

**STATEMENT OF MAJOR GENERAL ARNOLD L. PUNARO, USMC RET.
BEFORE THE
SENATE ARMED SERVICES COMMITTEE
NOVEMBER 17, 2015**

**THE URGENT NEED TO REFORM AND REDUCE DOD'S OVERHEAD AND
INFRASTRUCTURE**

Mr. Chairman, Senator Reed, members of the committee, I want to thank you for the opportunity to appear today to discuss the urgent and overdue need to get the full costs of the Defense Department's massive overhead and infrastructure identified, analyzed, and ultimately under control, but, most importantly, reduced from both a cost and a people standpoint.

Using DOD's own definition, its overhead and infrastructure is over 40 percent of the total annual DOD budget—\$240 billion. If these overhead costs were a gross domestic product, it would rank ahead of the country of Ireland. DOD's infrastructure has more people working in it than the entire population of Senator Reed's home state of Rhode Island—one million.

At the same time, we need to reverse the trend of what I have called the “ever shrinking fighting force.” We need to increase the size, readiness, and response time of our war fighting forces while developing 21st century command and control of these forces.

I appear exclusively as a private citizen and not as a member of the Defense Business Board, or Chairman of the Secretary of Defense Reserve Forces Policy Board, or Chairman of the National Defense Industrial Association. I believe, however, my personal experience is relevant to your inquiries. I have 24 years working with the Senate Armed Services Committee, 35 years in the United States Marine Corps (4 active, 31 reserves), 14 years as a senior executive of a Fortune 250 company, and six years as a small business owner advising Fortune 50 companies. I have both chaired and served on multiple commissions analyzing these issues and making recommendations in the areas of your focus today.

Let me emphasize that my comments today do not reflect any criticism of current or past Administrations or Congresses. This is not a report card on individual leaders—these problems have built up over decades. And despite many serious efforts in the Pentagon and in Congress over the years, the bureaucratic and antiquated processes have proven more resilient than the recommended reforms. Though we have hard-working and dedicated military and civilian personnel ensuring our nation's security every day, as a former Secretary of Defense told me recently, “Bad processes will trump good people every day.” And we have a proliferation of bad processes both in the Pentagon and in the Congress.

A good example of this occurred after I left the SASC in 1997. I was asked by then Secretary of Defense Bill Cohen to chair the Defense Reform Task Force. The other members included Rhett

Dawson, Jim Locher, Dov Zakheim, Kim Wincup, David Chu, and Michael Bayer. Secretary Cohen wanted to bring world-class business practices to the management side of the Pentagon. After eight months of review, we reported to the Secretary that DOD needed to focus on core functions, reduce multiple layers of management, eliminate the duplication between OSD and the Joint Staff, control the headcounts in the headquarters, and streamline the defense agencies among other recommendations. Secretary Cohen was delighted with our results, saying that this was exactly what he was looking for. But I pointed out to him these were actually the conclusions of a Commission set up by President Eisenhower in 1956, which included notable members such as General Hap Arnold and Vannevar Bush, with Henry Kissinger serving as staff director. Our Task Force came to the same conclusion they had some 40 years earlier and presented Secretary Cohen with five major studies on how to reform OSD, JCS, the defense agencies, the military departments, and the health care agencies. Because of the length of the original study, I have attached a summary of a presentation we made to Secretary of Defense Donald Rumsfeld in 2001. You will find recommendations to reduce the size and duplication in OSD and the JCS, reducing the number of senior personnel and multiple layers of management, streamlining the defense agencies and installing performance-based management, and divesting or eliminating non-core activities.

Almost twenty years after the work we did for Secretary Cohen, and sixty years after the work Henry Kissinger did for President Eisenhower, the management chain-of-command in DOD still requires significant improvements, since the tooth is getting smaller while the tail is getting larger and more expensive.

I know this Committee is willing to take up such a daunting challenge. This is the Committee that passed the sweeping changes that created the national security establishment after World War II, that addressed its problems in 1956, that shifted the military from the draft to the All-Volunteer Force in 1973 and then saved the AVF when it needed reforms in the late 1970s, that passed Goldwater-Nichols and Special Operations legislation, and continues to tackle the problems with the acquisition process. We know from history that large institutions like DOD cannot make significant organizational and process reforms from within. This Committee has an enviable history in solving major defense problems. The SASC will need to be the battering ram of reform once more.

You do have a real advantage because the leaders in the Department today are willing to change. In Secretary of Defense Ash Carter, you have what I call a “bureaucracy buster.” He is committed to genuine reform, evident from his groundbreaking push for the Force of the Future to his unrelenting drive to bring innovation into the Department and implement Better Buying Power. I know he shares the concerns about significantly improving the management of the Department. While many in the Pentagon below his level may resist any change, this Committee has key allies working with the Secretary, including Deputy Secretary Bob Work and Deputy Chief Management Officer Peter Levine.

Revisiting Goldwater Nichols

Thirty years ago many of us on the major defense committees were working hard on what became the Goldwater-Nichols Act. The act focused primarily on the operational chain of command and basically had the objective of improving defense processes in nine areas:

1. Strengthen civilian authority
2. Improve military advice to civilian authorities
3. Place clear responsibility on combatant commanders
4. Ensure commensurate authority for the combatant commanders
5. Enhance the effectiveness of military operations
6. Improve joint officer management
7. Increase attention to strategy and contingency planning
8. Provide for more efficient use of resources
9. Improve DOD management

As my friend and former colleague Jim Locher testified last week, the attention of the committees back then focused on the first six items, and accordingly spent considerably less time and effort on the last three. I believe most of us share the view expressed by Jim that the first six elements have resulted in significant improvements, while the last three have changed little, if at all. It is in these remaining areas that I believe we must concentrate future efforts. If there is to be something called Goldwater-Nichols II, it needs to seriously address those areas that were never sufficiently addressed in Goldwater-Nichols I. I will also have some recommendations for needed changes in some of the first six. After thirty years, they should be revisited in light of today's threats and the fact that GNA has improved joint-ness, making some of its provisions no longer necessary.

Congressional Reform is Necessary

Any Pentagon reforms will be insufficient without serious reforms in the Congress as well. The Pentagon and Congress are drowning in budget detail and duplicative processes and procedures. Congress should consider re-establishing the Joint Committee on the Organization of the Congress, which has produced major recommendations three previous times. The last time was in 1993 when it was chaired by Congressman Lee Hamilton and Senator David Boren with ranking members Senator Pete Dominici and Congressman Dave Dreyer. Congress should move to a two-year budget: the first year Congress would make decisions on the request and the second year would be reserved for extensive Congressional oversight and fact-of-life changes. We did this in the early 1990s with the defense authorization bill. Congress should consider reducing the three processes, budget, authorization, and appropriations, into two by combining the authorization and appropriations committees. Congress should authorize and appropriate in the same bill. The chairs and rankings of the new combined authorization and appropriation committee could constitute the budget committees and set the overall framework for the revenues, spending, and whether we are in surplus or deficit, including estimates on long-term

entitlement spending. If collapsing the committees is not possible, then stricter procedures should be adopted to preclude unauthorized appropriations in both defense and domestic accounts. And Congress needs to complete its work on time. Consideration should be given to move the fiscal year start to the calendar year start on January 1, but the budget for the next fiscal year would still be submitted on February 1. The joint committee should have a presumption of reducing the size of Congress' staffs and support agencies as well. In a world where events move in nanoseconds, DOD needs significantly more flexibility from Congress in how it spends its money to adjust to changing circumstances. To credibly reform the Pentagon, Congress needs to reform itself as well.

White House and OMB Reform is also Necessary

Pentagon and Congressional reforms must also be coupled with reforms in the White House. It must reduce the proliferation of executive offices and staffs, and establish controls on a National Security Council that is widely known to have trouble distinguishing between its "coordination" role and the "operational" functions of the line cabinet officers. We need to return the NSC to the Andrew Goodpastor and Brent Scowcroft model, both in approach and size. And the Office of Management and Budget needs to spend much more time on government-wide management and much less time on budget micro-management, which is more prevalent for the domestic agencies than DOD.

Close the Strategic Disconnect

I want to compliment this Committee for the leadership role it played in delivering the budget compromise recently enacted by Congress and signed by the President. It sets national security spending near the levels that both the Administration and the budget and defense committees indicated. The increased resources flowing to defense will have a near-term, positive impact on readiness, modernization, and quality of life. I hope that this will be a precursor to wider actions that set aside artificial spending caps and will end the threat of sequestration, an approach to budget control that has few merits and even fewer advocates. Nonetheless, sequester remains the law for Fiscal Year 2018 and beyond, but it should be given a quiet burial.

The idea behind the Budget Control Act of 2011 was to get control of the deficit through a broad approach. Even former Chairman of the Joint Chiefs of Staff Admiral Mike Mullen called the nation's long-term deficits our number one national security threat. In the BCA, capping discretionary spending was the first step. The joint committee was supposed to come up with revenue increases and entitlement reductions to reduce the deficit as well, but it was not successful.

When a new Administration and Congress are sworn in in 2017, they should immediately work on the grand compromise that addresses all elements of spending, revenues, and entitlements.

We need to ensure that DOD resources are sufficient and stable to deal with the current chaotic strategic environment. The past drawdowns of our fighting forces and defense resources, most

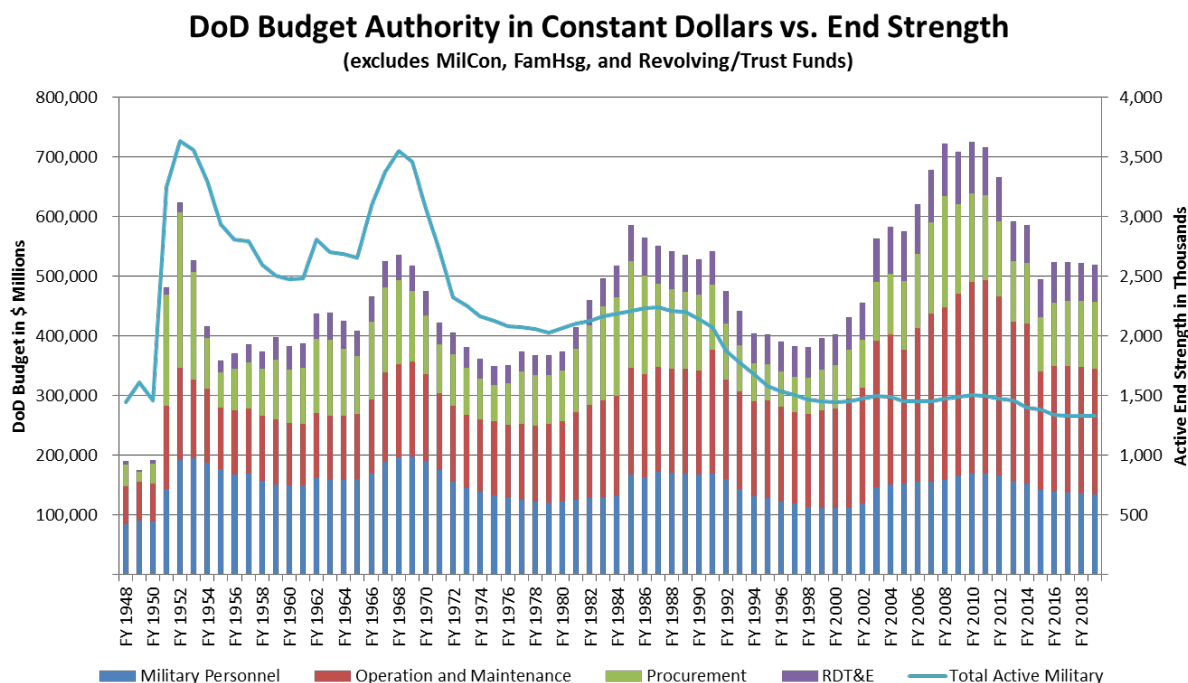
recently after Vietnam, after the Cold War, and adjustments tied to the drawdowns in Iraq and Afghanistan have been driven by a perceived improvement in the strategic environment.

The resources we devote to national security must be driven by the challenges the nation faces and those challenges are increasing: the growing chaos in the Middle East; the rise of religious extremism and non-state actors; an irredentist, aggressive, and in the words of some, “reckless” Russia; an emboldened China, a state that is quickly expanding both its conventional and unconventional military capabilities and flexing its muscles in often novel ways; and the continued provocation of an unpredictable and persistently irresponsible regime in North Korea.

Yet, in the face of all these immediate challenges, under the BCA and the sequestration regime, we are reducing our war fighting forces. As you have suggested yourself, Mr. Chairman, it may be no coincidence that we are seeing increased global challenges as we reduce our capabilities and lower our regional profiles. Such a reaction by such a diverse set of international players may not be proven, but neither can it be dismissed.

Defining the Problem

Senator Russell Long had a saying: “You should not solve a problem for people before they know they have one.” The major problem in defense today is the internal composition of the defense budget—how the internal PAC-Man of growing costs in personnel, acquisition and overhead are gobbling up our war fighting forces. As the chart below shows in a telling way, even as we have continued to spend more on defense—matching historically high levels—each dollar supports a significantly smaller active duty military end strength. The \$600 billion we spent on defense in 1953—a draft era force—supported 3.5 million troops. In the All-Volunteer Force era – at the peak of the Reagan buildup, \$600 billion supported 2.2 million active troops. Today, \$600 billion supports 1.2 million—the same amount of money for one million less active forces.



Mr. Chairman, the chart you included in your kick-off to these hearings demonstrated that the rising all-in costs of personnel over the last thirty years have gone up 270 percent. In just the last ten years, they have risen almost 100 percent for a slightly smaller force.

The Military Compensation and Retirement Modernization Commission, in its oft-overlooked interim report on what programs actually cost, included a chart that showed that the total cost for pay, benefits, health care, retirement, was over \$400 billion a year and that there is a \$1 trillion unfunded liability over the next ten years in the military retirement fund that is not in any budget. The commission challenged the notion put forth by some that military compensation represents 30 percent of the budget, and is therefore not a concern. The commission said:

The fact that military compensation costs consistently represents roughly one-third of the DOD budget does not provide evidence of fiscal sustainability. The commission considers the growth rate in Gross Domestic Product (GDP) to be the maximum rate at which compensation funding, holding force size constant, can grow while representing the same share of national income.

When they looked at this comparison from 1998 to 2014, growth in military pay, quality of life, retired pay, VA and DOD health care far exceeded both the GDP and the Employment Cost Index. This is why the immediate three former Secretaries of Defense – Gates, Panetta, and Hagel – have said publically that this cost growth is unsustainable. Secretary Carter has expressed similar concerns.

The main objective of the Defense Department, and its management processes, is to produce as much combat capability and power as possible with the resources available. Unfortunately, we spend too much time focusing on how much we spend, rather than on how well that money is spent and what the results are. In short, as an old phrase described it best: we need “more bang for the buck”—the nation needs, especially in the current strategic and fiscal environment, more “trigger-pullers” in operational units and fewer “paper-pushers” in back-office management. I believe we all share that aspiration, but the trends are not moving us in that direction as seen in the chart below:

The Ever Shrinking Fighting Force

Category	End of Carter 1980	End of Reagan 1988	End of Bush 1992	End of Clinton 2000	End of GW Bush 2008	Obama 2012	Latest Budget 2020	Change 1980-2020	Change 1988-2020
Total Budget Authority									
(\$B – Constant \$)	\$422	\$562	\$487	\$425	\$575	\$580	\$536 (est)	27%	-4.63%
Total Budget Authority									
(\$B – Current \$)	\$143	\$284	\$278	\$291	\$480	\$540	\$578	304%	103.52%
Supplementals (\$B)	\$0	\$0	\$4	\$0	\$193	\$115	\$27 (est)		
Active Duty Personnel (K)	2,101	2,209	1,886	1,449	1,406	1,432	1,273	-39.41%	-42.37%
Reserve and Guard Personnel (K)	851	1,158	1,135	865	843	846	798	-6.23%	-31.09%
DoD Civilian Personnel (K)	1,019	1,090	1,006	698	671	764	712 (est)	-26.50%	-31.30%
Active in Commission Ships	521	573	471	341	282	285	283	-45.70%	-50.60%
Army Divisions (active)	19	20	20	10	10	10	10	-47.40%	-50%
AF Fighter/Attack									
(Total Active Inventory)	2,789	3,027	2,000	1,666	1,521	1,493	1,067	-52.50%	-56.20%

Sources: Defense Manpower Requirements Reports, President's FY2016 Budget Request , Congressional Testimony

In constant dollars, we are spending more today than we spent at the peak of the Reagan buildup—up by 30 percent, but the war fighting forces are 40 to 50 percent smaller. We see this trend for three major reasons: 1) the all-in costs for the all-volunteer force and its support structure, as well as the costs of the retired force; 2) the \$400 billion we spend annually on goods and services, supplies, and equipment where the outcome can best be described as “spend more, take longer and get less”; and, 3) DOD’s massive overhead and infrastructure, with defense-wide spending going from 5 percent of the budget to 20 percent of the budget and the combined OSD, JCS, Defense Agencies, combatant commands, and other HQ with over 250,000 people costing \$120 billion a year. We are not getting the defense capability we should for the dollars we spend and, if uncorrected, we will not have the military we need in the years ahead.

Recent Army plans, for example, indicate the Army will reduce its number of active duty soldiers between 2010 and 2017 by 20 percent (567,000 to 450,000), and it will reduce its active

brigade combat teams by 33 percent (45 to 30). In other words, the number of combat brigades is being reduced proportionately more than the reduction in the number of soldiers would suggest—meaning trigger-pullers are leaving and paper pushers are staying. There are examples like this throughout all the services.

This one data point is merely suggestive of a broader issue: the enduring size of the defense infrastructure that has so far been resistant to reductions. Efforts to tame the tooth-to-tail ratio have never resulted in the outcomes we had envisioned, and over the years the ratio has, if anything, grown worse.

Putting DoD Overhead in Perspective in FY15

If DoD overhead was a separate country, it would rank 61st in GDP in the World

Rank	Country	GDP
56	Israel	\$268.3
57	Morocco	\$254.4
58	Denmark	\$248.7
59	Burma	\$244.3
60	Hungary	\$239.9
61	DoD Overhead	\$239.4
62	Ireland	\$224.7
69	Finland	\$221.5
70	Sri Lanka	\$217.1
71	Ecuador	\$182.0
72	Angola	\$175.5

Sources: Year 2014 Country GDP PPP Statistics (CIA Factbook); Budget Agreement amount for Fiscal Year 2016 (\$584B); FY15 Defense Manpower Requirements Report, Chapter 2, Tables 2-1a through 2-1d, Infrastructure (41% of the total).

Breakout of % infrastructure by Service

ARMY	32%
NAVY	63%
USMC	31%
AIR FORCE	44%



That raises a major issue. Overall, when it comes to defense infrastructure, we simply don't know how big it actually is. Likewise, we don't know what it actually costs. In some areas we have the data, but disagree over the definitions; in other areas we agree on definitions, but don't have the data. Getting to the bottom of this problem merits intense study and close attention. We must better understand why it appears we can't afford Army brigade combat teams, Air Force Tactical Fighter Squadrons, and Navy Battle Force ships, but we have larger management staffs within the Pentagon than ever before.

Let me elaborate briefly using only one example, though there are many to choose from. When Congress passed the National Security Reorganization Act of 1947, it created the structure that basically exists today. Among the organizational structures created was the Joint Staff, and legislation capped the staff at 100 officers. The 1949 Amendment, which created the office of the

Chairman of the Joint Chiefs of Staff, more than doubled the Joint Staff manpower to 210. The Department of Defense Reorganization Act of 1958 doubled the Joint Staff again to 400. So what do we have in joint staff numbers today?

As the chart below shows, the Joint Staff today, including the separately reported Office of the Chairman, numbers nearly 4,000—military, civilians, and contractors. Since 1958 the size of the Joint Staff has increased by a factor of 10. When Secretary Gates disestablished the Joint Forces Command in 2010, the military assigned there—over 2,000—were reassigned to the Joint Staff. This is one of the reasons there is no accurate headcount: when one agency goes down, another one is created to absorb the shock.

Joint Staff and Combatant Command Headcounts

FY15 Headcounts for the Joint Staff and Combatant Commands				
Organization	Military	Civilian	Contractor	Total
The Joint Staff (TJS)	1,474	1,032	761	3,267
Chairman of the Joint Chief of Staff (CJCS)	169	289		458
North American Aerospace Defense Command (NORAD)	219	101		320
North Atlantic Treaty Organization (NATO)	2,223	99		2,322
US African Command (AFRICOM)	427	519	197	1,143
US Central Command (USCENTCOM)	753	466		1,219
US European Command (USEUCOM)	515	412	238	1,165
US Northern Command (USNORTHCOM)	570	719	429	1,718
US Pacific Command (USPACOM)	1,243	959		2,202
US Southern Command (USSOUTHCOM)	459	649	483	1,591
US Special Operations Command (USSOCOM)	3,051	6,548	5,949	15,548
US Strategic Command (USSTRATCOM)	1,519	1,958	1,068	4,545
US Transportation Command (USTRANSCOM)	1,181	754	4,421	6,356
Joint Staff & Combatant Command Totals	13,803	14,505	13,546	41,854

When we look at the staffing of the combatant commands, the total number of those assigned to Joint billets is over 40,000—yet another increase by a factor of 10. The combatant commands have expanded from lean, war fighting headquarters to sprawling mini-Pentagons with thousands of staff members. They no longer fight wars themselves, but must create new joint task forces to accomplish that mission. The regional combatant commanders have evolved into political-military ambassadors who focus heavily on peacetime engagement. Given the inability of other parts of our government to fulfill their proper role, this is a very important mission. Yet Goldwater-Nichols specifically resisted the notion of adding requirements to the combatant commanders, such as budgeting and acquisition, so they would not lose focus on their primary duty—war fighting. The proper role and size of the combatant commanders, their service component commanders, and the standing ad-hoc joint task forces should be the subject of your careful review

Defense Agencies are Big Business

The defense agencies have also grown in number, scope, and costs. They are not just defense agencies; these are very large business enterprises.

If one looks at the staffing of the various defense agencies that have been established over time, the trend is similar. Today the various defense headquarters and agencies have a headcount of over 400,000 active duty military, defense civilians, and contractors. To put this in perspective, the manpower of these activities is well over double the active duty size of the United States Marine Corps, and, should current Army plans continue, is approaching the size of the active duty Army.

Many people will incorrectly guess that the largest government contractor is Lockheed or Boeing or one of the other large primes. It is, in fact, one of DOD's own agencies: the Defense Logistics Agency. DLA does over \$44 billion a year of business with DOD compared to Lockheed's \$28 billion. In the top ten largest businesses, five are the department's own agencies, not including several of the intelligence community agencies. Most of the defense agencies would rate in the Fortune 250 and several are in the Fortune 50. Yet they are not managed as businesses – even though one is, in fact, a grocery business. Another is a worldwide communications provider and another is one of the world's largest and most expensive health care providers.

Defense Agencies are Big Business		
Rank	Defense Agency/Defense Contractor	Agency Budget/ Contract Awards (\$B)
1	Defense Logistics Agency (DLA)	\$44.1
2	Defense Health Program (DHP)	\$41.7
3	Lockheed Martin Corp	\$28.2
4	Boeing Co	\$22.5
5	Northrop Grumman	\$14.2
6	General Dynamics Corp	\$10.6
7	Raytheon	\$10.2
8	Defense Information Systems Agency (DISA)	\$9.4
9	Missile Defense Agency (MDA)	\$7.6
10	Defense Commissary Agency (DeCA)	\$7.3
11	United Technologies Corp	\$5.7
12	Halliburton	\$5.4
13	Stewart & Stevenson	\$5.1
14	L-3 Communications	\$3.8
15	SAIC	\$3.6
16	General Electric	\$3.6
17	BAE Systems	\$3.5
18	Humana	\$3.0
19	Defense Advanced Research Project Agency (DARPA)	\$2.9
20	Defense Education Activity (DoDEA)	\$2.6

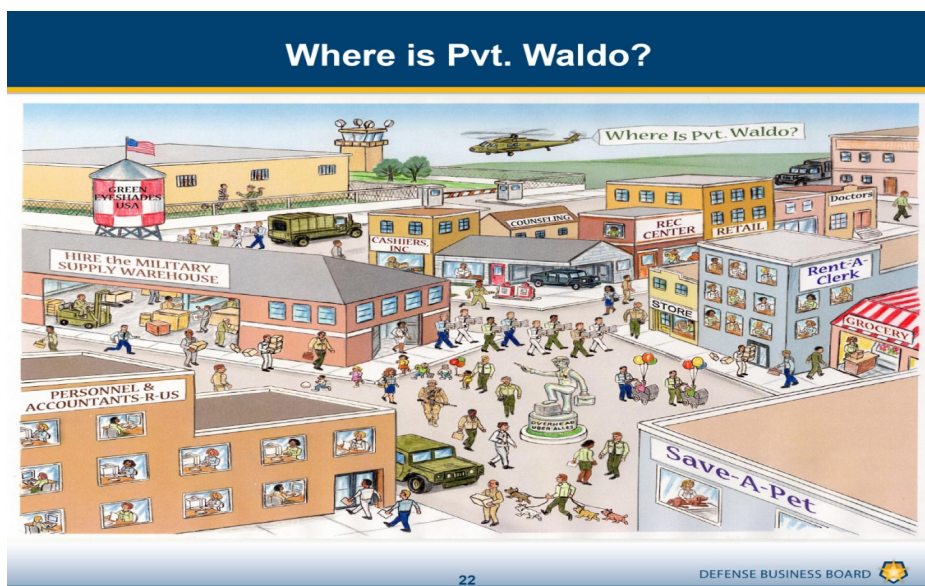
**Contractor data is prime contracts with DOD from federal contract database.*

The number one reason these defense agencies should be managed more as a business is that their total expenditures are in excess of 20 percent of the entire defense budget. Worse yet, for the most part, they are supervised by OSD civilian political appointees whose day-to-day jobs do not provide them with ample time for management and leadership. These entities lack strong, disciplined business leadership, performance management systems and several perform functions that are non-core to the essential missions of the Department.

Where is Private Waldo: Active Military in Commercial Activities

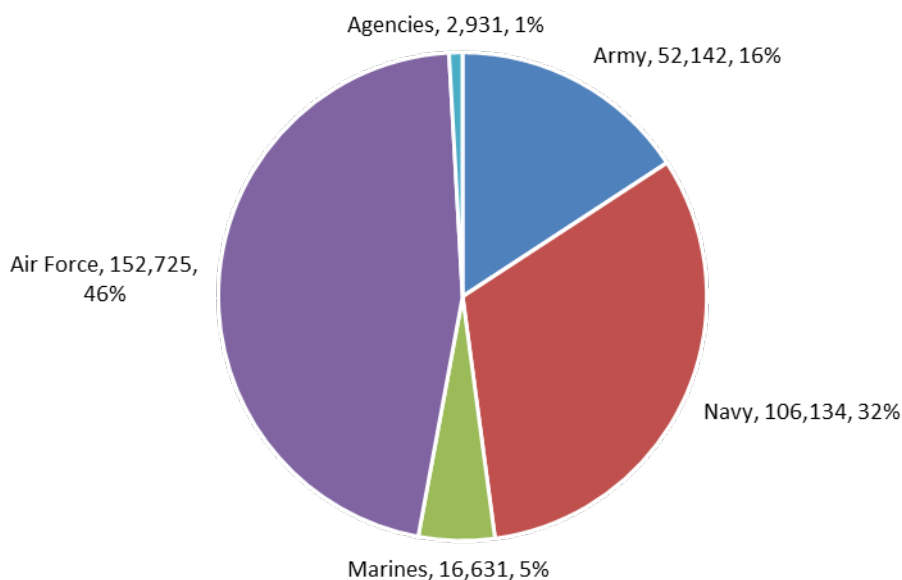
We also need to focus on DOD's most important employees: its active duty military personnel. They are the most expensive personnel, whether from a recruiting, training, and retaining standpoint or from a life-cycle standpoint. Our military should be at the pointed end of the spear as much as possible—they are the only ones who can perform that role. And yet, we continually hear about the strains on the force, not having sufficient dwell time, and needing to cross level personnel to make up units.

Of those 1.3 million serving on active duty, some 220,000 are currently stationed overseas or forward deployed in the Middle East or Afghanistan. So what are the other one million doing? Where is Private Waldo? Some are just back from deployments; some are getting ready to deploy. But the 2014 Department of Defense's Federal Activities Inventory Reform (FAIR) Act Inventory report reviewing the number of active duty military serving in commercial activities showed over 330,000 active duty military personnel—our most expensive personnel asset by far—in jobs that could be done by civil servants or contractors. There are several hundred unique descriptions for commercial activity positions in the FAIR Inventory reports. Some examples include budget support, commissary operations, ambulatory care services, contract administration and operations finance and accounting services, and stateside supply services. We should not have our most capable and expensive military in the rear with the gear instead of at the tip of the spear.



This is another area the Congress and the Department must correct. Here, we are using the most expensive personnel to perform activities that could otherwise be performed by less expensive personnel or not done at all. Furthermore, freeing-up the uniformed personnel makes them more available for the inherently governmental and military activities. The charts below show the number of military personnel in each component serving in commercial activity positions. By conservative estimates, if by removing even 10 percent of the 330,563 active duty from this category, the Department could free up \$5.3 billion for combat purposes. This estimate is based on the programming figure for active personnel. If you use the fully-burdened annual costs, you would save over \$10 billion. DOD works hard to improve in this area, but unfortunately there are more active military working in commercial activities in this most recent report than the previous one.

Active Military in Commercial Activities



Component	Army	Navy	Marines	Air Force	Agencies	Total
Active	52,142	106,134	16,631	152,725	2,931	330,563
Guard	438	0	0	61,279	0	61,717
Reserve	47,263	23,194	462	47,115	3	118,037
Total	99,843	129,328	17,093	261,119	2,934	510,317

DOD Overhead

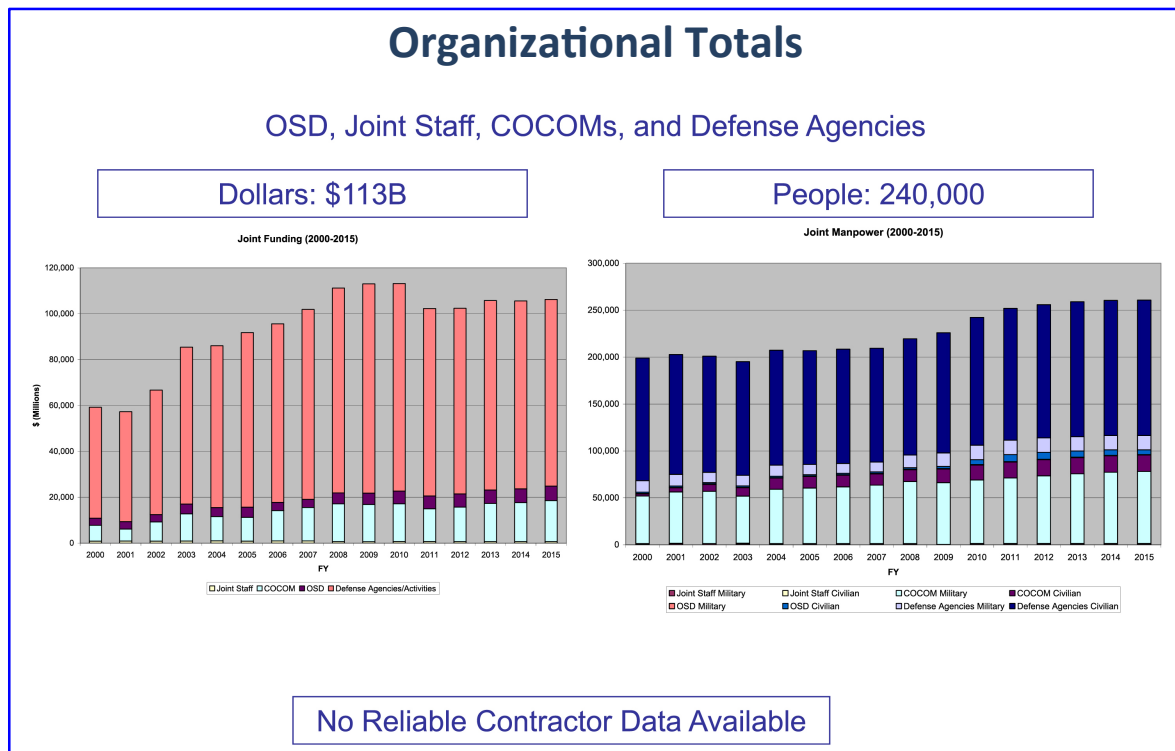
Let me draw particular attention to the more than 5,000 people employed in the Office of the Secretary of Defense, as seen in the chart below. We would all agree that serving as the Secretary of Defense in the current world is a most difficult and demanding undertaking, but we must ask ourselves if he truly needs a staff of over 5,000 people. In the early 1960s, when DOD had 2.8 million active duty personnel and 1.6 million reservists, there was one Deputy, no Unders, and only three Assistant Secretaries. Today, with about half as many total military personnel, there is still one Deputy, but five Unders, and seventeen Assistants with a proliferation of Deputy Unders, Deputy Assistants, Principal Deputies, and so on. And GAO says they do not have confidence in the size of OSD as carried on DOD's books. There are some estimates that it could be as high as 8,000. For example, the chart below differentiates between OSD, OIG, PFPA, and WHS—all which could arguably be defined as part of OSD. Altogether, this would put the count over 10,000.

Defense-Wide Headcounts

FY15 Headcounts for Defense Agencies				
Organization	Military	Civilian	Contractor	Total
Office of the Secretary of Defense (OSD)	404	1,946	2,923	5,273
Office of the Inspector General (OIG)	28	1,693	102	1,823
Defense Advanced Research Project Agency (DARPA)	16	182	600	798
Defense Commissary Agency (DeCA)	4	14,341	7,110	21,455
Defense Contract Audit Agency (DCAA)	0	4,668	51	4,719
Defense Contract Management Agency (DCMA)	535	11,291	481	12,307
Defense Finance and Accounting Service (DFAS)	29	11,569	483	12,081
Defense Legal Services Agency (DLSA)	198	140		338
Defense Logistics Agency (DLA)	649	26,186	232	27,067
Defense Security Cooperation Agency (DSCA)	134	483	112	729
Defense Security Service (DSS)	0	898	99	997
Defense Threat Reduction Agency (DTRA)	716	1,251	438	2,405
Pentagon Force Protection Agency (PFPA)	14	1,260		1,274
Missile Defense Agency (MDA)	134	2,727	18,517	21,378
Defense Human Resources Activity (DHRA)	9	1,173	1,350	2,532
Defense Media Activity (DMA)	933	751	340	2,024
Defense Prisoner of War/Missing Persons Office (DPMO)	46	78	20	144
Defense Technical Information Center (DTIC)		272		272
Defense Technology Security Administration (DTSA)	9	138		147
Defense Test Resource Management Center (DTRMC)	3	30		33
DoD Education (DoDEA)	1	14,347	4,317	18,665
Office of Economic Adjustment (OEA)	3	38	5	46
Defense Health Agency (DHA)	47	5,152	9,877	15,076
Washington Headquarters Services (WHS)	190	1,435	831	2,456
DoD Acquisition Workforce Development Fund		2,582		2,582
Defense Acquisition University (DAU)	52	620	52	724
National Defense University (NDU)	190	490	45	725
Uniformed Services University of Health Sciences (USUHS)	928	727		1,655
US Court of Appeals for the Armed Services		59	4	63
Defense Information Services Agency (DISA)	1,620	2,236	2,567	6,423
Other Communications and Classified Activities (not DISA)	12,747	45,949	12,556	71,252
Defense Health Program	84,568	67,553	21,585	173,706
Total DoD Headquarters & Agencies	104,207	222,265	84,697	411,169

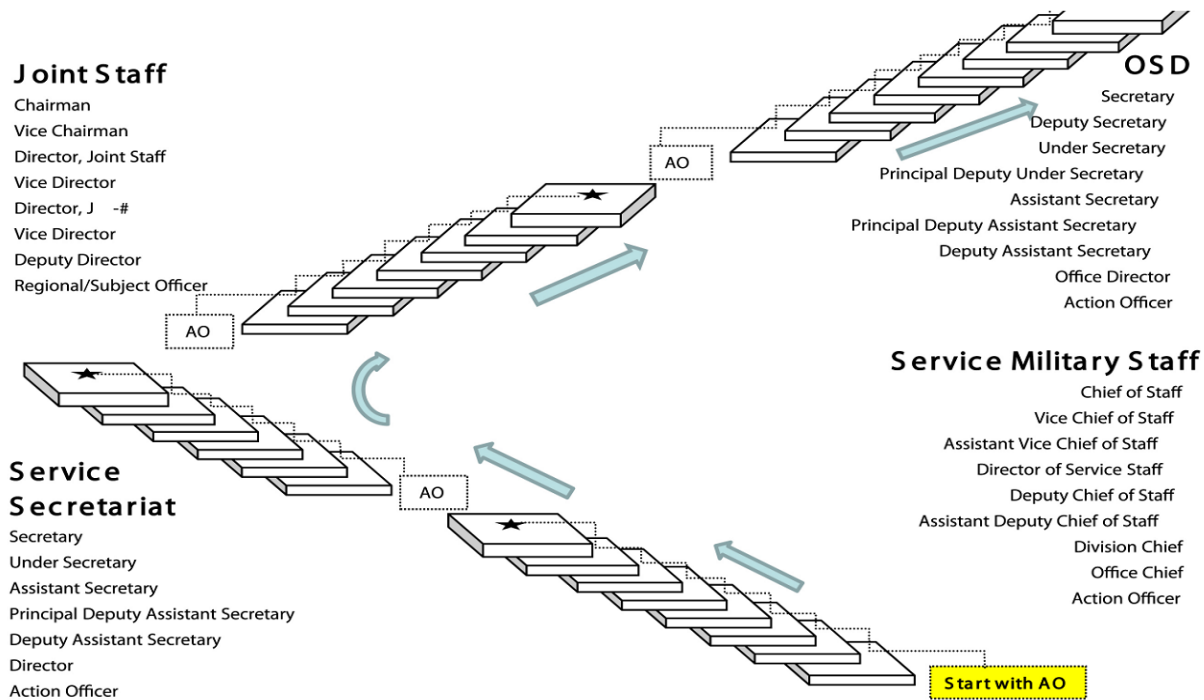
In his 1984 autobiography, Lee Iacocca, the legendary CEO of Chrysler Corporation, who successfully turned that company around from the brink of extinction in the late 1970s, noted that he had a very small headquarters staff at Chrysler—much smaller than he had as a senior executive at Ford. But Iacocca argued that with a smaller staff, the headquarters was forced to focus on the big issues, did not have time to micro-manage, and could not present him with a decision to be made with any greater than 80 percent certainty. Iacocca felt that it was his job to provide, with his experience and intuition, the remaining 20 percent. At Ford, he stated that senior management used its much larger staff to provide 95 percent certainty. Iacocca argued that achieving such certainty was made by sacrificing speed and increasing the cost of overhead, and with a company that was initially in serious financial distress, he could not afford the cost burden of additional overhead.

That experience is worth some serious consideration. One could strongly argue that the current management structure in the Pentagon is too large, too complex, too layered, and heavily invested in overseeing processes that are, in general, too slow. In terms of just the number of personnel in OSD, the Joint Staff, the Combatant Commands and the Defense Agencies there are nearly a quarter million—240,000 people—and this does not include the very large contractor counts. The costs for these people are \$113 billion. These organizations have shown consistent growth from 2000. Secretary Gates, in his “overhead reduction” efforts, subsequently supported by Secretary Panetta, identified these areas for reductions. However, the ratio of the overhead accounts to the combat side of the military is still adverse. The tooth-to-tail ratio—which was poor when both Secretaries began pushing to improve this area—has unfortunately gotten worse.



We have also known for years that the military structure of DOD institutionalizes layers of management. When you have so many senior personnel, more layers follow. For example, when you have the top person in a layer, the “head dawg,” that person will have a “deputy dawg” and the “deputy dawg” will have a “deputy, deputy dawg” and so on. DOD needs to cut out some of these management layers—by some accounts, there are 28 layers from the action-officer in the military department to the Secretary of Defense. This drives huge staffs and support personnel which continue to increase.

DoD Layers A Long Trip To The Top



DOD Logistics

Another area ripe for review is the overall activity in logistics. DOD operates one of the largest logistics enterprises in the world: its annual cost is over \$170 billion, including supply, maintenance and transportation. DOD has over 100,000 suppliers, \$96 billion in inventory, and is supported by 18 maintenance depots, 25 distribution depots, and over 49,000 customer sites. Our logistics enterprise does provide a real war fighting advantage, a fact that must be kept in mind. Despite much effort to bring DOD's logistics enterprise up to the level of today's world-class business practices, it has a long way to go. I am currently chairing a task force of the Defense Business Board reviewing this area to make recommendations to the Secretary of Defense in early 2016.

Real Property Maintenance

DOD also maintains one of the largest property books in the world – with over 562,000 facilities, on more than 4,800 sites, in all 50 states, 7 U.S. territories, and 40 foreign countries. The annual cost to operate and maintain these facilities is estimated at over \$30 billion a year, but GAO has

stated that here, as well there, is significant room for improvement. DOD is currently conducting surveys to establish how much real estate is needed and how much is excess.

Bringing World Class Business Practices to the Department of Defense

It is often pointed out when one suggests that DOD needs to significantly improve its management chain of command that DOD is not a business—this is correct. But there are world-class business practices that are definitely applicable to government, as outlined in the chart below:

	World Class Business Practices	OSD Today	OSD Application
1	Balance between leadership and management	Traditional leader role focused on management	Increase attention to leadership
2	Unifying vision for the future	Unarticulated, competing visions	Develop and communicate a unifying vision
3	Focused on core functions	Diffused work effort	Define and focus on core functions; Divest other activities
4	Flat, flexible structures	Layered, rigid structure	De-layer, Consolidate
5	Widely shared information and knowledge	Little information/knowledge sharing	Powerful CIO focused on promoting information and knowledge sharing
6	Sustained high-level attention to human resource management	Haphazard human recourse management	Leader-driven fundamental reforms
7	Process-centered in cross functional teams	Some use of integrated process teams	Establish cross-functional teams for key processes
8	Performance goals used to achieve results	Few performance goals	Establish a performance management system
9	Tight control over overhead personnel	Few, ineffective controls	Establish an effective control system

This chart lists certain world-class business practices that are applicable to DOD, how OSD stacks up against those practices and how they could be applied to OSD. This list is very consistent with multiple studies that have been done in this area over the decades. Several of the points above I have touched on earlier in my testimony, such as the need to focus on core functions, reduce layers, tightly control overhead personnel, and use performance goals to incentivize change, are underscored here.

Essential First Steps

So what should be done? We must first take three preliminary steps to address this problem of large, and seemingly growing, defense infrastructure and overhead before any further actions can be taken.

Step 1: You must establish a definitional agreement on what defense infrastructure actually is. Many will argue that some of those problem areas mentioned previously are actually tooth, not tail. Others, like Business Executives for National Security, will argue the overhead is much larger than DOD admits. We need consensus on what is counted as infrastructure and overhead. Having addressed the definitional challenge, we then need to determine where this infrastructure and overhead resides. In other words, where do the people work? And it needs to include active military, defense civilians, guard and reserve, defense contractors, and FFRDC personnel.

A particular challenge to this exists in determining total contractor personnel in overhead and infrastructure. Currently, there is not a data source that fully and accurately captures the exact numbers of contractors or where they work. While some data exist, contractors are typically paid from O&M accounts. Therefore, their exact numbers are not as easily derived as are military personnel—with their own appropriations, and civilian FTEs—who are paid through the Defense Finance and Accounting System.

Step 2: After determining who and what comprises infrastructure and overhead, and determining with much higher confidence where they work, we then need to know what they cost. Not just their salary, but the fully-burdened and life-cycle costs of active military, government civilians, guard and reserve, contractor personnel, and FFRDC personnel supporting these activities.

It is imperative that we reach an agreement on what constitutes the fully-burdened and life-cycle costs of the All-Volunteer Force, taking into account all cost elements, including education, health care, and future retirement costs. Of equal significance is that the defense retiree population is growing and is now at 2.4 million people. They are living longer, and their health care costs are growing, and under the current system their retirement income is inflation indexed. This means that it will be difficult to afford the force of tomorrow as we continue to pay large amounts for the force of yesterday. DOD does not know and does not track the fully-burdened and life-cycle costs of active military personnel, defense civilians, guard and reserve personnel, defense contractors, and FFRDCs. Some say because it is too difficult—it is difficult—but some suspect that DOD does not want to do the calculations to reveal the actual costs because of the sticker shock.

The Reserve Forces Policy Board did a year-long study as a FACA body, deliberating in open sessions, coordinating in the Department and with outside experts like GAO and CBO and made a lengthy report to the Secretary of Defense with six major recommendations. The following two charts outline what the RFPB found:



Inconsistent Use of Cost Elements in Military Personnel Cost Analyses in DoD



- The RFPB project team convened 16 meetings of an informal working group of costing experts from across the Department in order to examine and compare current military personnel costing practices across Services and Components.
- Found that military personnel costing is neither complete nor consistent.

Cost Elements Used by Most Components	Cost Elements with Wide Variance in Use	Cost Elements Not Used
<ul style="list-style-type: none"> Basic Pay Basic Allowance for Housing (BAH) Basic Allowance for Subsistence (BAS) Incentive Pays Special Pays Allowance - Uniform Clothing Allowance - Station Allowance Overseas Allowance - CONUS COLA Subsistence in Kind Family Subsistence Supplemental Allowance Social Security and Medicare (Employer's Contribution) Permanent Change of Station - All but Separation Travel Retired Pay Accrual Separation Payments Education Assistance (e.g., portion of GI Bill) Other Military Personnel Cost - Unemployment Other Military Personnel Cost - Death Gratuities Other Military Personnel Cost - Survivor Benefits Other Military Personnel Cost - Other Medicare-Eligible Retiree Health Care Fund (MERHCF) 	<ul style="list-style-type: none"> Allowance - Family Separation Allowance - Personal Money Allowance, Gen & Flag Offs Permanent Change of Station - Separation Travel Other Military Personnel Cost - Adoption Other Military Personnel Cost - Partial Deduction Other Military Personnel Cost - Transport Subsidies Family Housing Construction & Operation Military Construction Health Care Discount Groceries / Commissary Cost Child Day Care Facilities Training Recruitment Advertising, Etc. DoDEA and Family Assistance Child Education (Dept of Education Impact Aid) Operations & Maintenance Procurement 	<ul style="list-style-type: none"> Veteran's Employment and Training Treasury Contribution to Retirement Treasury Contribution for Concurrent Receipt Treasury Contribution to MERHCF Treasury Contribution to Survivor Benefits Veteran's Benefits (Cash and In-Kind) DoD Research Development Test & Evaluation
~ \$130 Billion in FY 2013	~ \$315 Billion in FY 2013	~ \$290 Billion in FY 2013

\$605 Billion in costs is NOT usually counted!



Why it matters



FY 2013 Fully-Burdened Per-Capita Cost to the US Government

Omitting these costs ignores about 20% of compensation



Military Personnel Account Costs*
DoD Defense Health Program
DoD Dependent Education
DoD & Service Family Housing
DoD Commissary Agency
TOTAL DoD Compensation Costs

O&M (Less DoD Dependent Education)
Procurement
Military Construction
RDTE & Other
TOTAL DoD Non-Compensation Costs

Dept of Defense Grand Total
Dept of Education "Impact Aid"
Dept of Treas - Concurrent Receipt
Dept of Treas - MERHCF
Dept of Treas - Mil Retirement
Dept of Veteran Affairs
Dept of Labor for Vet Education / Training

TOTAL COST TO US GOVERNMENT

Active Component	Reserve Component
\$ 84,808	\$ 26,033
\$ 19,233	\$ 8,157
\$ 2,034	\$ 33
\$ 1,235	\$ -
\$ 996	\$ 49
\$ 108,307	\$ 34,272
\$ 110,532	\$ 26,477
\$ 71,601	\$ 3,771
\$ 5,556	\$ 1,512
\$ 34,348	\$ 34,348
\$ 222,037	\$ 66,108
\$ 330,343	\$ 100,380
\$ 355	\$ 9
\$ 4,514	\$ 747
\$ 3,264	\$ 2,230
\$ 39,800	\$ 13,638
\$ 6,334	\$ 6,334
\$ 12	\$ 12
\$ 384,622	\$ 123,351

* Includes DoD contributions to MERHCF and Military Retirement Accrual

Step 3: Once we have agreed upon definitions, determined work locations, and calculated fully-burdened costs, we need to determine the right size for the various activities. This is difficult, and we might not get it right the first time, but it is not enough to just study the issue. With headquarters size, we need to make the same tough decision about how much is enough just like with force structure. Certainly we should all agree that we cannot allow the status quo to continue. There are too many people—active duty, defense civilians, guard and reserve, FFRDCs and contractors—working in OSD, JCS, the combatant commands, and the fourth estate.

Concrete Actions for the Committee to Consider

After taking the steps above to establish definitions, identify infrastructure, and agree upon metrics, costs, and size, several additional steps should follow:

1. Establish a firm baseline of headquarters organizations and activities including OSD, JCS, Combatant Commands, defense agencies and field activities, service headquarters, and commands including layers of management and measure reductions through annual reporting of all categories of personnel, end strength, and average strength. The FY15 Defense Manpower Requirements Report (DMRR) provides a breakout of personnel strength. It could provide a starting point for validation of the baseline. The FY15 estimates could be used as a ceiling for Fiscal Year 2016 and beyond, but at a more detailed level. The key is to establish a firm baseline and not allow DOD to constantly change it. This baseline needs to be the “all-in” count which does not exist today.
2. Require DOD to report in the annual Defense Manpower Requirement Report all categories of personnel in the overhead and infrastructure functions following the agreements reached on definitions, size, and cost.
3. Require DOD to report in the annual Defense Manpower Requirements Report the fully-burdened and life-cycle costs of all categories of these personnel in the functions in step 2 above.
4. Legislate end-strengths for military, civilians, and contractors to be assigned to, and employed by, the various overhead and infrastructure functions, once these headcounts and costs are firmly established. This is, of course, never a popular undertaking and one that DOD will resist. It should be done after careful consideration of the potential impacts on outputs required elsewhere, but it is an effective way to get numbers down and force the exploration of efficiencies. In budgeting, we have found that caps force hard discussions about tradeoffs—if decision makers want more money to go to one area they must make cuts to others. This discussion about priorities needs to happen with overhead personnel as well. Once Congress has determined there is sufficient discipline in this area, any caps could be eliminated.
5. Reduce management layers in all HQ and overhead functions; reduce the number of Undersecretaries, Principal Deputies, Deputy Assistants, Deputy Unders, and other layers,

while improving the supervisor to led ratios. Eliminate the new Undersecretary of Management and Information and the two Deputy Undersecretaries before they go into effect in January 2017. In their place, create one Assistant Secretary for Command, Control, Communication, Computers and Cyber. In a pilot program, take several of the defense agencies and replace active duty military leaders with proven civilian private sector leaders with contract performance goals and incentives.

6. Review the Goldwater-Nichols legislation in the context that the joint approach is now accepted and our most senior military leaders no longer need all the strictures of the legislation. I also recommend the terms of the Chairman and Vice Chairman be converted to one four-year term (vice two two-year terms) to ensure their independence and ability to always offer their professional military judgments. I would stagger the terms so they do not turn over at the same time and that will require either an extension or a short-tour for one at some point. As part of the additional flexibilities and non-traditional career options that are reported to be part of the Force of the Future initiative, apply more flexibility to joint duty management and joint education by removing some of the highly restrictive gates.
7. Approve another round of BRAC using an improved process. As difficult as this is, and as unpopular, DOD needs to get rid of its excess facilities. Despite earlier BRAC rounds, DOD believes the excess to be in the range of 20 percent. Carrying those unneeded facilities costs billions of dollars every year.
8. Reauthorize and revise the A-76 process. Congress should lift the moratorium on A-76 Public-Private Competitions. But even before the moratorium, we had many governmental commercial operations and depots that were protected by the A-76 process. In brief, contractors bidding for work had to report and account for the fully-burdened costs of their work force, but in general the government did not—giving it an advantage in such competitions. At the very least, if the moratorium is lifted, the playing field for such competitions needs to be leveled. As an inherently OMB function, over the years they have written rules and regulations that decidedly favor the government. Therefore, fewer and fewer A-76 studies were done and potential contractors did not want to waste money and time bidding on something where the “fix was in.” Congress did not want to take any chances on outsourcing, so the ban went into effect.
9. Eliminate duplications. There are numerous places in the Pentagon where we have significant duplications of effort. An obvious place is in the overlaps that exist between OSD and the Joint Staff. For example, there is overlap between OSD Policy and J-5 on the Joint Staff, as well as other areas including J-1, J-6, and J-8. In addition, there is the common view that the formal requirements process takes too long. Accordingly, eliminating the JROC should be considered as it adds a significant burden to the process and produces little of value with its highly bureaucratized and complex JCIDS process. All the personnel and paper work and bureaucracy associated with these activities should be deleted. Creating the JROC was an

aspiration of the Goldwater-Nichols Act, but in my view it would be one of those areas where, as John Hamre mentioned, we just did not quite get it right despite serious efforts by recent Vice-Chairmen to improve it.

10. Reduce management layers. Between OSD, the Joint Staff, Service Secretariats, Military staffs, the Combatant Commanders and their staffs, and the various standing groups and committees, such as the JROC and the Command Action Groups, there are far too many management layers populated by well-meaning officials and officers who feel they have a major role in any issue—large or small. In general, with such rich staffing there is a natural tendency towards micro-management where macro-management is required. As stated earlier, the trend in the private sector, and one quite visible in the major players in the defense industry, is towards small corporate staffs that provide the oversight and guidance that can only come from the top, but a transfer of basic management authority to line units. On the battlefield the services have learned that modern conflict requires that authority, and responsibility, be pushed down to lower levels. They call it “powering down.” It needs to be practiced more widely in the Pentagon. At a minimum, we ought to put a statutory limit on the number of Deputy, Under, and Assistant Secretaries in OSD and in the services, and collapsing the service staff would remove some duplication. Any increases must be offset by decreases.
11. Carefully examine business best practices. In so many ways, the Department of Defense is a unique organization. It is, by far, the largest department of government. Defense infrastructure costs are essentially larger than the GDP of all but forty countries. But, there are private firms that also have large scale operations, such as Wal-Mart, diverse international operations, such as Exxon, and extensive supply chains supporting highly distributed product lines, such as Trader Joe’s. The DOD needs to learn from these organizations, which have to compete in the global economy, keep costs low, and deliver products “on time and on cost.” Several years ago a senior Army general asked his head logistician what was the order-to-ship time for a repair part. The logistics officer proudly announced it had been reduced to 15 days, to which his superior replied, “General Motors’ time is 15 hours. So why can’t we do that?” Although the incentive structures between the public and private sectors are much different, performance objectives in similar functions should produce positive results.
12. Revise the executive branch and Senate processes for recruiting, confirming, and appointing personnel for key management positions. One of the major tenets of the Packard Commission, in addition to streamlining the decision processes, reducing layers, and eliminating paperwork and regulations, was recruiting and confirming personnel who had extensive experience running large, complex organizations and technical programs for the key management positions in the Department. We need to remove all the disincentives for personnel with those qualifications to serve.

Conclusion

I want to close by reiterating that none of my comments are meant as criticism of the dedicated, patriotic people who come to work every day across the Department of Defense with the intention of doing their part to keep the country safe. One senior officer recounted that on September 12, 2001, hundreds of military and civilian employees reported to work at the Pentagon even though the building was still on fire. They went to their offices to salvage what they could, gather up classified materials that had been scattered about by the explosion, and essentially, as we say in the military: “Charlie Mike—Continue Mission.” We are all proud that such people serve the nation. And this dedication is mirrored in the Congressional staffs as well.

I applaud the Committee for taking a hard look at this problem. As I mentioned, the growth in defense infrastructure has been quite similar and continuous through both Republican and Democratic administrations. The tendency has always been to add rather than subtract. And as we have added more staff, more layers, and more infrastructure, we have slowed the decision-making process, expanded the number of players, and made the overall system more risk-averse at a time where we need to allow the assumption of more risk. We need to reverse the process. The test for making infrastructure reductions should not be “beyond a reasonable doubt” as it is today, but a “preponderance of the evidence.” We need to take some risks to make reductions, recognizing that some may not stand the test of time. But if we wait for certainty, we will have waited too long and imperiled our war fighting forces as they continue to decrease.

We must distinguish between working hard and working well. And with the fiscal pressures we face, with the strategic challenges erupting all around us, with the operational demands accumulating on the force, we can no longer afford the luxury of a growing imbalance between what we must field operationally and what we field managerially. We need to generate more units—more combat power—from our military end-strength and the fiscal resources associated with it, not less. And today we are fielding less.

Thank you very much for offering me the opportunity to share my views with you.