

Background

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How to Save Money, Reform Processes, and Increase Efficiency in the Defense Department

Mackenzie Eaglen and Julia Pollak

Abstract: *After the sweeping cuts in the FY 2010 defense spending bill and with the proposed reductions in FY 2011, further defense cuts would jeopardize long-standing core capabilities that comprise the foundation of American military strength. Nevertheless, policymakers should relentlessly pursue greater efficiencies within defense operations and eliminate waste and duplication in the defense budget. The responsible defense efficiency reform package laid out in this paper could realize more than \$70 billion (possibly up to \$90 billion) in annual savings. Congress should allow the military to use any savings that it generates to pay for urgent priorities, such as modernization of each of the services' inventories. This will bolster the incentive to improve efficiency while directly strengthening the U.S. military.*

The need for a strong defense dates back to America's founding. Robust defense has been a priority because the U.S. Constitution mandates that the federal government "provide for the common defense."¹ This enduring responsibility, both in times of tranquility and in times of war, ultimately allows all Americans to enjoy their many freedoms in safety. Furthermore, maintaining a strong defense is the most practical approach because preparing for war often helps to keep the peace. Economic growth is required to fully fund a strong defense, yet policymakers need not spend a penny more than is necessary to protect Americans, maintain a strong military, and uphold core defense capabilities that comprise U.S. military superiority.

Talking Points

- Congress should ask what is required to protect the nation and fund an adequate defense to accomplish this—no more, no less.
- Congress must seek to increase efficiency within the large defense budget and help the Pentagon to operate more effectively, reform processes, and eliminate waste.
- Congress should allow the military to reinvest any realized savings to pay for urgent priorities, especially modernization of each service's inventory. Failure to reinvest the savings will seriously undermine core defense capabilities.
- Careful implementation of the reform package presented in this paper could save more than \$70 billion while improving the efficiency and effectiveness of the military and the Pentagon. Furthermore, reinvesting the savings in the military would fund much-needed procurement of new equipment.
- Reform and wise reinvestment in the U.S. military are essential to maintaining a strong defense and keeping the peace.

This paper, in its entirety, can be found at:
<http://report.heritage.org/bg2507>

Produced by the Douglas and Sarah Allison
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214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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Nevertheless, Congress can and must pursue efforts to find greater efficiencies within the large defense budget and help the Pentagon to operate more effectively, reform processes, and eliminate waste. The 112th Congress should use the reform and efficiency agenda presented in this paper as a starting point to conduct rigorous oversight. Congress should also allow military leaders to reinvest all of the funds recovered from eliminating bureaucratic overhead to pay for the more important priority of modernization, including purchasing new sets of equipment for all of the military services.

The Challenge Facing the 112th Congress

Members of 112th Congress will be under increasing pressure to cut defense spending, which comprises almost one-fifth of the federal budget. The annual federal deficit is running at about 10 percent of gross domestic product (GDP), and the ratio of public debt to GDP could reach 100 percent by the end of the decade. This debt burden will continue to swell as entitlement spending skyrockets.

Reducing America's debt burden is a particularly high priority for congressional Republicans, many of whom were elected by voters outraged at profligate federal spending. Robust national defense is also a high priority for many Members of Congress because the U.S. Constitution mandates that a primary responsibility of the federal government is to "provide for the common defense."

Funding a strong defense is fiscally responsible over the long term. Preparing for war often helps to keep the peace, whereas allowing the military to atrophy and then rebuilding it costs far more than simply maintaining defense spending at adequate levels in the first place. Thus, maintaining a robust national defense has not only a strong constitutional basis,² but also a fiscal rationale. As President George Washington told the American people in his farewell address, "[T]imely disbursements to prepare for danger frequently prevent much greater disbursements to repel it."³

As Washington observed, rebuilding a hollowed-out military and restoring denigrated capabilities and skills is far costlier when disaster strikes than maintaining adequate defense spending and a ready force, even during peacetime. Moreover, keeping defense budgets stable and predictable saves taxpayers money by promoting efficient build rates and healthy economies of scale in equipment purchases. Policymakers should ensure that they provide what is necessary to protect Americans, maintain a strong military, and uphold the core defense technologies and capabilities that comprise U.S. military superiority.

Policymakers should simultaneously pursue greater efficiencies in defense by reforming cumbersome processes, eliminating waste and duplication, and streamlining operations. Members of Congress can support a strong defense; eliminate waste in government agencies, including the Department of Defense (DOD); and demand reform and efficiency from the national security bureaucracy. A responsible defense efficiency reform package as laid out in this paper could generate between \$70 billion and \$90 billion in annual savings.

As President George Washington told the American people in his farewell address, "[T]imely disbursements to prepare for danger frequently prevent much greater disbursements to repel it."

The Obama Administration has already implemented many sweeping defense cuts and has proposed further reductions for fiscal year (FY) 2011. Secretary of Defense Robert Gates, the President's National Commission on Fiscal Responsibility and Reform, and many public policy research institutes have also proposed numerous additional defense cuts and suggestions. Some of these proposals are radical and arbitrary and would harm core defense capabilities. Other proposed reforms are more prudent and realistic and promise to eliminate waste.

1. U.S. Constitution, preamble.

2. Jim Talent, "A Constitutional Basis for Defense," Heritage Foundation *America at Risk* Memo No. 10-06, June 1, 2010, at <http://www.heritage.org/research/reports/2010/06/a-constitutional-basis-for-defense> (December 28, 2010).

3. George Washington, "Farewell Address," September 17, 1796.

Still others would transfer nonessential DOD activities to outside organizations to enable the military to focus exclusively on protecting the nation.

Critical to any defense reform and efficiency drive should be the goal of bolstering funding for modernization, the military's purchase of next-generation equipment, which Secretary Gates has said is urgently required. Many policymakers find it hard to believe that defense could be under-resourced during a time of war, but the problem began before 9/11:

Since the end of the Cold War, administrations of both political parties have underfunded the military, first harvesting a "peace dividend" by reducing the size of the force and then repeatedly postponing investments needed to replace worn out equipment and preserve the technological advantages that have been a traditional source of American strength.⁴

Further, the size of the U.S. military has declined by one-third in the past 20 years, while the number and scope of missions tasked to the U.S. military has grown substantially. Strained, aging platforms have reached the point at which they cannot carry out the desired missions.

The solution identified by a bipartisan blue-ribbon panel led by William J. Perry, former Secretary of Defense under President Bill Clinton, and Stephen J. Hadley, former National Security Adviser to President George W. Bush, is to spend more on military modernization. Specifically, the panel recommended that Congress fund a "force structure that gives us a clear predominance of capability in any given situation."⁵ A fleet of at least 313 ships—the U.S. Navy's current baseline—is the minimum size needed to match capabilities to commitments.

The panel recommended expanding the Navy to roughly 350 ships.

In addition to the growing challenges and need for continued presence and access in Asia, the report noted the stresses placed on the force over the past 15 years and the additional missions the military has assumed: "[I]t is unlikely that the United States can make do with less than it needed in the early 1990s, when Americans assumed the world would be much more peaceful post Cold War."⁶

Cutting defense is "not an inherent good," but "a process of taking calculated risk in military accounts" to improve government stewardship of taxpayer dollars, bolster the U.S. economy, and enhance national security over the long term.

The panel's report also identified the urgent need to modernize the inventory of all of the services. The Navy needs to begin developing a next-generation cruiser and buy additional submarines. The Air Force needs to increase its deep-strike capability, acquire more long-range platforms, and obtain a new tanker and additional lift capability. The Army needs to recapitalize its inventory of tracked combat vehicles.⁷

The five areas of reform discussed in this paper show particular promise in producing realistic and achievable savings within the defense budget and appear to involve minimal risk to the military's missions, capabilities, and readiness.

As Congress reviews these recommendations, Members should heed the warning that cutting defense is "not an inherent good," but "a process of taking calculated risk in military accounts" to try to improve government stewardship of taxpayer dollars,

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4. American Enterprise Institute, The Heritage Foundation, and the Foreign Policy Initiative, "Defending Defense: Setting the Record Straight on U.S. Military Spending Requirements," October 2010, at <http://www.heritage.org/research/reports/2010/10/defending-defense-setting-the-record-straight-on-us-military-spending-requirements>.
 5. Quadrennial Defense Review Independent Panel, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, 2010, p. v, at <http://www.usip.org/files/qdr/qdrreport.pdf> (December 28, 2010).
 6. *Ibid.*
 7. Jim Talent and Mackenzie Eaglen, "Shaping the Future: The Urgent Need to Match Military Modernization to National Commitments," Heritage Foundation *Background* No. 2488, November 4, 2010, at <http://www.heritage.org/Research/Reports/2010/11/Shaping-the-Future-The-Urgent-Need-to-Match-Military-Modernization-to-National-Commitments>.

bolster the U.S. economy, and enhance national security over the long term.⁸ These defense reforms should be implemented incrementally and with utmost care. Policymakers should monitor the results and mitigate any unforeseen risks at each step of implementation, making adjustments as necessary.

Recent Defense Budget Cuts

Since taking office, the Obama Administration has pursued massive defense cuts that will reshape America's military and jeopardize core defense capabilities that many have come to take for granted. The President requested cuts in nearly 50 major defense programs in FY 2010. Although many Members of Congress disagreed with the Administration's assessments, Congress broadly approved the President's defense cuts, significantly departing from them in only a few cases.⁹

President Barack Obama reduced the missile defense budget by \$1.4 billion in FY 2010 and reversed the Bush Administration's decision to deploy missile defense components in Poland and the Czech Republic. The Obama Administration also scaled back the planned number of ground-based midcourse defense interceptors in Alaska and California from 44 to 30, ended the Multiple Kill Vehicle program for defeating multiple ballistic missiles, deferred the purchase of a second Airborne Laser aircraft, killed the Kinetic Energy Interceptor program for intercepting ballistic missiles in boost phase, and eliminated funding for the space test bed for missile defense.

Many other programs were cut as part of the 2010 defense budget, including the F-22 fifth-generation fighter, the VH-71 helicopter, the Air Force's combat search and rescue (CSAR-X) helicopter, and the ground combat vehicle portion of the Army's Future Combat Systems. In the past two years, the

Administration has also ended purchases of the next-generation DDG-1000 destroyers, extended construction of the next carrier from four years to five, killed the MPF-A large-deck aviation ship and its mobile landing platform, and delayed indefinitely the Navy's next-generation cruiser (CG-X).

After the sweeping defense budget cuts in FY 2010, little was left to cut from next-generation equipment in FY 2011. As a result, the President's FY 2011 budget request proposes canceling a few new defense programs. However, it is notable for proposing few initiatives to replace capabilities lost in the FY 2010 cuts.¹⁰

More recently, in November 2010, the Bipartisan Policy Center's Debt Reduction Task Force proposed sweeping defense cuts that would reduce the military's budget to the peacetime levels of 2000, despite two ongoing significant overseas operations, the growing challenge of radical Islamic terrorism, North Korean and Iranian nuclear proliferation, and

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modernization and expansion of the Chinese and Russian militaries. Specifically, the task force proposes freezing defense spending for five years through statutory spending caps, enforceable through automatic across-the-board cuts in all defense programs.¹¹ By around 2017, the plan would reduce the defense budget to the peacetime levels of 2000 and cap it at 3 percent of GDP thereafter.¹² Under such a plan, military modernization

8. Michael E. O'Hanlon, "Defense Budget and American Power," *The Washington Times*, November 17, 2010, at http://www.brookings.edu/opinions/2010/1117_defense_budget_ohanlon.aspx (December 28, 2010).

9. U.S. Office of Management and Budget, *Terminations, Reductions, and Savings, Budget of the United States Government, Fiscal Year 2011* (Washington, D.C.: U.S. Government Printing Office, 2010), at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/trs.pdf> (December 28, 2010).

10. For a detailed list of the President's requested defense cuts and congressional responses, see Appendices A and B.

11. Bipartisan Policy Center, *Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System*, November 2010, pp. 19–20 and 96–107, at <http://bipartisanpolicy.org/sites/default/files/FINAL%20DRTF%20REPORT%202011.16.10.pdf> (December 4, 2010).

would suffer a disproportionate share of the cuts,¹³ and the military's fighting capability would be severely diminished.

In the same month, the co-chairmen of the President's National Commission on Fiscal Responsibility and Reform presented a package of debt reduction proposals.¹⁴ While the commission proposed many sensible efficiency reforms, it also recommended extensive procurement cuts that could produce a repeat of the disastrous 1990s "procurement holiday" and hollow out the military. This would be particularly dangerous piled on top of the past two decades of defense budgets, which build fewer and fewer new systems to replace the military's inventory of ships, planes, and vehicles.

Within the Defense Department, numerous reform processes are already underway. In August 2010, Secretary Gates announced a series of efficiencies initiatives to generate an estimated \$100 billion in savings within the defense budget through FY 2015.¹⁵ He is undertaking this initiative to reduce waste, eliminate redundancy, and reprioritize defense investments into modernization. Most of the plans are designed to improve effectiveness or achieve the same capabilities with fewer people and fewer resources. The proposals include reducing the number of contractors and civilian personnel and consolidating duplicative infrastructure.¹⁶

In addition, throughout the past decade, the DOD has been busy implementing various recommendations to close redundant military installations and realign defense forces to reduce expenditures on operations and maintenance, improve efficiency, and meet defense needs for the

next 20 years. These include undertaking the fifth round of Base Realignment and Closure (BRAC) initiatives. This BRAC round was the biggest, most complex, and most costly ever, involving 182 recommendations on 800 defense locations. The BRAC statute requires the DOD to complete all recent closures and realignments by September 15, 2011, so the Pentagon is busy with plans to close unnecessary facilities, build new installations, and transfer thousands of military personnel.¹⁷

As a result of BRAC and other extensive transformation initiatives, over the past 10 years, the DOD has been:

- Permanently relocating approximately 70,000 military personnel to the U.S. from overseas bases,
- Transforming the Army's force structure from a division-based organization to an organization based on brigade combat teams,
- Increasing the active-duty end strength of the Army and Marine Corps by 92,000 members, and
- Drawing down combat forces in Iraq while increasing the U.S. military presence in Afghanistan.

In addition, numerous DOD offices are implementing reforms proposed by internal boards and commissions and by agencies such as the Government Accountability Office (GAO). For example, the Pentagon has made numerous changes in its financial operations. The Defense Finance and Accounting Service, which provides accounting and financial services for the military and defense agen-

12. *Ibid.*, p. 97.

13. Mackenzie Eaglen, "U.S. Defense Spending: The Mismatch Between Plans and Resources," Heritage Foundation Backgrounder No. 2418, June 7, 2010, at <http://www.heritage.org/research/reports/2010/06/us-defense-spending-the-mismatch-between-plans-and-resources>.

14. Alan Simpson and Erskine Bowles, "\$200 Billion in Illustrative Savings," National Commission on Fiscal Responsibility and Reform, November 12, 2010, at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/Illustrative_List_11.10.2010.pdf (December 28, 2010).

15. Robert M. Gates, "Defense Efficiencies Initiative," U.S. Department of Defense, August 9, 2010, at http://www.defense.gov/home/features/2010/0810_effinit (December 28, 2010).

16. For a summary of these initiatives and the estimated savings, see Appendix C.

17. Brian J. Lepore, "Military Base Realignment and Closures: DOD Is Taking Steps to Mitigate Challenges but Is Not Fully Reporting Some Additional Costs," U.S. Government Accountability Office, GAO-10-725R, July 21, 2010, at <http://www.gao.gov/new.items/d10725r.pdf> (December 28, 2010).

cies, has become more efficient, reducing costs to the military by \$317 million since 2001. Other financial reforms have prevented duplicate payments, saving as much as \$452 million in FY 2005 alone. Finally, audits have saved the DOD several

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billion dollars.¹⁸ Of course, much more must be done to help the Department of Defense achieve a full and clean financial audit in the years ahead—a legitimate source of criticism and an urgent priority of policymakers.

Plans to conclude U.S. operations and reduce the number of military personnel in Iraq and Afghanistan will also eventually yield savings, although the reset needs of the Army and Marine Corps will be significant even after the major combat operations end. Brookings Institution scholar Michael O’Hanlon notes that Congress can expect to reduce total annual defense spending by about \$150 billion annually from current levels once the wars are mostly over. O’Hanlon suggests that the drawdowns to 10,000 troops in Iraq and 25,000 in Afghanistan by 2013 or 2014 could significantly reduce defense spending on overseas contingency operations.¹⁹

In summary, the Department of Defense and the services are already implementing a large number of initiatives to reduce overhead; trim waste, fraud, and abuse; cut unnecessary programs; consolidate facilities; and make defense dollars stretch further.

Nevertheless, Congress and the Department of Defense can always do more to spend the defense budget wisely. The 112th Congress should continue to expect potential savings from defense, with the following caveats:

- As the department trims more of the fat, it will become increasingly difficult to reduce military spending without cutting into defense muscle and thereby jeopardizing core functions.

- For best results, reforms should be introduced incrementally, using pilot projects or phased approaches when reasonable.
- Congress will need time to evaluate the outcomes of each reform properly to determine which initiatives to expand or replicate and which to alter or abandon.

With so many changes being made at once, Congress should be supportive and patient in allowing the services to realize savings.

Five Viable Reform Packages

The 112th Congress should use the best recommendations from various proposals and continue to pursue savings from within the defense budget in order to reinvest funds into modernizing all of the services. Five select packages of reforms promise to generate significant fiscal savings and government efficiencies while minimizing the increases in risk to national security:

1. Continuing and expanding select efficiencies initiatives undertaken by Secretary Gates,
2. Implementing and expanding select reforms recommended by the Fiscal Commission co-chairmen,
3. Expanding the use of public–private partnerships for performance-based logistics,
4. Modernizing base operations and the maintenance and supply systems, and
5. Reducing wear and tear on military equipment and increasing the use of multiyear contracts and block upgrades.

Making defense operations more efficient will not automatically produce savings, allowing further reductions in defense budgets. Whereas managers generally have incentives to improve efficiency in the private sector, there are typically fewer incentives for efficiency and good management in government.

For example, between FY 2002 and FY 2005, man-days of ship depot maintenance and days out

18. Office of the Under Secretary of Defense (Comptroller), “Improving Financial Performance,” at <http://comptroller.defense.gov/improving.html> (December 28, 2010).

19. O’Hanlon, “Defense Budget and American Power.”

of service per ship declined dramatically. The improvement in efficiency should have allowed the Navy to reduce maintenance manpower, save more than 12 percent of its maintenance budget, and redirect these savings toward procurement or some other urgent priority. However, analysts note that changes in efficiency norms do not appear to have entered the budgeting process. Instead of decreasing to reflect greater efficiency, the maintenance budget increased each year during that period.²⁰

This example shows how implementing defense efficiency efforts does not inevitably lead to immediate defense savings. Budgets may fail to reflect vast improvements in efficiency until DOD leaders identify better ways to reward managers and offices that improve efficiency, report improvements, and reduce their operating expenses accordingly.

Each of the following efficiency initiatives will likely yield savings only if Secretary Gates creates strong incentives for robust management and can assure the military service chiefs that they will be allowed to reinvest a large portion of the savings that they produce. The five reform packages detailed below lay out a program of responsible reform that could generate more than \$70 billion in annual savings within defense.

Reform Package #1: Continue and expand select efficiencies initiatives proposed by Secretary Gates.

The DOD efficiencies initiatives that were announced on August 9, 2010, and expanded upon in January 2011, include recommendations to close duplicative offices and agencies, streamline the

number of flag and general officers, reduce regulatory and oversight burdens, close the U.S. Joint Forces Command, and reduce contractors by 30 percent.²¹

Some of these recommendations seem arbitrary, risky, and less likely than advertised to produce savings. In particular, the DOD's ability to make the proposed reductions in contractor support is doubtful according to some analysts, including Todd Harrison, who believes they will be "difficult to achieve."²² Even if the DOD succeeds in cutting the proposed number of contractors, that reduction is unlikely to yield the desired level of savings, although that does not mean the effort is unworthy or should not be undertaken, particularly when the Congressional Research Service (CRS) estimates that "phasing in elimination of 10,000 positions per year would save about \$600 million in FY 2011, \$1.8 billion in FY 2012, \$3.0 billion in FY 2013, and \$3.6 billion per year in subsequent years."²³

However, most of the Secretary of Defense's recommendations appear to be both prudent and promising. In particular, Congress should pursue and possibly expand the following recommendations:

- *Freeze the number of Office of the Secretary of Defense (OSD) positions, defense agency positions, and Combatant Command (COCOM) billets at FY 2010 levels for the next three years.* After FY 2011, the DOD should also stop creating new full-time positions to replace contractors in these organizations. According to a preliminary CRS assessment, a 50 percent reduction in the growth of the OSD, defense agency, and COCOM billets could save \$2.4 billion per year.²⁴

20. Jino Choi, Omer Alper, James Jondrow, John Keenan, Richard Sperling, and Michael Gessner, "Improving Navy's Buying Power Through Cost Savings," Center for Naval Analyses, October 2006, at <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA462205&Location=U2&-doc=GetTRDoc.pdf> (December 28, 2010).
21. Robert M. Gates, "DOD News Briefing with Secretary Gates from the Pentagon," U.S. Department of Defense, August 9, 2010, at <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4669> (December 28, 2010) and Robert M. Gates, "DOD News Briefing with Secretary Gates from the Pentagon: Statement on Department Budget and Efficiencies," U.S. Department of Defense, January 6, 2011, at <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1527>.
22. Todd Harrison, "The Fiscal Commission and Defense: Strategy in an Age of Austerity," Center for Strategic and Budgetary Assessments *Background*, November 2010, p. 2, at http://www.csbaonline.org/4Publications/PubLibrary/B.20101123.The_Fiscal_Commiss/B.20101123.The_Fiscal_Commiss.pdf (December 28, 2010).
23. Stephen Daggett, "Preliminary Assessment of Efficiency Initiatives Announced by Secretary of Defense Gates on August 9, 2010," Congressional Research Service, August 12, 2010, p. 3, at <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA526227&Location=U2&-doc=GetTRDoc.pdf> (December 28, 2010).

Heritage Defense Efficiency Reform Package: Part 1

Selected Efficiency Initiatives Started by Secretary Gates	Estimated Annual Savings
Freeze the number of OSD, Defense Agency, and combatant command positions at the FY 2010 levels for the next three years	\$2.4 billion
Freeze the number of senior civilian DOD employees at FY 2010 levels	\$30 million
Cut the number of civilian positions in OSD by 600 billets	\$72 million
Consolidate information technology assets	\$5.5 billion
Freeze the number of DOD-required oversight reports and cut funding for advisory studies by 25 percent	\$21 million
Eliminate unnecessary boards and commissions and cut overall funding for studies tasked by the remaining boards and commissions by 25 percent in FY 2011	\$19 million
Eliminate duplicative or unnecessary organizations <ul style="list-style-type: none"> <li data-bbox="483 611 1133 688">• Office of the Assistant Secretary of Defense for Networks and Information Integration and the Joint Staff's J6 Command, Control, Communications and Computer Systems <li data-bbox="483 695 1133 724">• Business Transformation Agency <li data-bbox="483 751 1133 781">• Joint Forces Command 	\$95 million–\$115 million in FY 2010 \$116 million–\$340 million in FY 2010 \$240 million–\$703 million
Total Estimated Annual Savings	\$8.5 billion to \$9.2 billion

Sources: Robert M. Gates, "Reform Initiatives," U.S. Department of Defense, August 9, 2010, at http://www.defense.gov/home/features/2010/0810_effinit (December 7, 2010); Stephen Daggett, "Preliminary Assessment of Efficiency Initiatives Announced by Secretary of Defense Gates on August 9, 2010," Congressional Research Service, August 12, 2010, at <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA526227&Location=U2&doc=GetTRDoc.pdf> (December 4, 2010); and Heritage Foundation calculations. For more details, see Appendix C.

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- *Freeze at FY 2010 levels the number of civilian senior executives, flag and general officers, and PAS positions; cut at least 50 general and flag officer positions and 150 senior civilian executive positions over the next two years.* According to the CRS, freezing the number of civilian senior executives, general and flag officers, and PAS (appointed by the President with Senate confirmation) positions would save an additional \$30 million per year.
- *Build on the freeze by reducing the number of OSD civilian positions by 600 billets to roughly pre-9/11 levels.* Over the past decade, active-duty end strength has grown by less than 4 percent despite a protracted war with operations in Iraq and Afghanistan. Congress approved active-duty military end strengths of 1,382,242 in FY 2001 and 1,425,000 in FY 2010.²⁵ Over the same

decade, the number of civilians working in the OSD increased by almost 47 percent from roughly 1,500 to more than 2,200. Cutting 600 positions at an estimated average of \$120,000 per position per year would save \$72 million annually. By implementing both of the previous recommendations and expanding Secretary Gates's cuts in the number of civilian positions in the OSD, Congress could achieve \$2.5 billion in annual savings.

- *Consolidate information technology (IT) infrastructure.* Secretary Gates recommended the consolidation of IT facilities to allow the DOD to increase its use of common functions and improve its ability to defend DOD networks against cyber threats. A CRS report concluded that estimating savings would require further research but noted that private companies have achieved significant savings through IT consoli-

24. *Ibid.*

25. See Public Law 106–398, § 401, and Public Law 111–84, § 401.

ation: up to \$900 million in annual savings for a \$25 billion company such as IBM.²⁶ If the Defense Department realized comparable savings, it would save \$20 billion out of a \$550 billion budget.

However, it is highly unrealistic to assume that IT consolidation in the DOD would achieve such a high rate of savings. IBM would likely achieve higher percentage savings because its business is more IT-oriented. IT consolidation will also likely have diminishing marginal returns, saving a \$25 billion company 4 percent but saving a larger company considerably less. A more realistic estimate suggests that IT consolidation could save the DOD approximately 1 percent (\$5.5 billion) of its core budget.

- *Freeze the number of boards, commissions, advisory studies, and oversight reports; eliminate unnecessary boards and commissions; and cut overall funding available for studies tasked by the remaining boards and commissions by 25 percent in FY 2011.* Recognizing the enormous cost and imposition of excessive oversight, Secretary Gates plans to freeze the number of DOD-required oversight reports, cut funding for advisory studies by 25 percent, and eliminate unnecessary defense boards and commissions. Congress must still approve these efforts as part of the President's FY 2012 defense budget request.

According to the Congressional Research Service, "the OSD funds 65 boards and commissions at an annual cost of \$75 million" and spends up to \$84 million for contractors to prepare studies and reports for various audiences, most often Congress.²⁷ Congress can expect Secretary Gates's initiatives to save a significant percentage of those expenditures. Cuts of 25 percent in each area would yield up to \$40 million in annual savings.

- *Close duplicative organizations and reassign their functions and responsibilities.* Secretary Gates has proposed eliminating the Office of the Assistant

Secretary of Defense Networks Integration and Information and reassigning its functions to the Defense Information Systems Agency to save \$100 million annually; eliminating the Business Transformation Agency and reassigning its responsibilities to the Deputy Chief Management Officer to save \$100 million to \$340 million annually; and closing the Joint Forces Command and reassigning its functions to the Joint Staff to save \$240 million to \$703 million annually. Closing these three organizations is expected to produce between \$480 million and \$1.14 billion in annual savings. Congress should pursue these reforms only if it agrees that these are wise decisions supported by adequate analysis and if the critical responsibilities will truly be retained elsewhere within the Defense Department. However, maintaining important functions and moving them elsewhere within the department could reduce the potential projected savings.

Reform Package #2: Implement and expand select reforms recommended by the Fiscal Commission co-chairmen.

In November 2010, Alan Simpson and Erskine Bowles, co-chairmen of the National Commission on Fiscal Responsibility and Reform, presented a package of deficit reduction proposals, including defense cuts of more than \$100 billion in the FY 2015 budget and cumulative cuts accounting for even more from within the defense budget.²⁸ Their draft plan begins by recommending that Congress apply all savings achieved through Secretary Gates's efficiencies initiatives to deficit reduction. However, the secretary has motivated the services to become more efficient in part by allowing them to use the savings that they generate to fund their own priority programs. Removing the reward for efficiency would likely discourage implementation of efficiency reforms.

Some of the co-chairmen's other recommendations—including reducing overall procurement by 15 percent, canceling the V-22 Osprey, terminating

26. Daggett, "Preliminary Assessment of Efficiency Initiatives," p. 3.

27. *Ibid.*, p. 4.

28. Simpson and Bowles, "\$200 Billion in Illustrative Savings."

the Expeditionary Fighting Vehicle, canceling the Marine Corps version of the F-35 Joint Strike Fighter, cutting Air Force and Navy F-35 procurement by half, and reducing the number of military personnel stationed in Europe and Asia by one-third—would directly affect U.S. military strength. Each of these measures would threaten vital military capabilities, jeopardize America's current defense strategy, and contribute to weakening America's role in the world.

Congress should pursue only those recommendations that do not pose direct or immediately identifiable risks to America's defense posture. It should reject those recommendations that would further atrophy core military capabilities or harm readiness. Congress should consider some of the commission co-chairmen's proposals, including the following recommendations, which seem most practical and achievable:

- *Freeze federal salaries, bonuses, and other compensation for the DOD civilian workforce for three years.* The federal government “will spend an estimated \$180 billion on wages and salaries for civilian federal employees in fiscal year 2011, and another \$64 billion on benefits—a total compensation of \$244 billion.”²⁹ By including DOD civilian employees in the President's recent proposal to freeze federal workforce pay, President Obama predicts a total government-wide savings of \$5 billion through 2012. Over a longer period, the DOD civilian workforce pay freeze would generate an estimated \$5.3 billion in defense budget savings in FY 2015 for a five-year total of \$15.5 billion.³⁰
- *Replace military personnel performing commercial activities with DOD civilians.* According to the Defense Business Board, about 340,000 military personnel serve in commercial activities that are not inherently governmental—such as trash collection, fire prevention, supply, transportation, and communications services—at a cost of over \$54 billion per year.³¹ The board suggests that the military performs too many “non-military” functions and should eliminate some of them or reassign them to civilian functions. The commission co-chairmen proposed eliminating 88,000 military positions in which servicemembers are performing commercial activities and replacing them with 62,000 lower-cost civilian billets at an estimated savings of \$5.4 billion in FY 2015.³²

The Congressional Budget Office (CBO) has outlined similar findings.³³ However, Congress should take care when implementing such recommendations to ensure that the overall result improves the military's “tooth-to-tail” ratio and reduces or eliminates overhead from combat or direct support positions.

The U.S. Navy provides a useful case study for Congress. A 2006 study by the Center for Naval Analyses (CNA) indicated that the Navy could save \$750 million annually and reduce Navy end strength by about 21,700 by shifting some military functions to civilians, such as basic supply, food service, and ships' services on all surface combatants. The Navy could save \$390 million annually by applying the same model to aircraft carriers. Further, the Navy could save \$280 million per year by

29. James Sherk, “How Americans Are Overtaxed to Overpay the Civil Service,” Heritage Foundation *Center for Data Analysis Report No. CDA10-05*, July 7, 2010, at <http://www.heritage.org/Research/Reports/2010/07/Inflated-Federal-Pay-How-Americans-Are-Overtaxed-to-Overpay-the-Civil-Service>. See also U.S. Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2011*, p. 110, Table 10-3, at http://www.whitehouse.gov/omb/budget/Analytical_Perspectives (December 28, 2010). Figures exclude wages and salaries for uniformed military personnel and postal employees.

30. Simpson and Bowles, “\$200 Billion in Illustrative Savings,” p. 17.

31. U.S. Department of Defense, Defense Business Board, “Reducing Overhead and Improving Business Operations: Initial Observations,” July 22, 2010, at <http://www.globalsecurity.org/military/library/report/2010/100722-dbb-otg-report.pdf> (December 28, 2010).

32. Simpson and Bowles, “\$200 Billion in Illustrative Savings,” p. 22.

33. Congressional Budget Office, *Budget Options*, Vol. 2, August 2009, p. 27, at <http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf> (January 3, 2011).

Heritage Defense Efficiency Reform Package: Part 2

Select Fiscal Commission Reforms	Estimated Savings in FY 2015
Freeze federal salaries, bonuses, and other compensation for the DOD civilian workforce for three years	\$5.3 billion
Replace military personnel performing commercial activities with civilians	\$5.4 billion
Expand proposal to civilianize commercial activities by more aggressively implementing across the services	\$12 billion–\$22.4 billion
Reduce spending on base support	\$2 billion
Reduce spending on facilities maintenance	\$1.4 billion
Total Estimated Savings in FY 2015	\$26.1 billion–\$36.5 billion

Sources: National Commission on Fiscal Responsibility and Reform, “\$200 Billion in Illustrative Savings,” November 12, 2010, pp. 17 and 22–23, at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/Illustrative_List_11.10.2010.pdf (December 4, 2010), and Heritage Foundation calculations. For more details, see Appendix D.

Table 2 • B 2507  heritage.org

partially “de-crewing” surface ships during long overhauls and by contracting out select functions.³⁴

In addition, the CNA projects that the Navy could save \$100 million annually, largely from in-house training costs, by converting 5,415 medical billets to civilian jobs. Reducing the number of medical residents and using contractor physicians instead could save an additional \$250 million annually.

Beyond altering the composition of ship crews and medical staff, the CNA recommends that the Navy change how it conducts business by applying civilian staffing practices to military crews. For example, the Navy could save \$410 million annually by reducing ship and shore manning by using more experienced, skilled, and specialized sailors and officers, encouraging sailors to lengthen their tours of duty, and reducing the time that technically trained sailors and aviators are assigned to jobs and functions outside their training. Employing a smaller, partially civilian staff would allow the Navy to reduce the number of military billets significantly. Overall, the CNA projects that these manning practices could cut the Navy’s personnel compensation costs by 7 percent to 13 percent (\$3.7 billion to \$6.7 billion).

Given the CNA’s analysis, the Fiscal Commission’s savings estimate of \$5.4 billion in FY 2015 across all services may prove too conservative. If Congress aggressively implemented these reforms identified in the Navy and applied similar manning strategies in the Army and Air Force, savings could be much higher. In the military, direct personnel compensation totaled approximately \$156 billion in FY 2010. Achieving a 7 percent to 13 percent savings rate across all services would save between \$12 billion and \$22.4 billion in FY 2015. Congress must take exceptional care to ensure this not an arbitrary back door end strength cut.

The commission co-chairmen also proposed:

- **Reducing spending on base support.** The DOD could save up to \$2 billion in FY 2015 by reducing spending on base support activities, such as cutting grass and providing electricity, and by setting common pay standards and encouraging the services to regionalize and use civilians to provide some base support services. The costs vary greatly across the services, and standardization among the military departments is already underway within the Pentagon.³⁵ Congress will need to understand the

34. Choi *et al.*, “Improving Navy’s Buying Power Through Cost Savings.”

35. Simpson and Bowles, “\$200 Billion in Illustrative Savings,” pp. 22–23.

efforts currently underway before attempting to reduce funding further.

- **Reducing spending on facilities maintenance.** The co-chairmen also believe that reducing the budget for facilities maintenance by \$1.4 billion in FY 2015 is warranted given that many bases have closed and the overall square footage of military installations has decreased substantially, but spending has grown by 18 percent in real terms.³⁶ Congress will need to examine these assumptions and ask the Department of Defense to determine whether they are reasonable and whether reducing spending would have a detrimental affect on military installations or the morale of uniformed personnel and their families.

Reform Package #3: Expand the use of public-private partnerships for performance-based logistics.

The U.S. military can and should operate more efficiently. As combat capabilities grow, the Defense Department's vast logistics system must adapt.

Performance-based logistics is an alternative approach aimed at improving the overall effectiveness of massive defense logistics. It is based on forging partnerships between DOD employees and defense industry staff at the military's logistical centers in the United States and abroad. The goal is to organize the logistics system around increasing combat capabilities, thereby generating large savings from increased efficiency. The system has been implemented successfully at select military depots, but Congress has limited its rollout. A recent Heritage Foundation study examines the benefits of performance-based logistics and explains why and how Congress should support this more effective and efficient military logistical system.³⁷

A 2009 Aerospace Industries Association (AIA) report estimates that implementing performance-based logistics could save \$25 billion to \$30 billion per year in five areas:

- **Life cycle product support.** Life cycle product support covers the logistics needed to maintain weapons and equipment while in use. This includes repairs, refurbishments, modifications, and upgrades. Performance-based logistics would expand the development of public-private partnerships in this area. According to the AIA, this could save between \$16 billion and \$21 billion annually.
- **Management of commodities.** Performance-based logistics improves the efficiency of the commodities supply network by ensuring rapid delivery of needed commodities and reducing storage and inventory costs, saving between \$2.8 billion and \$3.7 billion annually.
- **Mobility assets and supporting infrastructure.** Performance-based logistics would copy the best transportation practices of the commercial sector to support logistics and optimize the distribution process. This could save between \$1.1 billion and \$1.5 billion annually.
- **Theater services.** Theater services primarily support combat and humanitarian missions in regions around the world. These include opening ports; constructing, staffing, and operating in-theater facilities, such as storage and delivery depots; and distributing weapons and materiel to intermediate locations. Performance-based logistics would improve preplanning steps with host countries and contractors, most importantly the use of airfields and ports, and rely more heavily on contractors under prenegotiated contracts. This could save between \$2.4 billion and \$3.2 billion annually.
- **Logistics information systems.** A system as far-flung and complex as the military's logistical system could operate better and more efficiently when supported by state-of-the-art information technology and modern supply chain systems. This could save between \$1.9 billion and \$2.5 billion annually. If implemented, it could realize additional savings by eliminating various costs

36. *Ibid.*, p. 23.

37. Baker Spring, "Performance-Based Logistics: Making the Military More Efficient," Heritage Foundation *Background* No. 2411, May 6, 2010, at <http://www.heritage.org/Research/Reports/2010/05/Performance-Based-Logistics-Making-the-Military-More-Efficient>.

Heritage Defense Efficiency Reform Package: Part 3

Develop Public–Private Partnerships for Performance-Based Logistics	Estimated Annual Savings
Expand public–private partnerships in life cycle product support	\$1.6 billion–\$2.1 billion
Improve the efficiency of the commodities supply network	\$2.8 billion–\$3.7 billion
Apply commercial-sector best practices to commodities transportation system	\$1.1 billion–\$1.5 billion
Preplan theater services, relying more heavily on contractors under pre-negotiated contracts	\$2.4 billion–\$3.2 billion
Modernize the IT structure supporting the logistical system	\$1.9 billion–\$2.5 billion
Total Estimated Annual Savings	\$24.2 billion–\$31.9 billion

Source: Aerospace Industries Association, “Modernizing Defense Logistics,” June 25, 2009, at http://www.aia-aerospace.org/assets/paper_v1_0_6_25_09_rr.pdf (December 7, 2010).

Table 3 • B 2507  heritage.org

associated with maintaining the Pentagon’s “Cold War logistics information infrastructure.”³⁸

Congress should promote transparency and accountability offered through performance-based logistics with “clear data reporting, performance metrics and incentives to drive positive performance.” One example is the C-17 program contract “where the cost in dollars per flight hour was reduced by 28 percent over a five-year period ending in fiscal 2009.”³⁹

However, for performance-based logistics to continue to succeed, Congress will need to support additional contracts by helping the Pentagon to identify opportunities to expand its application and by establishing a pilot program to identify the barriers to expanded public–private logistical partnerships.

Reform Package #4: Modernize base operations and the maintenance and supply systems.

The military could realize significant savings by modernizing base operations and its maintenance and supply systems. Specifically, Congress should consider:

- **Consolidating DOD retail activities.** The DOD currently operates four retail systems: commissaries for groceries and three separate exchanges for retail goods. The Fiscal Commission co-chairmen recommended implementing a CBO recommendation to consolidate the retail systems into one network and eliminate the \$1.3 billion annual appropriation to the commissary system. Consolidating the exchanges would require upfront investments but would eventually save about \$200 million annually.

Overall, the CBO estimates that canceling the subsidy and consolidating the exchanges and commissaries would save \$1.7 billion per year, but it would also increase military families’ annual grocery expenses by about \$300.⁴⁰ The DOD could more than offset this increase by using a portion of the \$1.7 billion to give military families an annual \$600 grocery allowance.⁴¹ The remaining \$830 million would represent annual savings for the DOD.

According to the CBO, one advantage of the grocery allowance is that “it could be targeted to

38. Aerospace Industries Association, “Modernizing Defense Logistics,” June 25, 2009, p. 5, at http://www.aia-aerospace.org/assets/paper_v1_0_6_25_09_rr.pdf (December 28, 2010).

39. Marion C. Blakey, “DOD Efficiency: Charting a Course to Savings,” remarks at the Air Force Association, September 15, 2010, p. 4, at http://www.aia-aerospace.org/assets/speech_09152010.pdf (December 28, 2010).

40. Congressional Budget Office, *Budget Options*, pp. 28 and 29–30.

41. Simpson and Bowles, “\$200 Billion in Illustrative Savings,” p. 23.

Heritage Defense Efficiency Reform Package: Part 4

Modernization of Base Operations and Maintenance and Supply Systems	Estimate Annual Savings
Consolidate DOD retail systems and give military families a \$600 annual grocery allowance	\$830 million
Change the depot pricing structure for equipment repairs to a dual structure	\$250 million
Ease restrictions on contracting for depot maintenance	\$390 million
Total Estimated Annual Savings	\$1.5 billion

Sources: Todd Harrison, "The Fiscal Commission and Defense: Strategy in an Age of Austerity," Center for Strategic and Budgetary Assessments *Background*, November 2010, p. 2, at http://www.csbaonline.org/4Publications/PubLibrary/B.20101123.The_Fiscal_Commiss/B.20101123.The_Fiscal_Commiss.pdf (December 4, 2010); Congressional Budget Office, *Budget Options*, Vol. 2, August 2009, pp. 32–33, at <http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf> (December 7, 2010); 10 U.S. Code § 2466; and Heritage Foundation calculations.

Table 4 • B 2507  heritage.org

specific pay grades or groups, with larger allowances given to enhance retention or to benefit junior enlisted members with large families, for example."⁴² One disadvantage is that military retirees who shop at exchanges on military bases could see the costs of their groceries increase by about \$200 per year, yet they would not be receiving the grocery allowance. Congress would need to examine this option for savings carefully and explore ways to offset the adverse effects on military retirees.

- **Reforming the maintenance system.** According to the same CBO report, the DOD could save \$250 million annually by changing the depot pricing structure for equipment repairs.⁴³ This would involve changing the pricing structure at defense depots to a two-part structure, similar to that used by utility companies. Under the new pricing policy, depots would levy an annual flat fee for overhead costs but charge unit commanders for the incremental costs of repairs upon each visit. As a secondary effect, this would reduce the cost of each additional visit, with savings compounding over time, and give unit commanders greater incentives to send equipment to central maintenance depots instead of using their own

facilities, which costs the DOD more in the long run. Allowing depots to charge for the costs associated with a specific maintenance activity could also encourage commanders to use the depots even more, potentially saving an additional \$1 billion in outlays over five years.⁴⁴

- **Relaxing the restrictions on contracting for depot maintenance.** The CBO estimates that this would save \$390 million annually.⁴⁵ Currently, the "50/50 rule" specified by law allows the DOD to contract out only half of its depot maintenance appropriations.⁴⁶ Relaxing the 50/50 rule to a 60/40 split would allow private-sector bidders to compete for more of the work, saving at least 20 percent of the costs. However, Congress needs to evaluate this proposal carefully to ensure that depot maintenance workers are retained at adequate levels within operational units. Further, Congress should not expect to realize these savings in the near term.

Reform Package #5: Reduce wear and tear on military hardware and increase the use of multi-year procurement contracts and block upgrades.

By making slight adjustments in how hardware is used and maintained, the military could reduce

42. Congressional Budget Office, *Budget Options*, p. 30.

43. *Ibid.*, pp. 32–33.

44. *Ibid.*

45. *Ibid.*

46. 10 U.S. Code § 2466.

costs while improving readiness. Congress and the DOD should:

- **Fully fund corrosion prevention and control activities.** Corrosion is defined as the unintended deterioration of a material due to interaction with the environment. Rusting, pitting, galvanic reaction, mineral buildup, degradation due to sun or rain exposure, and mold and other forms of organic decay are types of corrosion. Corrosion can negatively affect military readiness by taking critical systems out of service and by degrading equipment, sometimes even causing fatal accidents. Many analysts believe the military could generate significant efficiencies by slowing the corrosion of major equipment and platforms, thereby allowing each plane or ship to stay in service longer and saving money by delaying the need to buy new equipment.

In a July 2009 report, the Pentagon estimated that corrosion costs the military more than \$22 billion each year.⁴⁷ In its corrosion funding report, the Corrosion Office estimated that corrosion prevention and control (CPC) requirements for FY 2011 totaled \$47 million, but the FY 2011 budget request identified only \$12 million for CPC. Based on the report, the DOD's unfunded CPC requirements could be as high as \$35 million. The Pentagon could feasibly reduce wear by fully funding CPC activities, which would save \$1.4 billion annually, according to the GAO.⁴⁸

- **Adopt standards for less-taxing platform use.** The services could also reduce wear and tear by changing how they employ certain equipment. For example, the CNA suggests that the Navy

could save \$200 million and reduce the rate of aircraft procurement if it reduced the rate of wear on aircraft by restricting some transport activities to simpler forms of flying and by shifting some air-to-air combat training hours to attack training.⁴⁹ The Navy could hedge against the risk posed by modest reductions in air-to-air training time by training some pilots to specialize in air-to-air combat.

The CNA report suggests that the Navy could save an additional \$300 million annually by reducing flight hours in early training.⁵⁰ The Navy records three different categories of flight hours: hours required to achieve readiness for surge and deployment, hours required for operations, and hours that fall in neither category but are mandated by minimum flight hour requirements. Unless the third category produces some otherwise unaccounted benefit, the Navy conceivably could reduce a portion of the minimum flight hour requirements, which would reduce wear on Navy aircraft and reduce maintenance and recapitalization costs. In total, these two measures would save \$500 million annually, which is more than 1 percent of total Navy procurement costs.⁵¹

If the DOD can achieve the same rate of savings in the Army and Air Force through similar methods, the Army would save \$240 million, and the Air Force would save \$420 million,⁵² for a total DOD savings of \$1.16 billion per year.

- **Increase the use of multiyear procurement (MYP) contracts.** MYP is a special contracting method, authorized under current law, that allows the government to enter into procurement contracts

47. Eric Herzberg, "The Annual Cost of Corrosion for DoD," paper presented at the 2009 DoD Corrosion Conference, at <https://www.corrdefense.org/Technical%20Papers/THE%20ANNUAL%20COST%20OF%20CORROSION%20FOR%20DOD.pdf> (December 28, 2010).

48. U.S. Government Accountability Office, "Observations on DOD and Service Fiscal Year 2011 Requirements for Corrosion Prevention and Control," briefing for the Subcommittee on Defense, Committee on Appropriations, U.S. Senate, GAO-10-608R, April 2, 2010, at <http://www.gao.gov/new.items/d10608r.pdf> (December 28, 2010).

49. Choi *et al.*, "Improving Navy's Buying Power Through Cost Savings," pp. 32–34.

50. *Ibid.*

51. U.S. Department of Defense, "Fiscal Year 2011 Budget Request: Overview," p. 8-2, at http://comptroller.defense.gov/defbudget/fy2011/FY2011_Budget_Request_Overview_Book.pdf (January 3, 2011).

52. Heritage Foundation calculations based on procurement numbers in *ibid.*

Heritage Defense Efficiency Reform Package: Part 5

Reduce Wear and Tear on Military Hardware and Increase Use of Multiyear Contracts	Estimate Annual Savings
Fully fund corrosion prevention and control activities.	\$1.4 billion
Reduce maintenance and recapitalization costs by introducing less-taxing methods of platform use in all services	\$1.16 billion
Aggressively expand the use of multiyear procurement contracting	\$9.6 billion
Increase the use of block upgrades	TBD
Total Estimated Annual Savings	\$12.2 billion

Sources: U.S. Government Accountability Office, "Observations on DOD and Service Fiscal Year 2011 Requirements for Corrosion Prevention and Control," briefing for the Subcommittee on Defense, Committee on Appropriations, U.S. Senate, April 2, 2010, at <http://www.gao.gov/new.items/d10608r.pdf> (December 4, 2010); Aerospace Industries Association, "Ways to Reduce Costs Immediately," August 17, 2010, at http://www.aia-aerospace.org/assets/aia_dod_10_efficiencies_8-17.pdf (December 4, 2010); and Heritage Foundation calculations.

Table 5 • B 2507  heritage.org

for up to five years.⁵³ Although the government does not appropriate all the money for a program at once, it commits to purchase all of the items specified when the contract is signed, including those to be produced and paid for in subsequent years.

Multiyear contracting can reduce unit costs and sustain a healthy industrial base by allowing contractors to make up-front investments and plan for more efficient production. According to a recent AIA study, multiyear procurement allows industry to "strike more favorable deals with subcontractors and encourages industry to make investments that reduce future costs." It also reduces the "[a]dministrative costs for annual proposals, audits, fact finding, and negotiations."⁵⁴

Recently, Congress wisely approved a multiyear contract to purchase 124 F/A-18s and E/A-18s from 2011 to 2013. According to Under Secretary of Defense for Acquisition, Technology, and Logistics Ashton Carter, this MYP contract will "yield over \$600 million in savings."⁵⁵ The pur-

chase, originally projected to cost \$8.5 billion, is now expected to cost \$7.9 billion—a savings of about 7 percent. This savings rate is in line with recent trends. The median MYP savings rate for aircraft candidate programs was 10.7 percent in the 1980s and 7.2 percent in the 1990s and 2000s.⁵⁶

Expanded use of MYP contracts could dramatically improve the efficiency of defense acquisition. Not all DOD programs will be able to save 10 percent, but even a 5 percent reduction in a multibillion-dollar purchase would save hundreds of millions of dollars. Congress should encourage more widespread use of MYP contracts but ensure that the DOD provides appropriate oversight and guidance. Based on the performance of MYP contracts to date, savings could reach an estimated 7 percent of the procurement budget (\$137 billion in FY 2011⁵⁷), saving approximately \$9.6 billion per year.

- **Increase the use of block upgrades.** Block upgrades are used periodically to introduce multiple product improvements into major weapons

53. 10 U.S. Code § 2306b.

54. Aerospace Industries Association, "Ways to Reduce Costs Immediately," August 17, 2010, at http://www.aia-aerospace.org/assets/aia_dod_10_efficiencies_8-17.pdf (December 28, 2010).

55. Blakey, "DOD Efficiency," p. 4.

56. U.S. Government Accountability Office, *Defense Acquisitions: DOD's Practices and Processes for Multiyear Procurement Should Be Improved*, GAO-08-298, February 2008, p. 4, Table 3, at <http://www.gao.gov/new.items/d08298.pdf> (December 28, 2010).

systems. Although new program starts are necessary to accommodate changing military requirements, it is often “more efficient and cost-effective to upgrade existing systems rather than starting fresh with an entirely new program.”⁵⁸

Through the block upgrade process, multiple new capabilities are developed in parallel and then inserted into a new block simultaneously. As a result, all products within a given block have basically the same configuration. This reduces the requirements for training and equipment maintenance and allows for more predictable and efficient outlays. Greater predictability also allows defense companies to match their workforces to their expected workloads, indirectly reducing costs to the government when they bid on contracts.

Block upgrades have been used on programs ranging from the C-17 and F-16 to the *Virginia*-class submarine and Aegis ballistic missile defense systems. According to the AIA, “programs like the F-16 and *Virginia*-class submarine have proven that the use of block upgrades—which reduce risk—promotes cost efficiencies.”⁵⁹ Increasing the use of block upgrades could save billions of dollars each year. Congress should demand additional analysis to establish a more concrete savings estimate.

Conclusion

Right now, a vast number of reforms are taking place within the Department of Defense, and many more will be debated in the 112th Congress. As Congress considers the panoply of proposals, Members should focus on those that promise to provide achievable savings and to strengthen the DOD’s abilities to fulfill its core defense functions rather

than those that would decimate the military’s building-block capabilities and undermine the military’s ability to support the broader national security strategy.

None of the reform packages proposed so far is ideal, but Congress can design a robust reform, efficiency, and savings agenda by picking and choosing the best reforms and expanding the most successful ones. Finally, by allowing the military to reinvest all of the identified savings to meet current and future needs, Congress will save the taxpayers money and bolster national security in the long run.

As Congress reviews these recommendations, Members should heed the warning offered by Brookings Institution defense expert Michael O’Hanlon that cutting defense is “not an inherent good” but rather “a process of taking calculated risk in military accounts” for the sake of improving government stewardship of taxpayer dollars, shoring up America’s fiscal position, bolstering America’s economic strength, and enhancing national security over the long term.⁶⁰ The defense reforms discussed in this paper should be implemented incrementally, only after review, and with the utmost care. Congress should also solicit the input of those most directly affected: those in uniform, their families, and DOD civilians, retirees, and veterans. DOD leaders should monitor the results and mitigate any unforeseen risks at each step of implementation.

—*Mackenzie Eaglen is Research Fellow for National Security and Julia Pollak is a former Research Assistant in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.*

57. U.S. Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2011* (Washington, D.C.: U.S. Government Printing Office, 2010), Table 5.1, at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/hist.pdf> (December 28, 2010).
58. Aerospace Industries Association, “U.S. Defense Modernization: Today’s Choices for Tomorrow’s Readiness,” August 2008, p. 37, at http://www.aia-aerospace.org/assets/report_modernization_aug08.pdf (December 27, 2010).
59. Blakey, “DOD Efficiency,” p. 4.
60. O’Hanlon, “Defense Budget and American Power.”

APPENDIX A**MAJOR DEFENSE CUTS PROPOSED IN THE PRESIDENT'S FY 2010 BUDGET REQUEST**

Proposed Cuts ⁶¹	Projected Savings
Terminate C-17 production and shut down the production line.	\$3 billion per year
Terminate the Air Force Combat Search and Rescue (CSAR-X) helicopter program.	\$11.5 billion in total program costs
Terminate the F-22 program after production of 187 aircraft.	\$3.5 billion per year
Eliminate the Future Combat Systems (FCS) manned ground vehicles.	\$22.9 billion in program costs
Cancel funding for the alternate engine program for the Joint Strike Fighter (JSF).	\$1 billion in the near term
Terminate the Multiple Kill Vehicle (MKV).	\$4 billion between FY 2010 and FY 2015
Defund the Next Generation Bomber program and end plans to develop a new long-range bomber for deployment in 2018.	Several hundred million dollars between FY 2010 and FY 2013
Terminate the VH-71 Presidential Helicopter replacement program and start a new replacement program.	\$13 billion in net program costs
Terminate the Air Force's Transformational Satellite (TSAT) program.	\$1.5 billion to \$2.5 billion between FY 2010 and FY 2015
Terminate the second Airborne Laser (ABL) prototype.	Unknown
Extend construction of the aircraft carrier CVN-79 by one year from 2012 to 2013 and reduce advance procurement funding for the carrier.	Unknown
Reduce spending on contractor services.	\$0.9 billion in net program costs
Reduce the planned number of deployed Ground-Based Midcourse Defense interceptors from 44 to 30.	Unknown
Delay construction of the Transport Dock and Mobile Landing Platform Ship (LPD-17) by one year.	\$3 billion in FY 2010
Delay the Next Generation Cruiser CG(X) beyond 2015 and cancel plans to procure the first CG(X) in 2011.	\$150 million in FY 2010
Reduce spending on military recruiting and retention.	\$800 million in FY 2010

61. U.S. Department of Defense, "Overview of the DOD Fiscal 2010 Budget Proposal," at <http://www.defense.gov/news/2010%20Budget%20Proposal.pdf> (January 4, 2011), and U.S. Department of Defense, Office of the Under Secretary of Defense (Comptroller), "DoD Request," Web site, at <http://comptroller.defense.gov/Budget2010.html> (January 4, 2011).

For the most part, Congress approved President Obama's FY 2010 defense budget request. However, it made several significant changes. Specifically, Congress added:

- \$2.5 billion to purchase 10 additional C-17s and to keep the production line open for one additional year,
- \$465 million to continue development and initial procurement of the alternative engine for the JSF,
- \$1.7 billion to buy a second DDG-51 destroyer,
- \$1.5 billion to buy equipment for the National Guard and service reserves,
- \$50 million to increase ground-based missile interceptor production,
- \$57.6 million for six additional Standard Missile 3 block 1 interceptors,
- \$35 million in development money for future models of Standard Missiles,
- \$41 million in advance procurement funding for THAAD missile radars,
- \$82.8 million for a program with Israel to develop short-range Arrow interceptors, and
- \$44.8 million for development of the VH-71 Presidential Helicopter.⁶²

62. See press release, "Summary: FY 2011 Department of Defense Appropriations Bill," Committee on Appropriations, U.S. Senate, September 14, 2010, at <http://appropriations.senate.gov/news.cfm?method=news.view&id=5d9a8abc-e3ee-4c49-9649-1f1311286566> (December 4, 2010), and Committee on Appropriations, U.S. House of Representatives, "Summary: FY2010 Defense Appropriations," December 15, 2009, at http://appropriations.house.gov/index.php?option=com_content&view=article&id=290%3Afy2010-defense-appropriations-bill-summary&catid=55&Itemid=18 (December 28, 2010).

APPENDIX B
DEFENSE CUTS PROPOSED IN THE PRESIDENT'S FY 2011 BUDGET REQUEST

Proposed Cuts ⁶³	Projected Savings
Terminate C-17 production and shut down the production line.	\$2.5 billion in FY 2011
Terminate the EP-X Manned Airborne Intelligence, Surveillance and Reconnaissance Aircraft.	\$12 million in FY 2011
Terminate the JSF alternate engine program.	\$465 million in FY 2011
Terminate the Next Generation Cruiser CG(X) program.	\$46 million in FY 2011
Terminate the Net Enabled Command Capability (NECC) program.	\$9 million in FY 2011
Terminate the Third Generation Infrared Surveillance (3GIRS) program.	\$73 million in FY 2011
Delay procurement of the Command Ship Replacement (LCC-R) beyond 2015.	\$3.8 billion between FY 2011 and FY 2015
Delay procurement of the Expeditionary Fighting Vehicle (EFV) by one year.	\$50 million in FY 2011
Tailor cell phone calling plans for Air Force personnel to actual usage.	\$10.4 million between FY 2011 and FY 2014
Expand the effort to validate former soldiers' unemployment compensation requests.	\$15 million per year; \$76 million between FY 2010 and FY 2014
Streamline administrative support on Navy ships and simplify the detachment process using electronic personnel records.	Unknown

63. U.S. Department of Defense, "Fiscal Year 2011 Budget Request."

APPENDIX C
DEFENSE EFFICIENCIES INITIATIVES PROPOSED BY SECRETARY GATES

Defense Efficiencies Initiatives ⁶⁴	CRS Savings Estimates
Reduce funding for support contractors by 10 percent per year for each of the next three years. Stop automatically replacing departing contractors with full-time personnel.	\$600 million in FY 2011 \$1.8 billion in FY 2012 \$3.0 billion in FY 2013 \$3.6 billion per year in subsequent years
Freeze the number of OSD, Defense Agency, and combatant command positions at the FY 2010 levels for the next three years. Except for changes planned for FY 2010, create no more full-time positions in these organizations to replace contractors, with some exceptions in critical areas such as the acquisition workforce.	\$2.4 billion per year
Conduct a clean-sheet review to determine what military personnel should be doing, where, and at what ranks in keeping with the DOD's most critical priorities with the reviews due by November 15, 2010.	
Freeze the number of senior civilians, general and flag officer, and PAS positions at FY 2010 levels.	\$30 million per year
Authorize each military department to consider consolidation or closure of excess bases and other facilities.	
Seek ideas, suggestions, and proposals from outside normal official channels, including think tanks, industry, and the DOD's external boards.	
Launch an online contest within the DOD to solicit and reward creative ideas to save money and use resources more effectively.	
Conduct a series of assessments of DOD organization and operations to inform the FY 2012 budget request.	
Consolidate IT assets to take advantage of economies of scale, thereby reducing acquisition, sustainment, and manpower costs.	Unknown
Freeze the number of DOD-required oversight reports and immediately cut funding for advisory studies by 25 percent.	A percentage of \$84 million
Eliminate unnecessary boards and commissions and cut overall funding available for studies tasked by the remaining boards and commissions by 25 percent in FY 2011.	A percentage of \$75 million, the annual cost of the 65 boards and commissions funded by OSD
Immediately reduce funding for advisory and assistance contractors in intelligence by 10 percent.	\$3.2 billion in FY 2011
Freeze the number of senior executive positions in defense intelligence organizations. Eliminate needless duplication in the department's intelligence missions, organizations, and relationships.	A percentage of \$75 billion, the estimated cost of intelligence activities

(continued on next page)

Defense Efficiencies Initiatives⁶⁴**CRS Savings Estimates**

Eliminate organizations that perform duplicative functions or have outlived their original purposes, including the Office of the Assistant Secretary of Defense for Networks and Information Integration and the Joint Staff's J6 function. Assign the department's Chief Information Officer function to the Defense Information Systems Agency.

Unknown

Eliminate the Business Transformation Agency and shift its responsibilities to the Deputy Chief Management Officer.

\$143.4 million to \$340 million

Close the Joint Forces Command and assign its management and sourcing functions to the Joint Staff.

\$240 million to \$703 million

64. Gates, "Defense Efficiencies Initiative."

APPENDIX D
RECOMMENDATIONS BY THE CO-CHAIRMEN OF THE FISCAL COMMISSION

Proposals ⁶⁵	Projected Savings in FY 2015
Apply the overhead savings promised by Secretary Gates to deficit reduction.	\$28 billion
Freeze federal salaries, bonuses, and other compensation for the DOD civilian workforce for three years.	\$5.3 billion
Freeze noncombat military pay at 2011 levels for three years.	\$9.2 billion
Double Secretary Gates's cuts in defense contracting.	\$5.4 billion
Reduce procurement by 15 percent:	\$20 billion
• End the V-22 Osprey.	• \$1.1 billion
• Cancel the Expeditionary Fighting Vehicle.	• \$650 million
• Substitute F-16s and F/A-18Es for half of the Air Force's and Navy's planned F-35 procurement.	• \$2.3 billion
• Cancel the Marine Corps version of the F-35.	• \$3.9 billion
• Cancel the Future Maritime Prepositioning Force.	• \$1.0 billion
• Cancel the new Joint Light Tactical Vehicle, Ground Combat Vehicle, and Joint Tactical Radio.	• \$2.3 billion
• Reduce planned levels for "Other Procurement."	• \$8.5 billion
Reduce military personnel stationed at overseas bases in Europe and Asia by one-third.	\$8.5 billion
Modernize TRICARE, DOD health.	\$6 billion
Replace military personnel performing commercial activities with civilians.	\$5.4 billion
Reduce spending on research, development, testing, and evaluation by 10 percent.	\$7 billion
Reduce spending on base support.	\$2 billion
Reduce spending on facilities maintenance.	\$1.4 billion
Consolidate DOD retail activities.	\$800 million
Integrate children of military personnel into local U.S. schools.	\$1.1 billion

65. Simpson and Bowles, "\$200 Billion in Illustrative Savings."