question if that were to really hit there'd be - - there'd probably be people choices and many of these at least public sector facilities in terms of, you know, having to scale down workforces. I mean, a lot of that's already happened with a natural sort of workload decrease. But I think you would see sort of more dramatic type choices that over time may show up in a readiness -- as a readiness inhibitor.

MR. MOORE: I would say that the people I've talked to in Defense, and some of my friends are still on active duty, are scared to death of sequestration because of the meat cleaver kind of approach to it. And there are parts of the Defense establishment that would be broken when that occurs. That's the bad news.

The good news is, I think, that threat has caused people to think hard about the things that are low-value added, that, well, if I didn't have to do this, here's where I would get my savings.



So, I think there's a willingness that may not have existed before in the Department to make the hard choices about the low-value things and just quit doing some of that stuff.

MR. AVDELLAS: I think there'll be some war gaming perhaps in some case or we'll get some programs that could be resuscitated very quickly three or four years from now. One of the things we look at is, well, with personnel. We could potentially take another 10 percent cut in personnel and all the services as far as military in-strength, because we've shown, as we did from 2008 to 2010 that we can recruit 10 percent, especially in a poor county very quickly. So, we'll look at well, where can we lose 10 percent of certain programs but we can resuscitate them very quickly a few years from now.

MR. O'HANLON: It's not exactly a ringing endorsement of sequestration, but nonetheless a little bit of, I think, open mindedness and some ideas about where some additional defense savings may be possible with the one big caveat that we don't know how many more of these ideas would be needed just to comply with the existing plans for cutting the budget, which may or may not have been fully reconciled with the cuts in programs and weapons. I don't know if anybody else wants to comment on that, but that's one thing that, again, since we are talking about a lot of CBO friends in the crowd today, CBO does these great studies where they always estimate how much will it really cost to pay for all the things we have on the books and plan to keep, all the weapons we plan to buy, all the forces we already own, all the infrastructure that we currently plan to maintain. And it's always, I think, in the broad range of 5 to 10 percent more than what the budget would allow. Now, some of that you can

handle by postponements, by just routine reforms. But you do have this dilemma that a lot of additional changes may be needed just to comply with the budget goals we've already tried to lock in.

So, anyway, you'll be the judge as to whether the kind of numbers you've heard today, which approach up to 150 billion or a little more by my tally for 10 years and upper bound optimistic goal for savings through reform, whether they are feasible, desirable and whether they'll be needed just to pay for these budget ceilings that we've already imposed. So, there are a lot of questions that remain, but I think the panel has just done a great job of informing a lot of the choices that we have before us as we think about this question of reform and efficiency. I look forward to hearing how Alice will sum things up as she comes back to the stage.

MS. RIVLIN: Well, I think this has been a great discussion. It proves that intelligent people can talk about these issues and throw some light on them. I came away partly encouraged, partly discouraged, that the discouragement is that there are a lot of things still on the table that we've been talking about for a very long time, and they don't seem to get resolved.

But the optimistic view is I think this panel has identified some serious savings in some of the things we knew were at issue: in health care, in pensions, in acquisitions, and in compensation among other things that ought to move forward.

One of the themes, and I think it's very important, is that we have to take a long view. A lot of savings that have been mentioned here, if done well, would take upfront investment and long-term planning, and you don't get much in

the near term. That's true of budget savings outside the military as well, but we need to have a long-term view here.

The other thing is Everett Dirksen was right, a billion here, a billion there, a billion somewhere else, and it begins to add up and we shouldn't forget that the defense budget is so large and the total budget is so large and we've gotten into this habit of thinking in trillions. Then when people say it would be low double-digits billions, okay, that's fine, let's do it.

Another theme was the real importance of examining missions. Some have been mentioned, like homeland security, the weather, the role of the Guard, but clearly examining what is the mission and how can we do it best is where everything turns.

And the other persistent problem is the politics, the internal politics and the Hill politics. And we come back to that, and when people say it's tough to do this -- yeah, it's tough, because of the way we have allowed our politics to rule.

What's the cure for that? This may be a little self-serving, but I think it is that places like the Brookings Institution, the Stimson Center, the CBO, others have got to keep educating and cast a wider net at educating the public and politicians at a higher degree of intensity about what is possible.

And then for big savings comes back to when do we go to war; how do we avoid war; what else -- how do we conduct ourselves in the world. We all know that. We haven't discussed that today, but we have discussed some really important aspects of our defense establishment that could be done better.

Thank you.

MR. O'HANLON: Please join me in thanking Alice and the panels.

Thank you all.

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