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**ASSESSING PROGRESS AND IDENTIFYING  
FUTURE OPPORTUNITIES IN  
DEFENSE REFORM**

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COMMITTEE ON ARMED SERVICES  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

FIRST SESSION

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ONE HUNDRED FIFTEENTH CONGRESS

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## ASSESSING PROGRESS AND IDENTIFYING FUTURE OPPORTUNITIES IN DEFENSE REFORM

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC, Tuesday, April 4, 2017.*

The committee met, pursuant to call, at 10:01 a.m., in room 2118, Rayburn House Office Building, Hon. William M. “Mac” Thornberry (chairman of the committee) presiding.

### **OPENING STATEMENT OF HON. WILLIAM M. “MAC” THORNBERRY, A REPRESENTATIVE FROM TEXAS, CHAIRMAN, COMMITTEE ON ARMED SERVICES**

The CHAIRMAN. Committee will come to order.

This week the committee will hold two hearings that focus on the two major pillars of our agenda. Tomorrow we will hear from the service chiefs on repairing and rebuilding our military. Today, however, we will concentrate on the other pillar, which is defense reform.

We have done a lot of reform over the past 2 years. That includes acquisition reform, a new military retirement system, major changes in military health care, commissary reform, a rewrite of the Uniform Code of Military Justice, as well as significant organizational reform.

While a lot has been done, however, a lot more needs to be done. The world around us is simply moving too fast for us to sit still and assume that the organizations and processes of the past will suffice for today and especially for tomorrow.

Yes, we all have an obligation to see that taxpayer dollars are spent as efficiently and as effectively as possible, especially in fulfilling the first job of the Federal Government, which is to defend the country. But we all know from the news and from our intelligence briefings that we face a wide, diverse array of threats, and those threats change day by day as adversaries develop systems designed to deny us any military advantage. We must be prepared for each of these threats.

We also know that the pace of technological change is accelerating and that more and more innovation takes place in the private sector.

All of these trends stress our existing organizations and processes. We will not be able to defend the country with outdated technology or sluggish bureaucracy.

Much of the responsibility for making needed reforms rests with us, with Congress. We cannot do everything in a single bill or even in 3 years, but we must be willing to move aggressively to make the reforms needed in this volatile, dangerous world.

There are no individuals who can provide wiser, more considered guidance than the three witnesses we have today, each of whom has held high office in the Department of Defense, each of whom has testified many times before this committee, and each of whom has devoted their careers to helping provide for the national security of the United States. I appreciate each of them being with us today.

Before turning to those witnesses, let me yield to the distinguished acting ranking member, the gentleman from Rhode Island, Mr. Langevin.

**STATEMENT OF HON. JAMES R. LANGEVIN, A REPRESENTATIVE FROM RHODE ISLAND, COMMITTEE ON ARMED SERVICES**

Mr. LANGEVIN. Thank you, Mr. Chairman.

I want to welcome our witnesses here today, and proud to be able to speak on behalf of Ranking Member Smith this morning. And I will be submitting his statement for the record after I read it.

[The prepared statement of Mr. Smith can be found in the Appendix on page 49.]

Mr. LANGEVIN. But thank you, again, to our witnesses.

So thank you, Mr. Chairman, for holding today's hearing on this topic of critical importance.

And again, I also want to say a thank you to our witnesses for sharing their opinions on past and future defense reform opportunities. I know you all have a wealth of knowledge, and I appreciate you sharing this with the committee.

I look forward to hearing the views on what the Department of Defense should or should not address in the future as it relates to acquisition policy, organizational structure, and military personnel reform efforts. The fiscal year 2016 and fiscal year 2017 National Defense Authorization Acts included significant changes to the acquisition division of the Office of the Secretary of Defense.

First, decision-making authority for large acquisition programs moved from the Under Secretary of Defense for Acquisition, Technology, and Logistics to the service secretaries; and second, that the same under secretary position was split into two under secretary positions. This shift has created an unknown dynamic for the Department of Defense and private sector companies who produce goods and provide services for DOD.

So here we are in 2017 working on next year's NDAA [National Defense Authorization Act] and key acquisition positions are yet to be filled, and it is too early to tell if this reform—these reforms will prove to be successful.

In my view, before we make additional acquisition reforms we should see if last year's changes are effective because, frankly, it seems as if current changes may be overwhelming the system. The Department of Defense can only absorb so much new acquisition reform legislation.

However, one area where DOD does not need congressional support is in helping it to right-size its infrastructure by authorizing a new round of base realignment and closure [BRAC]. DOD has been asking Congress to authorize a new BRAC round each year for the past 5 years, and they estimate a new BRAC can help save

\$2 billion a year. At a time of constrained resources we cannot afford to waste \$2 billion a year holding onto infrastructure that is in excess to the military's requirement.

While some may question the force structure levels or raise concerns with the 2005 round, I believe Congress can and should work with DOD to address these issues and authorize a new round of BRAC this year.

I am also interested in where the Department and the services will go with personnel reforms. The fiscal year 2016 NDAA reformed the military retirement system to provide 83 percent of the force a strong, portable retirement plan that they can take with them when they complete their service obligation but do not reach a 20-year retirement.

It is time that the personnel system complements the retirement system with more flexibility and ability to target certain skill sets when needed. The services have been discussing for years the need for a more flexible personnel system but have done little with the existing authorities they have to make any meaningful changes.

People join the military and depart the military for a variety of reasons, and the system cannot be one-size-fits-all. I understand due to the nature of the missions and organizations there have—there are requirements and standards that need to be maintained. I am interested in exploring concrete options that create flexibility to attract the qualified individuals it needs to fit the requirements and, as those requirements change, retaining the quality the military needs to maintain high standards.

With that, I thank the ranking member for letting me read his statement on his behalf, and I yield back to the chairman.

The CHAIRMAN. I thank the gentleman.

Let me again welcome each of our witnesses: Dr. John Hamre, chief executive officer and president for the Center for Strategic and International Studies [CSIS]; Michèle Flournoy, chief executive officer and co-founder, Center for a New American Security; and Dr. Dov Zakheim, senior advisor for the CSIS.

As I mentioned, each of them have held high position in the Department of Defense and we are grateful for y'all being here.

Without objection, your full written statement will be made part of the record. But at this point we would be pleased to hear any oral comments you would like to make.

Dr. Hamre.

**STATEMENT OF DR. JOHN J. HAMRE, CHIEF EXECUTIVE OFFICER AND PRESIDENT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, FORMER DEPUTY SECRETARY OF DEFENSE**

Dr. HAMRE. Mr. Chairman, Ranking Member Smith, it is a real privilege to be invited back and I want to say thank you to you not just for inviting us but for this committee taking so seriously this important work of defense reorganization reform. You know, this is not the kind of thing that most committees are doing these days. I am so proud that you are, and thank you for that.

I was on the staff of the Senate Armed Services Committee when the—

The CHAIRMAN. Excuse me, Dr. Hamre. Would you get that microphone right up to your mouth—

Dr. HAMRE. I am sorry. I apologize.

The CHAIRMAN. Thank you. Thank you.

Dr. HAMRE. I was on the staff of the Senate Armed Services Committee when we passed Goldwater-Nichols and then the Packard Commission reforms. We worked on that very hard, but we made a real—some serious mistakes with the Packard Commission reform, and I would—it was—we didn't understand it at the time but we—when we took the chief of staff of the services out of the chain of command for acquisition, that was a mistake.

You fixed that 2 years ago, and I am very grateful for that.

We made a mistake by decapitating the ecosystem for innovation in the Department when we created the under secretary for acquisition, made it the third most important position in the building, and we diminished the role of the defense research and engineering. That was a mistake at the time.

You fixed that last year, but—and I am—I haven't—I know that you are working on legislation this year. I haven't seen what you are proposing, so I am really—what I really am here to talk about is what happened last year.

You did the right thing by elevating the research and engineering function, but unfortunately, in the conference I think you undermined the impact of this when you created the second under secretary for acquisition.

The purpose of your goal last year—and we had conversations with the committee—was to make the innovation secretary the third most important position in the building, and that was the right thing to do. You did that.

But by introducing a second under secretary who takes care of acquisition, that is where the money is. You know, I was the comptroller, you know, so I know what it is like in the building. The guy that controls the money has got more clout.

So your desire to elevate in prominence the innovation ecosystem in the Department so that we become more dynamic in addressing new technology and new threats was, unfortunately, undermined when you created this second under secretary. And I would ask you to go back and take a look at that.

You did the right thing by delaying implementation 1 year, so you have a chance to really get this right. We need to recruit the biggest person we possibly can to come into that job.

We have to recruit a very prominent person. They are not going to come in if the job looks like it is undermined by the structure of the rest of the senior leadership.

So I would plead with you to take another look at that. I would be happy to come up and talk at any time.

The other thing I would wish to talk to you about is you put in—in the Authorization Act last year you created the chief management officer. As written now, it isn't—it doesn't really do anything new. It carves out all the functions that are currently with the deputy secretary as the chief management officer into that new position as an under secretary.

I think there is a great promise in what you are looking at, but I think we need to make clear the way it is written in last year's



bill it is a staff function. What I think we need in the Department is a line manager over the defense agencies. We do not have a line manager over the defense agencies. We have line manager for the Army, for the Air Force, for the Navy and Marine Corps; we don't for the defense agencies.

I would ask you to consider looking at making that chief management officer position, which you created, not a staff function but a line function. Give it responsibility to manage, oversee, hire, fire, promote, you know, to make capital investments, et cetera, for this very important function, to oversee the defense agencies. It is about \$130 billion, so there is a lot of work to be done here, but you are not going to get management out of the job the way you wrote it last year.

So I apologize for being blunt here, but I—you absolutely are on the right track. I think some minor adjustments you will carry this across the line.

And, of course, I would be very flattered to work with you on anything this year. I haven't seen your draft bill, but I look forward to working with you and the committee, sir.

Thank you.

[The prepared statement of Dr. Hamre can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you, sir.

Ms. Flournoy.

**STATEMENT OF MICHÈLE FLOURNOY, CHIEF EXECUTIVE OFFICER AND CO-FOUNDER, CENTER FOR A NEW AMERICAN SECURITY, FORMER UNDER SECRETARY OF DEFENSE (POLICY)**

Ms. FLOURNOY. Mr. Chairman, Ranking Member Smith, and distinguished members of the committee, truly an honor to be here to testify before you on such a critical topic as defense reform.

You know, it is hard to remember a time when the need for defense reform was more acute, given the incredible challenges that our military is likely to face in the future. We have a military that is more capable than ever before, but also it is a military that is on an unsustainable cost curve.

And so fundamental reforms are needed to actually free up resources that can be reinvested in the critical concepts and capabilities and operations that will need—that will enable us to really maintain our technological edge in the future in a far more challenging security environment. So now is the time to continue with a plan for robust reform that ensures that we get the most possible out of every taxpayer dollar invested.

And I, too, want to applaud the work that this committee has done in leading the charge on defense reform, particularly in the acquisition area. But what I wanted to do this morning is suggest four new areas that you may want to go deeper in this legislative cycle and in the future.

The first is right-sizing DOD headquarters and, in particular, transforming the defense agencies. If you look today at the Office of the Secretary of Defense, the Joint Staff, the combatant command headquarters, and the defense agencies, they total about

240,000 people, excluding contractors. That is about 20 percent of the defense budget.

The substantial growth in DOD headquarters is not just a matter of inefficiency but also one of effectiveness. You know, in the private sector bloated headquarter staffs have been documented to slow decision making, push too many decisions too far up in the organization, incentivize risk-averse behavior, undermine organizational performance, and compromise agility; and I think the same can be true in government.

Perhaps the greatest opportunity for potential savings lies with the largest defense agencies, which account for about \$134 billion of the DOD budget. So highest priority in my mind should be given to those large agencies that operate most like civilian businesses, including DLA, the Defense Logistics Agency; DISA, the Defense Information Systems Agency; DHA, the Defense Health Agency; and DFAS, which is the [Defense] Finance and Accounting Service.

And what I would encourage you to do is to require the Secretary of Defense to undertake a comprehensive management assessment of these agencies, looking at where best business practices, new technologies, and automation might actually improve performance and reduce cost, and create savings that could be reinvested in higher-priority areas.

Beyond this focus on defense agencies, I think it would also be a good thing for Congress to provide the Secretary with the flexibility and breathing room to assess across the DOD headquarters areas of potential overlap and look for opportunities to restructure, consolidate, reassign personnel, eliminate unnecessary offices and functions. Just hearing John's proposal for giving the CMO [chief management officer] line responsibility over the agencies, I think that is very much worthy of consideration.

Second key area I would love for you to grapple with is BRAC. The Department desperately needs a BRAC round. The estimate is that 22 percent of current infrastructure is excess to military need. The service chiefs have repeatedly testified that that infrastructure overhang is taking money away from readiness and from modernization and critical future warfighting capabilities.

Based on past experience, the Department is estimating that at least \$2 billion a year could be saved. And although concerns about potential job loss are understandable, there are also a number of studies of past closures that concluded that most jobs are ultimately replaced and most affected communities actually do recover quite well.

I think in a year where the Congress is also considering a major infrastructure investment bill you could imagine directing some of that investment to affected communities and potentially easing their transition and mitigating some of the job losses associated with BRAC.

So bottom line is every dollar we spend on unneeded infrastructure is a dollar that we are not using to support the men and women who serve in harm's way, so I would encourage you this year to act.

The third area is reshaping and reinvigorating the civilian workforce. Today DOD employs about 770,000 civilian employees, plus

a comparable number of civilian contractors. Multiple efforts have been made to streamline the system with mixed success.

I think you have an opportunity this year to provide the Secretary with a package of authorities to help reinvigorate the civilian workforce. I would encourage you—I list them in my testimony; I will just briefly touch on some of them here.

But requiring the Secretary to develop a comprehensive human capital strategy for how we recruit, develop, retain, and shape the civilian workforce, including in that assessing the optimal mix between military, civilian, and contractor workforces; secondly, to set realistic personnel cost reduction targets over the FYDP [Future Years Defense Program]; to actually further modify the VSIP [voluntary separation incentive payments] authority to allow it to be targeted on specific employees that are judged appropriate to leave government service; to encourage the Secretary to use the modified RIF [reduction in force] authority that you provided last year but hasn't been used by the Department yet; to give the Secretary flexibility to reallocate and reassign personnel as he right-sizes and reshapes the organization; and really to look at consolidating the personnel system.

Currently there are 66 different personnel systems that are being used for the civilian workforce in the Department of Defense today—66. Imagine trying to manage that.

Can we look at a consolidated approach under title 10 that would really allow the Secretary to tailor one system to hire, manage, develop, compensate, retain DOD's civilian workforce. And there are a number of other ideas that I list there, as well.

The fourth area is improving the quality of health care while reducing costs. Today the military health care system—costs have nearly doubled over the last decade, with the CBO [Congressional Budget Office] estimating an additional \$40 billion by 2030.

What is even more important in my mind is that survey data suggests that the quality of care received by military personnel and their dependents remains uneven and customer satisfaction is below civilian benchmarks in key areas. So I think this is an area where DOD and the Congress have an opportunity to explore ways of both improving the quality of care while also leveraging approaches like values-based health care to reduce costs.

In my written testimony I actually draw from an excellent report that Bob Hale, the former DOD comptroller, did for CNAS [Center for a New American Security] on reforming defense, and particularly he highlights five areas for health care reform that I think are worthy of looking at: wartime readiness, value-based reimbursement, utilization of services, productivity, and availability of choice.

Let me just conclude by saying that I really do think we have a tremendous opportunity with this Secretary and this Congress to move forward on these issues. I think now is the time to provide the Secretary of Defense with the authorities and flexibility he needs to actually get better performance and free up resources for reinvestment in higher-priority areas.

But that said, defense reform, as you all know, is not a panacea. It is my hope that this Congress will also consider how to establish a more predictable and more robust levels of defense spending over

the next 5 to 10 years without gutting diplomacy and development accounts that are also critical to our national security.

I believe that reaching a comprehensive budget deal that includes all of the obvious elements—from tax reform, to entitlement reform, to smart investment in the drivers of our economic vitality and growth—is not only an economic imperative; it has become a national security imperative.

Lastly, I hope that through the dialogue that this committee is fostering, the Congress and the executive branch will be able to partner more closely together and make some of the hard choices and undertake the reforms necessary to ensure that we truly keep faith with the men and women who serve in the best fighting force in the world. As I think you would all agree, they deserve nothing less.

Thank you.

[The prepared statement of Ms. Flournoy can be found in the Appendix on page 60.]

The CHAIRMAN. Thank you.

Dr. Zakheim.

**STATEMENT OF DR. DOV S. ZAKHEIM, SENIOR ADVISER, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, FORMER UNDER SECRETARY OF DEFENSE (COMPTROLLER)**

Dr. ZAKHEIM. Mr. Chairman, Ranking Member Smith, Mr. Langevin, and the committee, like my colleagues here, I have been in front of this committee several times and it is a real privilege to be here again and to testify yet again on defense reform.

The last 2 years in particular this committee has literally led the charge on implementing—first legislating and then helping to, in effect, implement reforms that were sorely needed in the Department. But, as my colleagues have pointed out and everyone here recognizes, there is still a way to go.

I want to focus on some of the topics that have already been mentioned. The list is very long.

Let me begin first with civilian personnel. I have a slightly different take than some of my colleagues have on what to do about the fact that civilian personnel has grown. It is 36 percent right now of—excuse me, of all personnel in DOD. Civilian personnel added 77,000 people over the last 15 years, an 11.5 percent jump. Military end strength, as we know, has gone down over that period by 8 percent.

And civilian pay has gone up 31 percent. Most of that has gone to the General Schedule, the white-collar folks. Wage Board folks, the blue-collar folks, have barely gotten an increase at all, and I think that is worth noting.

It is not at all clear that all these increases have actually provided DOD with more efficiencies. If it had, we wouldn't be talking about it today.

And one of the serious issues involving efficiency is the degree to which civil servants offload too much work to contractors, and particularly to what are called euphemistically “staff augmentees.” We have got a problem with that because it creates a sort of unhealthy symbiosis where civilian workers essentially give contractors work that they probably could and should do themselves.

And I had that when I was comptroller. I saw reports that were meant to go to the Congress that were poorly written. Turned out they weren't written by the civil servants; they were barely reviewed by the civil servants.

They were written by contractors. And when I said this just wasn't the right thing to send up to the Hill the answer was, "Okay. We will send it back to the contractor." There is something fundamentally wrong with that.

Another serious problem is the education of our civil servants. You can get a degree at the age of 25 and not take another course again for 40 years. That just doesn't work with Moore's law—particularly with the acquisition corps, but for human resource management, as well.

I think my colleagues are absolutely right: We need to focus on human resource management. If we don't train people, how are they going to know how to manage?

We really need to ensure that we—anybody who wants to get particularly into the Senior Executive Service should spend a year at a top-notch university either doing business school-type work or going to a top technology school so that they really become educated consumers and educated managers. Without that you are going to find people flailing around, as they do today.

It doesn't help. And the military system, whatever you think about the need to improve professional military education, at least they have it. And you cannot become a flag or a general officer without going to the National War College or one of the service war colleges or the equivalent.

We need that for our civilians, as well. It is not fair to them.

And last year's NDAA had some relationships established between the Defense Acquisition University and outside organizations, whether it is think tanks, universities, whatever. But the Defense Acquisition University is fundamentally a training institution, and if you go online and you look at the offerings you will see so many of them are distance learning. Well, distance learning has its points, but it is not really going to educate people in the way that face-to-face, yearlong education will do.

As long as the course offerings are primarily for learning how to do something for training rather than education, you are not going to get what you need out of the DAU. The DAU has its place, but it is not the be-all and end-all.

I would also argue that because the civilian personnel levels are just so high, we need to look at something like the REDUCE [Rebalance for an Effective Defense Uniformed and Civilian Employees] Act. Unless you literally specify cuts—and it can—and obviously the Department will allocate those cuts, but unless you specify something along the lines of the REDUCE Act, you are never going to get the civilian force levels down.

And if you want to spend more money on the military force levels, you want to spend more money on procurement and acquisition, you have got to do something with the size of the civilian workforce. There are no two ways around it.

And as for dealing with the staff augmentees, I would recommend that nobody who leaves the Department as a civilian or

a military person can go back to the Department as a contractor for 5 years.

In other words, you can't flip your badge and come back on Monday doing the same work you did on Friday. It just doesn't work out. It adds to the overload in terms of numbers of civilians, and obviously if people have to stay out for 5 years they are going to find other jobs and you won't have this phenomenon of people literally doing the same job, just getting paid more and wearing a different badge.

I would also like to briefly talk about the reorganization of OSD [Office of the Secretary of Defense]. I don't feel as strongly as my colleague, John Hamre, does about the split of the two—of the under secretary into two under secretaries, but one thing: We really need to make sure that their staffs don't grow so that, again, you are increasing headquarters instead of reducing them, as Michèle would like to see and I think we all would like to see.

If you don't limit what they can add to themselves—one idea that I have had for many years is have the principal deputy double as the assistant secretary in some—some assistant secretary simply so that you don't have duplication of staffs. You don't need to have a principal deputy who has a staff of his or her own in addition to the under secretary, in addition to an assistant—to the number of assistant secretaries.

And, by the way, I would recommend the committee look again at how many assistant secretaries the Defense Department really needs. In my testimony I indicate some areas where some changes could be made there and reductions could be made.

And finally, regarding the CMO, I totally agree with John. The CMO ought to be, in effect, the under secretary—not with that term, but, in effect, the under secretary for the Fourth Estate.

Have them focus—the CMO focus on that area. We are talking about Fortune 500 companies that are managed by people who would not be CEOs [chief executive officers] of Fortune 500 companies.

So we need to get somebody good in there; we need to get somebody with business experience in there. And that CMO should focus on that.

Right now the mandate is so broad that what is going to happen is there will be inefficient focus on any one area, plus lots and lots of turf wars. There is nobody who focuses only on the defense agencies and field activities.

That is because the under secretaries who have them in their org charts simply are focused primarily on other things. When I was comptroller, I suspect when John was comptroller, yes we had DFAS, and yes we had DCAA [Defense Contract Audit Agency] under us, but that was not our primary task. Our primary task was to focus on the budget.

So I would strongly recommend, as I think John does, that the CMO focus on that Fourth Estate.

And finally, on acquisition reform, because I know my time is running out, I would simply say this: I know that there has been some skepticism about DIUx [Defense Innovation Unit Experimental] and about, to some extent, the Third Offset. Frankly, I think the Third Offset is necessary; it is—it only shouldn't be a replace-

ment for force level increases, which to some extent was the implication that many people took away from when the Third Offset was first introduced.

As for DIUx, it seems to me that they have overhauled their personnel, they are clearly focused on innovation, but if you want them to succeed you have got to do some other things. In particular, the Defense Department needs to default not to FAR [Federal Acquisition Regulation] part 15, which is the classic way of contracting, but either to FAR part 12 or some other system where, in effect, you are buying directly from the contractor, who doesn't have to be part of the defense base.

If you do that you are going to totally overhaul the culture of the Department, which right now thinks profits is some kind of sin, which essentially wants to go through many hurdles and hoops before anything gets done, and that is where we get our delays, that is where we get our cost overruns, and that is where we get frustration on the part of your committee and Congress generally, and the consumers of defense, who are the taxpayers.

Mr. Chairman, thank you very much for allowing me to repeat many of the things I have said before, but you are—the committee is doing a wonderful job, and just keep it up.

Thank you.

[The prepared statement of Dr. Zakheim can be found in the Appendix on page 74.]

The CHAIRMAN. Sometimes we need to hear it more than once, so that is okay.

I want to go back and examine some of the specifics y'all have talked about at the end if other members don't ask about them, but let me just start with a couple big-picture questions.

Seems to me when it comes to defense reform there are two major justifications. One is efficiency, squeeze more money out so it can be used for other purpose; the other is agility, so you can keep up with changing threats, changing technology, adaptive enemies, and so forth.

Do each of you agree that the efficiency part—if you—if everything were perfect and you could squeeze out all the inefficiency possible, do you believe that is enough money to rebuild the military, to repair the damage that CRs [continuing resolutions] and sequestration have created over the past number of years?

Dr. HAMRE. Do you mean the budget as—the slim budget that was proposed?

The CHAIRMAN. No. What members ask me is they will see a headline and says, "Oh, greater efficiencies could save this much money." And the question is, can you reform your way to health if you are just looking at the dollars?

Dr. HAMRE. Yes. My personal view is that you are going to need additional resources. You cannot find enough savings inside the Department to compensate for the readiness issues we have now, the force structure issues we have now. I think you are going to need more money, personally.

Now, that isn't to say you shouldn't dig in on getting rid of the inefficiencies, but I think you are—we just need more money because the Department is stretched.

The CHAIRMAN. Yes. That is what I am trying to understand.

Ms. FLOURNOY. I would agree that you can't—defense reform alone will be—not be enough to generate the investment we need in future capabilities to deal with a more daunting security environment.

By the same token, I don't think we can afford to simply put more money into the defense budget without defense reform, both from an efficiency perspective but also from the very important point you made about agility, that this is also about improving the organizational performance of the Department, not just reducing cost.

The CHAIRMAN. Dr. Zakheim.

Dr. ZAKHEIM. I would agree, as well. I would use a business metaphor, if you will: If you cut your operating costs all the way down and you don't increase your revenues you are out of business.

And in a sense, this is the same thing. I mean, you can push efficiencies only so far, but if you don't increase your top line you are going to be out of business.

And agility, I think, is equally if not more important because the fact of the matter is we do rely primarily on our edge in high technology, and if we are not agile enough we are going to lose that edge because so much of that technology is no longer DARPA's [Defense Advanced Research Projects Agency's] province or DOD's province. It is out there. And so agility is absolutely critical.

We need both. And I think the direction the committee has taken I think does allow the Department to achieve both if the Department is willing to cooperate.

The CHAIRMAN. Well, and let me just pick up on that for my second question. On the agility side, I think you heard earlier the statement that we need to just give it a rest, let the reforms we have already instituted have a chance to get—because they are—is a cost to churn, to change, and I think we ought to be, you know, cognizant of that.

But I guess what I would—and, again, a big-picture sense from y'all is as you see the threats evolving, do you believe we should kind of back off and let what we have already done give a chance to set in, or do you think we need to continue to move, maybe even more aggressively, at the kinds of reforms that each of you have laid out? Just, again, this kind of bigger picture: Is the churn worth it, given what is happening in the world?

Dr. ZAKHEIM. Well, Mr. Chairman, I would say move as aggressively as you can, and the reason I say that is twofold.

First, churn doesn't necessarily lead to bad things. Secondly, if you essentially call a timeout what you are going to do is allow the bureaucrats in the Department to figure out a way to get around everything you have done.

That has happened in the past. I have seen it when I was in the Weinberger Defense Department; I saw it in the Rumsfeld Defense Department; I saw it when Mr. Rumsfeld tried to do things and the bureaucracy figured out how to get around him, much less you all.

No. It is critical that you keep on pushing.

The CHAIRMAN. Okay.

Ms. Flourney.

Ms. FLOURNOY. I would agree with that. I do think that a lot of the change is focused in the acquisition area, and I think the De-



partment probably needs some period of consolidation of actually, maybe with some of the tweaks that John Hamre described, but to have—needs some time to actually be able to implement and fully, you know, comply with what you have already asked them to do in the acquisition domain.

Beyond that, I think it is—now is a time where you have an opportunity to move much more aggressively now in other areas, which are equally important to bringing both agility and efficiency.

The CHAIRMAN. Dr. Hamre.

Dr. HAMRE. Mr. Chairman, I would argue that I think you should move actively, aggressively on reform because the American public is questioning the value we are getting out of what we put into the Defense Department. That was the real challenge of that study that was done by the Defense Business Board last year.

It came at a time when people were saying, “Do we need to give DOD more money or don’t we need to give them more money?” I happen to think we do, but I also think the American public is questioning whether they ought to.

I think you have to push on reform in order to convince them that you are being a good steward of these resources.

The CHAIRMAN. Okay. Thank you all. That is very helpful.

Mr. Langevin.

Mr. LANGEVIN. Thank you, Mr. Chairman. Again, I want to thank our witnesses for your insightful testimony here today.

So modernization approaches in our major programs have traditionally taken years to execute. For example, Increment 3.1 on the F-22 began development in 2006 and the first upgrade wasn’t delivered to the fleet until 2012. While this strategy has worked in the past, the commoditization of advanced computing power has rendered it unsustainable, especially when you look at Moore’s law, I mean, squaring—technology is squaring every 18 months.

So our adversaries are now accomplishing multiple upgrades during our weapon systems development and acquisition timeline. How do we transform the military-industrial policy complex to restore our advantage in the timeline it takes to field new technologies?

Ms. FLOURNOY. I think it is one of the principal challenges we face. And, you know, I think one of the things—there are certain platforms that are going to take very long lead times to create, but I think we want to—one of the things we want to do is have more modularity in the designs of those platforms so that you can plug and play new information technologies, new electronic warfare systems, new, you know, modular components.

Because it is those capabilities that are developing much more rapidly and those areas where we want to be able to change out capabilities on a platform that may have to last 20, 30 years. But that is key.

The other key part is being able to approach the acquisition of commercial technologies and their integration with a much more responsive, agile, quick-turn set of authorities. One of the things that, you know, this committee has done is pushed some of those other authorities, those new authorities to the Department.

I think what is now lacking is the change of culture and behavior that Mr. Zakheim highlighted as needed in the acquisition work-

force. We need to actually educate, train a cadre who really knows how to use those new authorities, who has more of an innovation mindset, who is most comfortable acquiring commercial technologies and bringing them in. And that is a very different skill set and mindset than what you need to manage a major traditional defense acquisition program over a 20-year timescale.

Dr. ZAKHEIM. And the only thing I would add to what Michèle Flournoy just said is it is necessary if you are going to change the culture to have the bureaucracy default to buying commercial as opposed to default to the system that we now have. The Defense Business Board, which I am on, and the task force that I also was on, recommended, as I mentioned, focusing on the portion of the FAR part 12 that essentially deals with commercial off-the-shelf procurement as opposed to the classic system.

You can do that. You can do other things. What really is important is ensuring that the default mechanism for buying the modularity that Michèle talked about is commercial. As long as that is not the default mechanism, A, you are not going to change the culture; and B, you are going to have the same problems you just spoke about, Mr. Langevin.

Dr. HAMRE. May I just briefly add that I—you are right to highlight that when we build platforms we—gosh, it takes a long time to do it. But we also have examples where we have done things quickly and we have done them effectively. We put Hellfire on Predator. I mean, that was just done in months.

I mean, we are able to do things very quickly and we should be studying why do we have places where we do it well, and then why do we get bogged down in other things? And a lot of it revolves around the commitment of the leadership and how closely the leadership is supervising the bureaucracy. You know, if a boss wants to pull something through the system, it works, you know?

So I think we need to probably go back and take a look. This is why you did the right thing when you put the chairman of the chiefs of staff back in the chain of command. That is how we are going to get more—it is making people more accountable and giving them more flexibility and say, “We are not satisfied with 12-year-long development programs.”

You are right to highlight it. Let’s look at the examples where we have been successful, too.

Dr. ZAKHEIM. If I could jump in a second time, you know, we have a rapid acquisition system now that was created to get around our acquisition system. So that is where you ought to start looking.

And I think what you will find is that the rapid system simply eliminates a lot of the checkoffs and reviews and passing of paper that otherwise would take place. But that is where you should look. When a department creates a system to get around its own system, you ought to scratch your head and say, “Why?”

Mr. LANGEVIN. Thank you for those answers, and still on the topic of acquiring advanced technologies more quickly and allow them to be adapted more quickly, so technological advantage and the innovation that drives it have been key foundations of strength for our armed services. Our technology sector, from major corporations to small businesses, are crucial to invigorating research, yet

they have limited access to and participation in our defense industry.

While the Defense Innovation Unit Experimental, or DIUx, is an excellent initiative to change this paradigm, the contracts awarded through this mechanism accounted for less than 0.01 of a percent of DOD's research and procurement budgets in fiscal year 2016. So how do we reform our acquisition cycle to promote participation and access for both giants of Silicon Valley and the entrepreneurial small businesses that fuel our American tech industry?

Ms. FLOURNOY. And I think the primary task and opportunity of the new under secretary—I like to call it the under secretary of innovation, but it is the research, development, engineering under secretary—is to take that soda straw that is coming through places like DIUx or DARPA, and so forth, and to make it a superhighway, to really perfect the Department's leveraging of these other authorities to access commercial technologies, to have it be commonplace to be prototyping a number of systems, and then choose which ones you are going to bring all the way into full acquisition.

To be putting—incentivizing real experimentation and concept development that goes along with how we are going to better—how we are going to allow these new technologies to actually transform how we fight.

And again, that is going to take a different organizational culture, a different set of incentives and rewards, a different kind of training for the civilian and military workforces that actually have that task.

So I think that is—you have done the organizational change, but if—to make that effective you really have to get into how are you going to create the incentives, the career paths, the training to make that new organization behave fundamentally differently than the traditional acquisition corps.

Dr. ZAKHEIM. I would add a couple of other things.

First, DIUx essentially develops prototypes. Then it goes into the system. Once it goes into the system you have got all the problems that the system has and that we have talked about.

So again, that is another reason for accelerating reform rather than sitting back and waiting, because otherwise you just shot DIUx in the foot. It won't be able to do anything.

Another area related to that is you can MIL-SPEC [military standard] everything to death and if you start MIL-SPECing what DIUx has prototyped you are going to have a problem again. And I have spoken to the head of DIUx about it and he acknowledged that that was a serious issue because they don't MIL-SPEC. That is the whole idea of what DIUx is doing. So you have gotta take a close look at that.

Third area is just keep the DIUx leadership there. If somebody comes in from industry and is there 18 months, that is not really very, very good. You are not going to get anything out of an innovation like DIUx unless you have got somebody there for 3 years who figures out how the system works, how to get around the roadblocks, and so on.

You heard about the training from Michèle. I won't repeat that again.

But one other thing: DIUx now has leaders who are reservists—many of them. And our whole Reserve system doesn't really account enough for the people who are in the high-tech area in their civilian lives and then come in and they will be sent to clean the bilge or something. And I am not kidding.

So DIUx provides a vehicle for bringing in Reserves who are doing really well in the high-tech area—for example, down in Austin. The guy who is down in Austin who is running that Austin office is a Reserve who reports directly to the CEO of Apple. That is what you want.

Dr. HAMRE. May I humbly offer a suggestion?

The President has nominated Mr. Patrick Shanahan to be the next Deputy Secretary of Defense. Pat has a long and very storied career as a very effective program manager in one of our aerospace companies. You don't have a formal role with confirmation, but you should have him come up to talk to you, either in a formal hearing or in an informal hearing, and ask him—say, “We are going to be measuring you by how well you accelerate the efficiency of this system, and I want you to come back to us in 3 months with each of the chiefs of staff of the military departments to say how are we going to do it.”

This is about leadership, and I think you have a golden opportunity because we have got a new leader who has a lot of experience in managing in industry. I think it is a great opportunity for you to take advantage of that.

Mr. LANGEVIN. Very good. Great suggestions. I thank you all for your answers and your insights, and although I have other questions and I like this idea of not being on the clock, I am going to be respectful of other members' time.

And I will yield back and perhaps submit these for the record. Thank you. I yield back.

The CHAIRMAN. Mr. Wilson is recognized for 5 minutes.

Mr. WILSON. Thank you, Mr. Chairman. Thank you each for being here today and your service to our country.

Dr. Zakheim, in your own experience as Under Secretary of Defense, what was one defense reform that stands out as being particularly effective, and what lessons should be learned and taken from that reform to inform ongoing and future reform efforts?

Dr. ZAKHEIM. That is a tough question. Remember, I was there at the—

Mr. WILSON. We need some good news. I would like to hear it.

Dr. ZAKHEIM. I was there at the beginning of the 2000s.

One reform that clearly did make a difference, I thought, was the ability of DARPA essentially to go directly to the comptroller and get money. And I will give you a concrete example of that.

Ron Sega at the time was director of DARPA. We had gone into Afghanistan; we knew a lot of the bad guys were hiding in caves.

He comes to me and he says—this is November of 2001—he comes to me and he says, “If you give me X amount of millions of dollars I have got this weapon called a thermobaric weapon that will smoke all these people out of caves, and I will have it in the field for you by March.”

Gave him the money. That was that. It was in the field by March and it smoked a lot of people out.

So there are ways, and I think my colleagues have pointed it out. There are ways to cut through this red tape. That was one example.

Mr. WILSON. Well, as a grateful dad of a son who served as an engineer in Afghanistan, thank you for what you did.

Ms. Flournoy, if you recommend a shift to new issues, what criteria should the committee use to determine issues of focus for future defense reform efforts?

Ms. FLOURNOY. I guess I would encourage you to sort of plot them on two axes: One is sort of bang for the buck, biggest return on the effort; and second would be political—the heaviness of the political lift, and to focus first and foremost on the things that are most impactful in terms of both improving that organizational performance and agility on one hand, and potentially reducing cost on the other, and that are also in the politically feasible square. That is where I would start.

You know, I think one of the things—the dynamics that has taken hold sometimes is, you know, the Department of Defense will propose and Congress will say, “Well, we don’t really like that agenda,” and we go back and forth trading.

I would love to see the executive branch and the Congress sit down and say, “Let’s create a target for how much money we want to be able to move from—you know, to save and move into reinvestment,” and let you all really determine or have the lead in determining of all the target-rich environment of all the possible reforms, what are the ones that you think make sense and that you think politically we can get a consensus on to move forward on.

And, I mean, because the truth is there are many more opportunities than we can possibly handle in 1 year, and I think the key is keeping momentum going. And so, you know, that is—I would say bang for the buck and political feasibility.

Mr. WILSON. And very constructive. Thank you very much.

And, Dr. Hamre, under the leadership of Chairman Mac Thornberry of this committee our reform efforts have largely been focused in the past few years successfully on acquisition, military personnel, and structural reforms at the Department. In your opinion, should the committee continue to—its focus on primary reform efforts in these areas in order to capitalize on progress that has been made to date, or shift to new issues? If you recommend shifting to new issues, what issues do you recommend?

Dr. HAMRE. Sir, I do think—first of all, you are going to have to monitor the reforms—efforts that you have put in place because the reforms of last year are unsettled. And you did the right thing by giving a year implementation period, but that means you are going to have to be on top of it for this year to make sure that they follow through.

I do think you should look at additional things. And I have my own set of pet-rock issues.

For example—and I know this is something your staff is working at—the question of materiality for audit standards in the Department. There is no materiality standard for the auditors.

So they chase 10 cents; they chase parking tickets; they chase, you know, who had the blue cheese dressing. You know, I mean, it is crazy without having a materiality standard. We are wasting

a lot of money and we are bottling up the defense industry because we can't close out our—close our contracts.

I mean, these are very mechanical, very arcane, but stuff like that is really important. It drives a lot.

I personally think we need to bring back A-76, where we conducted objective competitions between public and private sector over contracting out activities. Half of the time the government wins. But the government redesigned the way it did the business and it saved money every time.

I think there are a lot of things like that that we could be doing that—and I hope you tackle these. These are not the big, glamorous, exciting things, but they drive a lot of money in this department, and I would be grateful. I am happy to come up at any time and talk with you about some of them.

There is no purple property book for the Department of Defense. Every bit of property is owned by one of the military services.

There is no central management. We are the biggest renter of real estate for the Federal Government, outside of the General Services Administration, but it is all decentralized. We get no value for scale in our system.

There are so many things we could do like this that would—but we have to change the way we do our business.

Mr. WILSON. Well, supporting an audit, thank you for what you are suggesting. Thank you.

The CHAIRMAN. Mr. Suozzi.

Mr. SUOZZI. Thank you, Mr. Chairman.

I am new to this, but I am a former mayor and a county executive of a large county with a \$2.8 billion budget, and it was a 50-year-old government that kind of—just kind of grew over time. There was no central listing of the properties that were owned; there were multiple different IT [information technology] technologies in all the different departments.

So when I hear you talk about 66 different—what did you say—HR [human resource] personnel systems, and when you talk about no, you know, no centralization of management—and I just visited Guantanamo yesterday and, you know, it is a sprawling facility with a new building here and another one over there, and it is very typical to what I saw in my experience.

Now, I always felt it was, you know, the executive branch who really is the one that has to get their hands around this. They are the ones who have to drive the ball here and, you know, the legislative body can sometimes be more of a hindrance by trying to pass an additional law like, you know, no standards for the audits, for example. So, you know, I don't really care who had the blue cheese dressing; I want to know about the big things that are going on.

So I have a couple different questions.

Number one is, you suggested before, Ms. Flournoy, that if—we should target a number as to how much we would like to try and target in savings that should be used for reinvestment. So the first question is, what do you think that number should be? You know, just to—you know, I am not going to hold you to it, but it is just an order of magnitude type of number that we should be targeting for savings and then reinvestment.

Second question is when I look at the overall budget of the Department of Defense, personnel is \$138 billion; operation and maintenance is \$250 billion; and procurement is \$112 billion. So operation and maintenance is bigger than either personnel or procurement, and that is—and I don't hear anybody talking about operation and maintenance that much, so it seems like there is a lot of—that could be a target-rich environment. And what do you think about that basic observation, just looking at the numbers?

And that is where I will—I will leave it there for now.

So I am just going to ask all of you, what is your target number that we should be looking for for—set a goal for, “This is what we want to get as savings to reinvest back into the military.”

And second is: What about operation and maintenance?

Dr. ZAKHEIM. Well, the Defense Business Board, as you may know, came up with a study—it has been referenced before—a couple years ago which pointed out a host of different efficiencies and argued that over 5 years you could save \$125 billion. That is a lot of—

Mr. SUOZZI. That would be \$25 billion a year.

Dr. ZAKHEIM. \$25 billion a year. I personally think that that number is on the high side, and they actually had high, low, and middle. But it just does seem to me that somewhere between \$15 billion and \$20 billion is not out of the question. That is number one.

On the—

Mr. SUOZZI. Just \$25 billion is, you know, less than 5 percent of the budget.

Dr. ZAKHEIM. That is correct.

On the operations and maintenance [O&M], you are absolutely right. One of the issues that has been ongoing for years is real cost growth in operations and support. And part of the problem for—with that is that when you buy a new system the focus is always on the upfront costs and not on how much it is going to cost you out there. In fact, very often the people who produce the system say, “Well, you are going to save a ton of money in the future,” but if you start discounting you discover you are not saving all that much. In fact, you are going to wind up spending a lot more than you thought.

And so you need to have somebody very senior who is responsible for the O&M side when they get into discussions about procurement. I remember at the—at meetings of the acquisition board the person who worried about sustainment and operations was not as senior as just about everybody else around the table. Well, you know what happens when that is the case.

I think high-level focus on O&M will get to the goal that you are laying out.

Ms. FLOURNOY. I don't have a magic number in mind, but I do believe that the sort of order of magnitude that the Defense Business Board study talked about is probably correct over time. The challenge is you are going to require—it is going to require some upfront investment so your initial savings will be smaller and it will grow over time.

For example, base realignment and closure. There is actually—it costs money up front to close bases and then you get the savings

over time. But it is documented that in most cases you do get the savings.

Similarly, for things like IT transformation and automation you are going to have—DOD is going to have to invest to move to the cloud or to a secure cloud and to start treating software as a service rather than some—you know, building proprietary systems. That is going to require upfront investment, but over time potential for dramatic savings.

So I think you want to think about it as ramping up over time.

The other key thing is the incentives, and this I watched Secretary Gates struggle with this on the efficiencies mission effort the—that he undertook. The first time he went out and sat down with all the services and the components he said, “Okay, we are going to aim for”—you know, 10—I can’t remember what the number was—“X billion dollars of efficiencies. Next meeting come back with your suggestions.”

Everybody came back the next meeting—really hard to find anything. Just, you know, really couldn’t do it.

So he said, “Well, how about if I told you you could keep half of what you find?”

Oh. So next time people came back—unbelievable ideas. Wonderful, creative ideas because each of the components knew that they could now keep half those savings and reinvest in their priority areas.

So I think the incentive structure is very—as important as setting the target level.

Mr. SUOZZI. Thank you.

Dr. HAMRE. Just to build on what Secretary Flournoy has said, it is about incentives. And, you know, both Dr. Zakheim and I were comptrollers. You know, the patron saint of all comptrollers is Judas Iscariot, you know?

So nobody is ever going to come and give you money. And so it sets up this very bad dynamic, you know, within the Department.

But there is one very important dimension: If any dollar that a military department—any one of the service chiefs—saves in the out-years of the FYDP, they get 100 percent of that. It is only when it comes into the budget year when we arm wrestle with them and take some from them and give them a little bit back and all that.

Everything they save in the FYDP, the out-years, is something they get to pocket and they can reinvest inside their own service.

The most important review that the Department does is the program review, which is run by CAPE [Cost Assessment and Program Evaluation]. We have kind of let that fall apart, honestly. If we were to get back to the—where the program review becomes more prominent in how we manage the Department and the service chiefs know if they make hard choices now, in 2 and 3 years they get 100 percent of that money.

Mr. SUOZZI. Yes.

Dr. HAMRE. So we can get the incentives right, but we don’t have it right now.

Mr. SUOZZI. Okay. Thank you very much. Thank you, Mr. Chairman. I am very interested in this topic if there is anything that we can do further. Thank you.

The CHAIRMAN. Great.



Mrs. Hartzler.

Mrs. HARTZLER. Thank you. Thank you, Mr. Chairman. Great testimony, great suggestions, and appreciate my colleague's comments there.

I wanted to hone in on the—Dr. Zakheim, the Defense Business Board at—the report that you put out that you just referenced. And as you know, that kind of caused a big stir when that came out, \$125 billion, and that is \$25 billion a year.

You know, current and former Department leaders and others have expressed concerns that some of the savings came from private sector initiatives that may not be achievable in the public sector. So in your opinion, what are the differences between accomplishing successful reform in the public sector versus the private sector?

Dr. ZAKHEIM. Well, let me start with unions. We have in the Defense Department unions that bitterly oppose any civilian personnel reform, where you could save a bunch of money. You could save probably initially anywhere between \$5 billion and \$8 billion a year just through human resource management.

Well, Mr. Rumsfeld tried it and it blew up in his face, thanks to the unions.

Now, the law, the Civil Service Reform Act of 1979, actually has a provision where the President could exempt Defense Department employees from being unionized. Already CIA [Central Intelligence Agency] employees, military employees, others are, indeed, exempt.

Now, once you exempt them then you can start pursuing those sorts of reforms, and that is one key area. In fact, that is probably the richest area for immediate reform because that is money that you spend immediately each year.

There obviously are differences beyond that between the commercial sector and the government sector. But nevertheless, if you actually look at the report it does scale: \$125 billion is kind of mid-level; there is less than that and more than that, as well, as options.

But the key is, what kind of efficiency—what percent efficiencies could you realize? And if you took half the percent of what goes on in the commercial sector, you would still save \$60 billion over 5 years.

So it does seem to me that the argument, “Well, you know, we are different,” and you throw your hands up in the air—it has got some validity, but not total validity.

Mrs. HARTZLER. Yes. Very good.

Ms. FLOURNOY. One thought—data access and transparency. There is no entity in the world that has more data than the Department of Defense, but we keep it locked up in little stovepipes that individual components own.

And so if you are looking at real property, for example, right now the Department is trying to do a cost accounting exercise where they just are trying to understand how are we actually spending money on different properties. And if you do that—if you unlock that data and you apply analytics across it, the problem children pop out and you see, well, in one case you are paying five times more for electricity in the same region than another facility down

the road. Why is that? Or, you know, maintenance, or whatever the issue is.

So I think there is a huge—there is—it is very powerful if we could figure out a way to unlock and access and analyze the data that the Department already has in stovepipes to get at some of these efficiencies.

Mrs. HARTZLER. That is very good. Dr. Hamre, do you have anything you wanted to add to that?

Dr. HAMRE. Well, if I may, just, you know, we really have two different kinds of budgets in the Department of Defense. We have got budgets we manage from the top down. That is procurement, MILCON [military construction], military personnel. And then there are budgets that are bottom up. That is O&M, and we do not manage that in any detail.

The way we handle it is we deal out—we give cash at various levels to people. We give them a little bit less than they ask for and we see how loud they scream.

That is really how we manage O&M. I mean, we do not manage O&M in an effective way. And everybody knows they are sandbagging dollars at lower levels because they know they are going to get cut.

So we really do have to find a different way we get at how we analyze and understand the O&M budget. And the O&M budget now is doing a lot of procurement. It is not just operations anymore. We are buying a lot of procurement through the O&M budget.

So you are on to something very big here, and I—but I—you are going to have to drill down to say, “If we were to change the way we budget and manage the execution of O&M, how would we do that?”

Mrs. HARTZLER. Very good. Thank you very much. I yield back.

The CHAIRMAN. Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman. And I really appreciate your having this hearing. It tells me how serious you are about this topic, and I know it has been going on for some time.

One of the questions that really is looming out there right now—and you have talked so much about the people who are in important places, leadership, but I am wondering right now, we have a Federal hiring freeze. We are also having a great deal of difficulty getting people into appointed positions, nominations, and even the confirmations.

How is that affecting all of this?

Ms. FLOURNOY. I think it is creating a very challenging environment. I think the hiring freeze in particular is sort of, you know, using a meat ax when you need a scalpel, and many administrations across, you know, political—of all different stripes have used this.

It is a very blunt instrument because what it does is it cuts off your talent pipeline and so it prohibits you from hiring the best talent coming in, the next generation, even in the most high-priority areas. And so you basically create a personnel bathtub that will follow you through over time, you know, as the—as your talent pool progresses.

I was on the CIA advisory board and we watched this bathtub that was created—I think it was in the Carter years—follow all the way through the workforce, where still in very senior grades today you have a paucity of the right kind of expertise and personnel because of that hiring freeze decades ago.

And so I think it is—there are better ways to manage that personnel infrastructure.

The other thing is as you are right-sizing, reshaping the workforce and making cuts, it is very important to also be investing in the workforce and the talent that you want to keep so that you are continuing professional development, you are continuing to groom and promote the high-performers, and so forth, because if you don't do that you will actually break the workforce in the process of reshaping it.

Which is why that human capital strategy piece up front is so important to pull all of the different pieces together.

Mrs. DAVIS. So I am wondering, then, and certainly for this committee, you have had a lot of suggestions about how to try and get at some of these issues. Some of them are cultural; others are just—I think people just haven't tackled those issues.

What is the best way of going about that? I know on personnel over the last few years some changes were made. There were commissions that looked at some of those issues. Sometimes it feels as if there is going to—that only creates a delay in getting things done.

But if we had, you know, this year, looking at what is it specifically that could be done to get at that—you mentioned one of the positions that I think hasn't—someone who hasn't even taken that position yet trying to get to—what would you do on a lot of these? Do we need a—

Ms. FLOURNOY. I think it starts—

Mrs. DAVIS [continuing]. A task force here or—

Ms. FLOURNOY. Well, I think it—I think the—what this committee could do is ask the Secretary of Defense to create a human capital strategy for the civilian workforce of the Department and then he would task each of his line managers to do component strategies.

I harp on this because, you know, if I were going to ask that—answer that previous question about what was the most successful, powerful reform you witnessed when you were in government, it was implementing a human capital strategy in my own organization as we were having to downsize, because I knew that if you didn't complement the downsizing with investment and keeping the best talent and incentivizing the participation and the morale and, you know, people buying into—even though it was going to be a smaller organization, a still vigorous organization.

To me that is the key. You have got to have a strategy of where you are trying to go that isn't just about cuts, but also reinvesting in what you are going to keep.

And so that is where I would start, and I would encourage the Secretary to report to you on that and to hold all of his direct reports accountable for helping him develop that Department-wide.

Mrs. DAVIS. Dr. Zakheim.

Dr. ZAKHEIM. Yes. I would focus on two things.

First, we have all talked about training and education, and I do believe that no one should enter the Senior Executive Service and be a top manager without getting the kind of education the same way the military does: a year where you are really learning about either technology or human resource management.

The other one is if you are going to formulate any kind of requirement for a human resource management plan, like Michèle just talked about, be careful not to create the kind of loopholes that DOD always blows right through. And I will give you an example. The 2013 NDAA called for an efficiencies plan, but it allowed DOD to identify exemptions of—from the total workforce. Out of 776,000 people 538,000 were exempted.

If that is going to be the situation, you are not going to get anywhere.

So I would strongly urge, if you follow Michèle's advice, make it as tight as possible.

Mrs. DAVIS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Byrne.

Mr. BYRNE. Thank you, Mr. Chairman.

Ms. Flournoy, you brought up a topic that has been sort of a hot topic around here and some of us have been skeptics about it. I am going to go back to it with you. That is BRAC.

We have had discussions about BRAC ever since I have been on the committee 3½ years now, and some of us have tried to look into past BRACs to determine if those BRACs actually resulted in savings—real, substantial savings. And we couldn't find any evidence that, in fact, there were those sorts of demonstrable savings that would make the BRAC effort worth it.

So I would like for you to disabuse me of my skepticism. Tell me where I am wrong and other members of the committee are wrong.

Will BRAC—based upon past experience, will it really bring savings to us?

Ms. FLOURNOY. I am not an expert on this topic, but I have—I believe the GAO [Government Accountability Office] has done a number of reports that—and the way—my understanding of their conclusions was that the early rounds of BRAC actually did result in recurring savings over time in the single-digit billions. And I could get the exact figure for you but, you know, I am sure your staff can get to that report or I can provide it.

The BRAC round that sort of poisoned the well was the last one because it really was a realignment and consolidation BRAC; it really wasn't a closure BRAC, by and large. And so it really didn't save a lot of money, and the way in which the process worked I think left a lot of—a sour taste in the mouths of many people who participated.

So I think there are certainly lessons to be learned in how to go about this to ensure that it is worth the pain associated with doing it, but I do think the early rounds of BRAC demonstrate that real savings can be had over time. And given the extent of the overhang—when you have got service chiefs saying, “I have 20 to 25 percent more infrastructure than I need and it is taking money away from readiness and investment in future capability for the people we are sending into harm's way,” I think we have to wrestle with this.

Mr. BYRNE. Would either one of you gentlemen want to respond to that?

Dr. HAMRE. If I may, sir, the secret is that BRAC was the biggest MILCON program in history. We built stuff all over in the gaining bases and gave them modern new facilities. So you really have to look at this—at BRAC—as having made possible the real plant modernization for major elements of the departments.

I was just down in Huntsville last week. My gosh, the fabulous facilities down in Huntsville—it was all made possible by BRAC.

So the reason that you don't see big savings is because, frankly, we spent it along the way to modernize. We would have had to have done something with modernization anyway.

I would look at this in a slightly different way: How do we find a way to internally finance the modernization of our forces—especially real property? I think we should look at BRAC in a slightly different way than just, "Are we going to rack up big savings that we can show to the American taxpayer?"

Mr. BYRNE. Well, but that is the way it has typically been sold to us—you know, to save money. And when we look—

Dr. HAMRE. Yes, sir. I understand.

Mr. BYRNE. And so I am not saying that it is not appropriate to look at what you are saying we should look at, but the way we are being approached with it is, "Hey, we need to save this money." We just are skeptics about that part of it.

Maybe it is something worth doing beyond the fact that it saves money. Maybe it achieves some other things for us. But it seems to me we haven't had a good enough case made by the services that a BRAC would actually save money.

I mean, do you all have—Dr. Zakheim, did you have something you want to add to that?

Dr. ZAKHEIM. Well, I tend to agree with John Hamre on this. If you look at BRAC the way we have been talking about other efficiencies, where the idea is—you know, there are two ways to benefit from efficiencies.

One is to save the money and give it back to OMB [Office of Management and Budget]. I wouldn't want to do that. I tried to avoid it when I was comptroller.

The other way is to take the money, I think as Michèle pointed out, and said, "Yes, we are going to put it back into service priorities."

If you approach BRAC that way—we are going to take the money and put it back into service priorities—you are in a completely different place. But I totally agree with you that if the case is made on the basis of savings, the case is weak.

Ms. FLOURNOY. I think that is why you have the service chiefs pushing for this so strongly, because they want that money to reinvest elsewhere, whether it is in readiness or, even more so, in future capabilities that they know they are going to need to deal with more challenging adversaries.

Mr. BYRNE. Well, I appreciate that.

Mr. Chairman, I would just say I would hope that if we could get that information from the service chiefs, what is it that you would do with this money that you think you are going to save, and how is it you think that that is going to make your operation more effi-

cient and more effective? That would be helpful to me to be able to take a closer look at the BRACs and see if they really make sense.

And I yield back.

The CHAIRMAN. Thank the gentleman.

I would just mention, we asked the services a couple years ago to give us some data to support the idea that they have 20 percent excess infrastructure. What we got back basically was the 2004 estimate and nothing really updated since then.

So I think the attitude a lot of us have is we want to work with you to save money, but we are going to have to have something more than something that goes back more than a decade before the last round of BRAC upon which to base a decision.

I appreciate the gentleman raising the issue.

Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

My question pertains to changes in acquisition.

I know that, Dr. Hamre, you identified some specific things that perhaps we should consider undoing from previous years.

But I also know that, Ms. Flournoy, in your submitted testimony—and I missed some of your responses to questions as I had to step out; I apologize—you advocate for a pause, perhaps a year-long pause in further acquisition reform to allow the Department of Defense to realize and measure the impact of changes made in the last few NDAs. I wanted you to elaborate on that.

And let me throw out all my questions so this way each of you can respond, perhaps.

Dr. Zakheim, you had mentioned the workforce training for acquisition. I know in October of 2002 the Army stood up the Acquisition Corps to identify, recruit, retain, develop that civilian and military workforce. Is that working? Is it a good model? Should it go service-wide, Department-wide?

Thank you.

Ms. FLOURNOY. Let me clarify. I don't mean a full stop pause. What I was trying to say is last year's authorization bill gave the Secretary and the Department a lot of guidance on how to change the acquisition system, and particular the—how the Department—the organizational structure: you know, dividing the under secretary into two, creating new authority staff procedures, et cetera.

Just having lived through many organizational changes in the Department, I think that I would say that the focus, as Dr. Hamre said, this year should be on really working very, very closely with the Department to make sure those changes are perhaps tweaked and refined a little bit as needed, but also fully implemented as intended before you sort of take your eye off that ball and go on to the next round, particularly of any further organizational changes.

So it is not really a pause, but I think you have put a lot on the plate in terms of acquisition reform, and I think it is—I would say it is a good time to switch to some other areas while really monitoring closely the implementation of what you have already asked the Department to do in that regard.

Dr. ZAKHEIM. Well, I differ somewhat with my colleague and friend, Michèle Flournoy. I personally believe that you have got to go full-bore, because if you give the bureaucracy time to figure out

what you have asked for, they will also figure out a way to get around what you asked for. Happens over and over again. You have got to keep pushing, in my view.

On your question about training, remember when the Army brought this in they had had a string of disasters—of acquisition disasters. They have done better, although find me a good new light helicopter. They are still working on that.

But again, the focus was on training, and there has to be training. But there also needs to be a focus on education. You don't keep up with Moore's law through a training course at DAU [Defense Acquisition University]. You just don't.

A year at MIT [Massachusetts Institute of Technology] might do it, though. And so you need both.

And it should be, obviously, defense-wide because even if a service has a pretty efficient way of getting its systems through its own process. Look at Stackley at the Navy, who is really a terrific assistant secretary and has worked, I think, for both Democrats and Republicans. They don't want to let him go.

But what happens when whatever has passed through him now hits OSD? You run into a roadblock again.

So any reform that you think about implementing needs to be DOD-wide, in my view.

Mr. BROWN. Just a follow-up: And Maryland has gained a lot in BRAC 2005 on a per capita basis, big plus-ups there. I am hearing sort of conflicting views from the services that I speak with, different service personnel, leadership, as to Navy, Army, and Air Force, who is in for BRAC, who is not, and what is the—can you just characterize, perhaps, it by service, where they are?

Ms. FLOURNOY. I do not have the fidelity to give you an accurate answer. I am sorry.

The CHAIRMAN. Mr. Wittman.

Mr. WITTMAN. Thank you, Mr. Chair. I would like to thank our witnesses for joining us today.

Ms. Flournoy, I would like to begin with this: You know, we hear today about all the strategic challenges we have—our adversaries, whether it is terrorism and the groups associated with that, China, Russia, North Korea, Iran. And since World War II every administration has gone through the process of acquisition reform.

But I argue today for the United States, with where we are, that our adversary, our challenge that is as strategically important as the other adversaries we talk about all the time, are time and resources, of which we have excess of neither.

Give me your perspective on how do we get an acquisition process that treats the adversaries of time and resources at the same level as it treats our adversaries of extremist groups, of Russia, of China, or Iran, and North Korea.

Ms. FLOURNOY. It is a great question, and I think is the—what should be the driver behind really building out not this—not just this new under secretary but a whole end-to-end system of how you go from—you know, how you really create a pipeline for rapid acquisition and rapid access to commercial technologies and integration of those technologies.

Because I share your view—and I think this is a common assumption—that, you know, what we do in the next decade will de-

termine whether we keep our military technological edge. It is under challenge in many domains: cyber, space, maritime, electronic—I mean, you can go down a list. If we stand still and rest on our laurels we will not have the edge in 10 years' time.

In many of these areas it is not going to be the new acquisition platform bill that is going to yield fruit in 20 years; it is going to be how rapidly can we upgrade and modify and improve what we have?

And so the efforts of DIUx; the efforts of the Strategic Capabilities Office that is currently tucked—you know, that is housed in DARPA but an independent organization; the efforts of DARPA—these are—and how quickly we can prototype and get those into the field, that is what is going to determine whether we can prevail in the future.

So I think you—we can't have a great enough sense of urgency here. And I think building out the bypass system is the most immediate goal, and then I would love to keep reforming the main system.

But the urgency is building out the bypass and making it a superhighway instead of a one-lane dirt road.

Mr. WITTMAN. Dr. Zakheim, let me ask you, in addition to this question, let me ask you to expand, because where I see the United States today in relation to our adversaries is this: When our adversaries look to start a new system, whether it is a combat system, whether it is a new class of ships or aircraft, they start with a blank piece of paper and they go through and they put their ideas on there and they go, "Okay, we are going to do this; we are going to do that," and they problem-solve and get to decision making quickly through that realm.

When we start here in the United States we have a sheet of paper that is filled with "noes." No, you can't do this. No, you can't do that. No, you can't do this. So we look for portholes through that whole sheet of paper with noes.

How do we pull out our eraser and take those noes off the page so we can start with the blank sheet of paper, which is where our adversaries start? And they add to that blank sheet of paper by stealing some things, too, so they can bypass us even more quickly.

Give me your perspective on how we get there.

Dr. ZAKHEIM. Well, again, I think the key is to open the door as wide as possible to commercial acquisition. If you buy into the notion that the big weapon systems are essentially platforms for things you put in them, then the question becomes, "How do I get the things that I want to put in them as quickly as possible and as advanced as possible?"

Look, if you go out to Silicon Valley, they are ahead of time. You go to the Defense Department, we are behind time.

And so that is the key. How wide can you force that door open? And unless there is legislation to force it open, it ain't going to open because the culture of the Department is anti-profit, anti-commercialization, lots and lots of inboxes and outboxes, and you know all the rest.

By the way, I heard something really interesting, which shows even the bad guys steal from each other. Russians came to China and discovered that the Chinese had stolen their plans for the lat-



est airplane and they discovered it was exactly the same. So if they are stealing from each other you can imagine how much they are stealing from us.

We have to focus on that, as well. And we are doing a lot in that regard, but unless we go after the things that everybody else wants to steal, then we are not going to make that 10-year gap that Michèle talked about.

Mr. WITTMAN. Thank you, Mr. Chairman. I yield back.

Dr. HAMRE. Would you permit me to—you didn't ask me the question, but may I just offer something?

Mr. WITTMAN. Please. Please, yes.

Dr. HAMRE. And, you know, I go back to when I was nominated to be the comptroller, Senator John Glenn asked me to come up, sit in on a hearing he was holding in Government Affairs Committee about how bad the finance and accounting system was in the Department of Defense. That had a searing impact on me, and I probably spent 20 percent of my time when I was the comptroller trying to go after that problem.

I would suggest—again, I mentioned—you were out at—because you had another obligation, but I would recommend you bring in the new Deputy Secretary of Defense—he is an acquisition professional; he has been working inside industry—and you tell him you want him to give you a plan in 6 months on how he is going to streamline the system. It isn't going to give you all the answers, but I promise you he is going to spend a third of his time working on that problem, and it is about leadership. That is what the real key is.

I apologize for interrupting.

Mr. WITTMAN. No problem. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. That is great.

Ms. Hanabusa.

Ms. HANABUSA. Thank you, Mr. Chairman. It is nice to see Ms. Flournoy again.

I have a question, and I am following up with Congressman Wittman's ideas. I am a fan of DARPA. I think DARPA is amazing.

It has been explained to me once like, he said, "Imagine about 100 or so geniuses just doing whatever they do and just one like a travel agent, making sure that they are staying in their right places." And as we all know, when Prime Minister Abe was looking at trying to reform the Japanese military the one thing he wanted that we had was like a DARPA because it just worked so well.

Having said that, however—and this is in line with what Michèle Flournoy was saying, as well as you, Dr. Zakheim—it is this idea of the reality is we can have this thing about silos and what we need to do, but the reality is we are here every 2 years, you know? The President is there every 4. It takes him a while to maybe pick whoever is going to be in the respective positions. And therefore the concepts of what we should do to modify how we do things can come and go very quickly.

So how do you anticipate—like if—it seems to me like getting rid of the silos is a great idea, something that should have been done a long time ago but hasn't. But then the question becomes, okay, it seems like some other kind of bureaucracy is going to have to

take over to do away with the silos and, like Ms. Flournoy was saying with BRAC, there is going to be an expense that may make it seem inefficient before you have the benefit.

So as you all sit there, tell me, given the political reality of how Congress and how administration operates, how do we—how are we going to be able to accomplish this if you have a totally changed philosophy in 2 years or 4 years? And what I really want to make sure of is that we don't do things to entities like DARPA, that works.

And those are my concerns. I agree, we need to do something. But how do you do it in the political reality of which we deal with?

Dr. ZAKHEIM. Let me take a stab at that.

I am a Republican. My two colleagues are Democrats. We are pretty much in agreement on a lot of this, and this is a very bipartisan committee.

The point is when it comes to efficiencies in defense reform it is not a political issue in the sense that many other things are. So that is already an advantage in your favor.

The second thing is, this is one of the reasons why I would argue push for reforms as quickly as you can precisely because it is a 2-year turnover. And also, once the legislation is there the Department always adapts if you don't give them the flexibility to wiggle out of it. So that is the second thing.

The third thing is Congress can—and I think John Hamre alluded to this several times—Congress can call the leadership of the Department in and say, "Okay, what have you done? What have you accomplished?" Because what you want is consistency.

I wouldn't get rid of the DIUx just because Ash Carter brought it in. That is ridiculous.

And what I have seen over the years is you get new secretaries, new under secretaries, they come in, and they reinvent the wheel. They have a 100-day plan and they basically say, "The guy before me was an idiot," which, if you think about it, means that everybody was an idiot because the new guy said that about the old guy.

You have got to get away from that. The way you get away from that is Congress keeps pushing and saying, "We have legislated X. Demonstrate how you have effectively made X to work." That you can do, and you can do it over time.

Ms. HANABUSA. And as Ms. Flournoy answers, but, you know, everyone knows this, Ms. Flournoy. You have talked about it for years and years. But we don't do it.

So, go ahead.

Ms. FLOURNOY. And I think one of the challenges is we too often focus, in my view, on moving the organizational boxes without changing the underlying incentives that drive behavior. And I will give you a great example that John Hamre gets lots of credit for because he worked on it when he was up on the Hill of legislating a change of incentive that we are still feeling the effects of today: Goldwater-Nichols.

It used to be that joint service was the death of a military career. You are out of sight, out of mind. Forget promotion if you leave your service.

Once you passed Goldwater-Nichols and you said, "You may not become a general or a flag officer unless you, A, get joint education,

and B, you have joint experience,” it completely flipped the incentive and now all of the hard-chargers are looking for that joint experience and looking for that joint education and how am I going to do—be that so I can get the stars on my shoulder?

It is very powerful, and over a generation or two that is the bed-rock of joint culture. It is all that time being educated together, serving together.

So I think the thing we have to wrestle with is what is the—what are the incentive changes that you all could legislate that would create fundamentally different behavior in the acquisition and innovation domain? To me that is going to be more powerful and enduring than any tweaks we make to the organizational chart.

Now you are going to ask me what that is.

[Laughter.]

Ms. HANABUSA. I am out of time.

Dr. HAMRE. But do you mind if I may just—

Ms. HANABUSA. You have to ask the chair.

Dr. HAMRE. There are five reasons why DARPA has been a huge success.

First, the chairman serves a 5-year term—the director. And so there is—it is a long enough period of time for you to be accountable, and you want to show results. That is the first thing.

Second thing is there is an astounding amount of financial flexibility for DARPA. There are only four line items in DARPA’s account, and they can move money across any of them.

You know, Congress has tied the Department’s hands. You cannot move more than two—I think it is \$4 million from one line item to another in R&D [research and development] without coming back for permission. DARPA has total flexibility to do that. That is the second.

The third reason is almost all of their work is placed entirely in the private sector. And they can do rapid acquisition by going out to the private sector. They have special authorities to do that. But they place it in the private sector.

The fourth reason is program managers are not allowed to stay more than 4 years, you know, so they don’t build up entrenched bureaucracies around themselves. It is a fairly small, fairly lean organization, and they can only stay for 4 years.

And the last thing is they get Secretary of Defense protection.

Now, you put those five factors together, that is what—why we have success.

I would have to tell you—and I say this respectfully. We are doing just the reverse with our legislation. We are creating more overhead, more fracturing of it; we are putting more restrictions on where you can put money and how you spend it.

I mean, please step back to look at how you could take that model and bring more flexibility to the Department, because that is why DARPA works.

Ms. HANABUSA. Thank you, Mr. Chair, and I apologize I went over.

The CHAIRMAN. No, we are a little more flexible today with these witnesses.

General Bacon.

Mr. BACON. Thank you, Mr. Chairman.

And as someone who served nearly 30 years in the Air Force I tell you, your stellar reputations precede you, so thank you for being here.

Two quick comments and then a couple of questions.

I was part of the rapid acquisition as an operator within the Air Force, the Big Safari really works. One thing that doesn't work is the manning of those weapon systems once we produce them.

We typically only man them at 50 percent even though we have done a good job fielding them, so I would hope—we have to match the rapid acquisition with other things that the service provides there, I think, for it to be effective.

I am thinking of the MC-12 as an example—50 percent manned while we had it in the Air Force, and put a lot of risk into the system. Just one example.

Secondly, I am very proud that this committee has worked on reducing the size or the number of general officers and SESes [Senior Executive Service], particularly in the Pentagon. It has been my experience we have been overstaffed there.

Now for a couple questions.

Have we reduced the OSD staff at the same levels that we have with the services? Because I think we need to. This is my impression, but I would love to have your thoughts on that, and whoever would like to answer.

Dr. ZAKHEIM. They want me to go first—

Mr. BACON. Put you up first.

Dr. ZAKHEIM. My impression is that we have not. And in fact, each time you add an assistant secretary or you have a congressionally mandated deputy under secretary, somebody who needs confirmation, you have created an excuse to hire more and more staff.

In my written testimony you will see I give a few examples of where, in fact, you can combine assistant secretaries so that you can cut back on the staff. I think you should cut back on principal deputies; I don't think you need them.

And finally, when we talk about splitting the Under Secretary for AT&L [Acquisition, Technology, and Logistics], make sure that the total number of OSD staff working for the two is no greater than working for the one, which was too big to begin with. If you look back at the growth of the AT&L bureaucracy over the last 20 years, it skyrockets.

Mr. BACON. Should the Armed Services Committees of both the Senate and the House drive this, or does the Secretary of Defense—should he take ownership of doing what you are saying?

Dr. ZAKHEIM. I would say that this is something that requires consultation with the Secretary, and if the Secretary is forthcoming—and this particular Secretary is very forthcoming about just about everything—I would say that it may well be that the Secretary could handle it. The only downside to that is what happens when a new Secretary comes in?

Mr. BACON. All right.

Dr. ZAKHEIM. That is my concern.

Mr. BACON. Anyone else care to answer?

Ms. FLOURNOY. And I think the—I think you should put the onus on, you know, on the Secretary of Defense to come back to you with what is the optimal mix, where is the optimal reallocation. And there may be areas where he needs to grow capability and there may be areas where he can reduce the capability, but giving him the flexibility to move—to, you know, consolidate organizations, eliminate low-priority functions, reassign staff—I mean, those kinds of authorities and flexibilities are key to do that reshaping.

Because again, there may be some cutting but there is also going to need to be some reinvestment——

Mr. BACON. Right.

Ms. FLOURNOY [continuing]. In the human capital.

Mr. BACON. Well, sure fits in with my perception that we need to reduce the size of the OSD team.

Another question for you: Use it or lose it at the end of the year. How do we reform that better, because we get a lot of new desks, a lot of new paintings, a lot of new rugs, and it is wasteful. End-of-year spending, use it or lose it—anybody—any thoughts on that?

Dr. HAMRE. You know, I was a comptroller and I remember we had a process where we would move money from time zone to time zone the last day to be able to spend it.

Mr. BACON. I saw it too.

Dr. HAMRE. Okay. So yes, we are—part of it is you have done some of that. I don't know if the authority is still in place, but funds that are not spent in the O&M account by the end of the fiscal year, normally they lapse but they are allowed to go into the Foreign Currency Fluctuation Fund. So it provides an—you don't have the incentive just to spend it on anything, you know, because you can put it into something that you need.

I think that is how you ought to think about this. I think you ought to find a way where you can take the, you know, the funds that are otherwise close to expiring and give them an opportunity to live in a different way for something that the Department needs.

In this case, foreign currency fluctuation was a—it was a big deal, you know, in the 1990s. I don't know if it is as much a problem today as it was back then, but I think it is something like that.

The other thing is, frankly, O&M is—it is managed on a decentralized basis. You know, we don't really know how it is being spent in the field.

And until we start developing different approaches—here probably the committee should find out how big corporations manage O&M. You know, they must have a different way of doing it than we do in the government.

But like I just said, we don't know——

Mr. BACON. They have profit.

Dr. HAMRE. Yes. They have an incentive for it, so——

Mr. BACON. Right. Thank you very much. I yield back, Chairman.

Dr. ZAKHEIM. Mr. Chairman, may I just add a couple things?

I agree with John. The way, by the way, that private corporations do it is they are monitoring the funds on a daily basis. And one thing that I tried to do, I brought in the E to PPBE [Planning, Programming, Budgeting, and Execution] with these, which is execution, and I wanted to have an execution review every quarter,

which is nothing compared to daily reviews of where the monies are.

But if you have an execution review every quarter as opposed to one midyear review then the comptroller is in a better position, working with the Joint Staff in particular, to move those monies around and minimize that last-minute spending that you are talking about. Moving the monies into an account that would allow them to be used for other purposes, well some people are going to turn around and say it is a slush fund. So you have got to be very careful about what accounts you are talking about.

But it seems to me that the more visibility you have into what are called bishop's funds—and it is actually a total church hierarchy because the further down you go the monsignor has got his money, and so on and so forth. The more transparency you get—and we have all talked about that—the more likely it is you are going to prevent what you are talking about.

Mr. BACON. Well, thank you again.

And I just submit, Mr. Chairman, that use-it-or-lose-it reforms is something we should be looking at. I think it is an embarrassment.

Thank you.

The CHAIRMAN. Well, as a matter of fact, I am hopeful that if there is a supplemental that we enact that it can be spent beyond September 30th, at least for that money for this year. We have done it a few times before to extend beyond the fiscal year, and it seems to me, getting at the problem you are talking about, that it would make some sense.

Mr. Lamborn.

Mr. LAMBORN. Thank you, Mr. Chairman. Thank you for having this hearing. Thank you all for being here.

Research and development is critical, and that is part of having the best weapons platforms and innovations for the future. But sometimes research dollars are vulnerable because in the beginning stages of researching new technologies, it is not yet tied to a program.

So how can research dollars in these times of constrained budgets be protected so that we still have the great capabilities that our finest minds in the world are able to come up with and stay ahead of any potential adversaries, but those dollars might be taken for something else if we are not careful?

Dr. HAMRE. Well, this is a big problem because, you know, we—when we were back in the days when we had R&D budgets that were about half the size of the procurement budget, we couldn't possibly turn the breakthroughs into weapons systems. We didn't have enough procurement money.

You know, and so part of the reason that it was scaled back, you know, the last couple years as a percentage was because there just was not sufficient capacity to take advantage of what we were inventing.

The whole fresh look at R&D would be very helpful. It is one of the things that would be very good for this new Under Secretary for Research and Engineering to do, I mean, because the current DDR&E [Director of Defense Research and Engineering] largely just looks after the 6.1 and 6.2 account, you know, they don't have

a capacity to look at the whole. And I think that would be a good thing for you to ask the next under secretary to do.

Corporations will have—I was with one for a time—I was on the board of one for a time that had something called a vitality index, which is: How much of our R&D that we spend today shows up on the shelf as a product we sell within 5 years? And there was a—there were objective measures that they had as a company to say, “Where are we willing to spend money because we want to see a return on it?”

Now, it is hard for us to do that in the Defense Department, but we should have some kind of a mechanism where we are looking at the R&D program and saying, “Where does this fit in?” You know, “Where does it fit in and what difference will it make?”

You are hard-pressed to find that, so there is some real management we need to bring to this problem.

Dr. ZAKHEIM. All companies basically look at capital expenditures, which includes R&D expenditures, and the CEO has to report back to the board and say, “Here is what I think is going to come of this,” precisely because they are bottom-line operations.

One possibility that might help deal with the concern you raise is if this new under secretary really is committed to having a partnership with the commercial sector, with the non-defense commercial sector, so that our bureaucrats—and again, I mean, you want to talk about measures of merit and changing culture, I have said in my testimony, don’t let anybody become a senior executive servant unless they have spent a year in—at MIT, or Caltech, or what have you, if they want to be in the Acquisition Corps because it is going to make a difference.

I have also suggested that there is a program called the Secretary of Defense Corporate Fellows, where they send about 18 or 20 people to corporations. Triple that and then have an equal number of civilians there so they know what it is like in industry.

The more you cross-pollinate with industry, the more they will think about, “Yes, where do my R&D dollars lead to? What will I really get?” Because now they will be thinking in terms of CAPEX [capital expenditure], if I can use the term that everybody uses.

I think that might be a way to help out.

Mr. LAMBORN. Michèle, do you have any thoughts to add?

Ms. FLOURNOY. The one thing I would say is that if you are going to move towards a system that puts more emphasis on experimentation, innovation, prototyping, you know, your—you have to have a slightly—you have to have a somewhat higher tolerance for failure, that there are going to be certain things that you prototype, they don’t work out, but you learn from the experience and that makes the next thing better.

So I actually think in the model that you are trying to create with this new organization you want to have a higher proportion of R&D spending relative to what we have had vis-a-vis procurement, and that you don’t want to have such an emphasis on ultimate ROI [return on investment] that you miss the learning curve that you get out of, you know, a very robust experimentation and prototyping plan.

Mr. LAMBORN. Mr. Chairman, could I ask a quick follow-up?

The CHAIRMAN. Sure.

Mr. LAMBORN. Very quickly, Iron Dome in Israel—that was done in 3 years, from pad of paper to operation, and I just can't see that kind of result here in the U.S. And yet, there are times we are going to need that kind of quick turnaround.

Ms. FLOURNOY. I think that is a great example of urgent operational need. You had civilians in Israel being killed by rockets from Gaza.

They went out and saw, what is possible today? What can we put together that works? And they went out and procured it and fielded it as fast as possible, with our help.

I think this gets to one of the things that I hope will be on your plate is the whole military requirement-setting process, that—obstacle to doing things quickly. We spend so much time trying to get consensus and we over-specify the requirements that, you know, we spend so much time—we spend years on that up front—that we are already behind the curve when we finally get to trying to actually acquire the thing.

So figuring out where do you need—really do need to have the military specs, and where can you rely on commercial and integration and adaptation kind of—I think that is a key distinction that we need to work on.

Dr. ZAKHEIM. Well, the Israeli system, by the way, is so different from ours in another respect. They are totally integrated, the commercial side and the ministry of defense, so that when they go out and say, "Yes, we need X," the commercial folks are on it quickly.

We have this gap because for too many of our people in the acquisition system the commercial side is the enemy. We have got to break down that barrier.

Mr. LAMBORN. Thank you all. Thank you, Mr. Chairman, for your indulgence. I yield back.

The CHAIRMAN. Mr. Veasey.

Mr. VEASEY. Thank you, Mr. Chairman.

I know that people have varying opinions on how the Congress should go about tackling these issues, and other than legislation, I was wondering what do you think Congress can do or refrain from doing that could improve the efficiency or the—and the effectiveness of the acquisition process.

Dr. HAMRE. Well, I would go back to what I mentioned about DARPA. I think that DARPA is such a success because it has so much flexibility but accountability.

The director is there for 5 years. That individual is totally accountable for what comes out, that product, out of their budget every year. They have a lot of flexibility in the budget. They are not bound by the civil service system for finding program managers.

You know, so it—what it—it is a very different model. It is a model where it is more about leadership and trusting leadership and less about arcane and very rigid rules.

And I think, honestly, we are on a path where we are writing legislation so much just dictating how the Department has to do things that we are undermining what I think is really the key, which is hold them accountable, give them the flexibility, and use the other power that you guys have, which you don't use enough of, which is to bring them up and talk to them.



You have no idea how frightening it is when they get a call and say: I want to—the committee wants to hear—it is not going to be a hearing; we are just going to have a private meeting.

They are going to—that has enormous impact. But right now most people think they just have to write big bills to have impact with the Department.

You don't. There is so much more you could do by utilizing this power that you have from this position.

So I would look—do less, create more accountability, think about a model where you are trying to recruit the very best people that want to come in and serve because they have a lot of authority to get things done and you are trying to help them do it.

Dr. ZAKHEIM. You know, John Hamre was my predecessor, actually, but one as comptroller. And I can say as comptroller, as well, the congressional restrictions on moving money from one account to another are just too tight. John mentioned the director of DARPA doesn't have to worry about that to any degree that just about anybody else does.

And when we are talking about a budget of approximately \$600 billion and then you are told we must go to four committees to move \$25 million from one account to another, I mean, that is ridiculous. Certainly not how industry works. Certainly not how any successful company would work.

So it seems to me that—I fully understand why Congress wants to watch how monies move, but there is a long way between \$20 million or \$25 million and a \$600 billion budget. And it seems to me raising those ceilings would be one way to create the ability to be flexible and agile, and then if you combine it with some of the other reforms that this committee is pushing then you are going to start to see a real synergy.

Ms. FLOURNOY. I would just add that same flexibility in moving and managing people is really, really key.

And then the last thing I would say is, you know, there have been lots of reform attempts over the year, and when something doesn't work, rather than removing it we just add another layer. And so I think clearing away some of the layered complexity of past reform and regulatory efforts that haven't necessarily yielded the desired results but people still feel accountable to go by, that can also add a lot of needed flexibility.

Mr. VEASEY. And so with all of that, what do you think is the most appropriate mix and the most cost-effective mix that the military should try to achieve as it relates to military, civilian, and contractor personnel to accomplish its mission?

Ms. FLOURNOY. Again, I think that will be—the answer to that question requires a comprehensive assessment that I don't think has been done in a long time. But I think the general assumption that I have heard this morning is, you know, there is likely to be some reshaping of the civilian career workforce while investing in that workforce's development and education and training, and probably a reduction in the level of contractors that we rely on to support those civilian functions.

Dr. ZAKHEIM. And we also have to look very closely at what we want the military to do, as opposed to what someone else can do. And that is important, as well.

So it is not just a matter of cutting this level or that level of civilians, or cutting contractors; it is also a matter of who is doing what. And so it really has to be a comprehensive view.

Mr. VEASEY. Thank you. Thank you, Mr. Chairman.

Dr. HAMRE. And if I may add, it has to be a comprehensive review where we have the honest price of each of the forms of labor. We do not have a uniform way in which we put the full cost of having a uniform or a civilian or a contractor side by side to say, "Which is the most cost-effective way to do this job?"

So you could demand—again, this is a plea—you could demand that the Congress give—or that the Department develop a real objective cost assessment that you can see the difference between military labor, civilian labor, contracted labor.

The CHAIRMAN. Ms. Flournoy, as y'all were talking about it earlier I had in my mind that you were talking about, say, a human capital plan for OSD. But you are really talking about something broader than that when you start bringing in who does what—what do contractors do, what do civilians do, what do military people do.

Am I right, or—I am trying to think, okay, how do—what is the—what—how do we write this? What is the charge here?

Ms. FLOURNOY. You know, ideally you would want a full assessment Department-wide, but that is a pretty herculean task. So I think where I would start is with the Secretary's own staff, and to ask him to lay out for the functions of OSD what is the right mix of military, civilian, and contractor, and how does he need to reshape and re-educate, train, develop his workforce to be as effective and efficient as possible.

But I think you could then look at other components beyond OSD, and should, because, you know, from a resources perspective the OSD is dwarfed by the staffs of the services, the staffs of the defense agencies, and so forth.

But if you are looking for a way to pilot the approach and get your arms around a piece of the puzzle and then learn from that experience to then go after other pieces, it is not a bad place to start.

Dr. ZAKHEIM. I would agree with that, except I would expand it to include the Joint Staff. There is a lot of overlap there.

There are some people who say we just ought to combine them the way the Canadians and the Brits do. I am not sure that is the right way to go. In fact, I am pretty sure it is not the right way to go.

But still, there is an awful lot of overlap, and I think looking at them together as a unit might be one way to deal with this pilot project, as Michèle puts it.

The other thing is I wouldn't allow this to stand in the way of mandating reductions in the civilian workforce. The civilian workforce is just too big, and I haven't seen any efficiency out of it. There is no correlation between the growth of the workforce and its efficiency. In fact, it is a negative correlation.

The CHAIRMAN. Well, that really gets to the second part—or the other question I wanted to ask.

There are some suggestions that we ought to give the Secretary of Defense authority to reorganize, say, OSD however he wanted to

in 6 months' time. But is your view that we ought to expect this human capital report before there is authority to move the boxes around and have buyouts and so forth?

Ms. FLOURNOY. I think that ultimately you want the review, first of all—you want form to fit function. You want the focus to be first on, you know, what are the most—what are the important functions that—where I need, you know, potentially more investment? Where am I willing to take some risk and do less?

And then you need to adapt, I think, the—add on the human capital layer to fill out how are we going to actually staff that.

So one of the things that I—when I had my little world of Policy, which was by then 1,000 people—it, you know, had grown a lot since I had first been in there in the Clinton administration—we did them simultaneously. And one of the things we asked is, “If you had more—10 percent more to invest, where would you invest it? If you had to cut 10 percent, where would you cut?”

And we did that at the—a very low level all the way through the organization, and it gave you a pretty good sense of where we were short and we really needed to plus-up, and where people really thought, “You know, I am doing this because I am told I have to do it but I really don't think there is much value here.”

And so we sort of did the two streams in a complementary way, or overlapping way. I don't think they have to be strictly sequenced.

Dr. HAMRE. Sir, I am not—I just think you are going to have to impose cuts and then tell them, “Figure out what is the most efficient way to do what you have got to do, and if there are things that you don't need to do or you think are low-value, tell us what that is.”

But, you know, I am close enough to a number of corporations, when they have to do a downsizing they don't start with a bottom-up review, you know, they start with a top-down goal.

And I think Bill Perry used to say, you know, reform does not—can't remember what he said now. Forgive me. You have to make cuts first and commit yourself to those cuts before you can figure out how you are going to get the best value out of it.

I just honestly think you—I have been around it too much. You are going to get very incremental, marginal suggestions if you do it on a bottom-up basis.

Ms. FLOURNOY. I agree with that. I think you have to have a target but then allow a combination of a functional review and a human capital review, in terms of figuring out how you are going to get there. But the target is key to incentivizing the result.

Dr. ZAKHEIM. And that is where I would come out, as well. If you don't give them some clear directive as to how much they should cut over what period of time, they just—they are not going to do it.

First of all, they are going to try to wait you out. That is number one.

Number two is they are going to try to—like I had mentioned somewhat earlier, they will—if you give them any sort of vehicle for exemption they will exempt as many people as they could—500,000 out of 700,000, and that sort of thing.

So it has got to be tightly written, it has got to be clearly directed, and then you give the Secretary—and, I would argue, the Secretary together with the Chairman, because I think it is important if you are focusing on OSD, OSD and the Joint Staff I really think need to be looked at together—have them both, give them the flexibility within that overall number, and then have them come back and report to you. And not a written report, because a written report is going to be written by a contractor, but have them actually come and testify in front of you.

Ms. FLOURNOY. But I think a cost-saving target, you know, it gives them maximum flexibility of how to get there.

And this is where the other authorities come in—they are so important, you know, as you gave last year, a RIF authority that is not just about seniority but actually about performance. VSIP authority you raised the level, which is great, but still supervisors can't use that on an individual basis to actually incentivize individuals who need to depart to depart.

So, I mean, I think those accompanying authorities are really, really important to turn the—you know, to really give the flexibility required to reshape the organization in a productive manner.

Dr. ZAKHEIM. The only thing that worries me about authorities, Mr. Chairman, is that bureaucrats will say, "Okay, I have got the authority and I want to use it." And what will then happen is the deadwood always stays, which is why deadwood bureaucrats love hiring freezes, because who goes? The junior people.

They don't come in. The ones who come in last, they are the ones who go out. That is just not the way to get the Department up to speed with all our enemies out there.

The CHAIRMAN. Okay.

If y'all will indulge me just a few moments more, Dr. Hamre, I have got to go back to the beginning and this under secretary business. I understand your point, that you dilute the effectiveness of the one by having the second, and you addressed this in your written testimony but I still need to hear it again.

So if you have the Under Secretary for Research and Development but then you give under him the acquisition authority, how is that not recreating AT&L under a different name?

Dr. HAMRE. Yes, sir. I think the most important thing we are trying to do is to change AT&L from a giant compliance organization into an innovation organization.

You are not going to get that done unless you break it up, and I think breaking it up means you take those mechanical functions of acquisition—you know, procurement policy, FAR review, you know, all that kind of stuff—you put that under an assistant secretary. That is what the assistant secretary does.

The under secretary is responsible for all the big choices that the Department is going to make that involves acquisition—development and purchase of things. But you have to make that job big enough so that you are going to recruit somebody really big who will want that job because it really is meaningful.

All of the acquisition—you took a big step 2 years ago when you pushed a lot of the acquisition back to the services. A very good thing to do.

So we need to get the bulk of the acquisition process back to the services, get a smaller organization at the top that is overseeing the process that the services implement, and then a powerful person who makes big choices for the Department. And I think having two under secretaries I think could confuse that.

It is really disassembling what we built up with the Packard Commission and going back to having the services play much more of a role and OSD play much more of an oversight role with a creative person being a decider about big choices.

The CHAIRMAN. But the assistant secretary reports to the under secretary—

Dr. HAMRE. Yes, sir.

The CHAIRMAN [continuing]. So it is still within the one—

Dr. HAMRE. It is still within that orbit. You have one acquisition secretary but you are taking all of those mechanical functions and you are taking them down a level and you are pushing them out to the services.

The CHAIRMAN. Okay. Okay. Y'all have anything more on that? Okay.

Mr. Langevin, you have questions?

Mr. LANGEVIN. Thank you, Mr. Chairman.

So one additional question that I had—and we had a discussion just a minute ago about cost-cutting targets. Last winter we learned of a report out of the DOD that stated that \$125 billion could be saved over the course of 5 years by attending to waste within the Department. So this accounts for about 4 percent of DOD outlays and is well within the types of savings that companies also try to achieve through cost-cutting practices.

And while I am disappointed this report was initially buried within the Department, I think there are certainly valuable lessons that can be learned from it.

How do you believe we can best meet these cost-saving objectives, and how have you seen the Department implement some of the more actionable efficiencies?

Dr. ZAKHEIM. Well, the report came out of the Defense Business Board, as you know, Mr. Langevin, and it wasn't really buried at all. I mean, it was easily accessible on the web; it was publicly briefed; we all talked about it; nobody was told you couldn't talk about it. So I don't know where that whole thing came from, quite frankly.

But to the substance of your concern, it does seem to me that what that report essentially is saying is in the first place your best start is with civilian personnel, and it seems to me that that is one where the—their legislation, in terms of levels of civilian personnel, might be very much worthwhile. I believe that if you take their numbers from 2 years ago and update the numbers to fiscal 2017 numbers you could save \$5 billion to \$8 billion. Not trivial. Not a lot, but not trivial.

Then they have five other categories, and in fact, the Secretary of Defense listed those very same categories in his memorandum on efficiency. And so again, picking up on what John Hamre said, get them in here. Ask them, "Okay, what have you done on each of these categories?" And to the extent that you don't get a straight answer you start thinking about legislation for it.

Ms. FLOURNOY. I would just add, I also think you need to think about how the deputy secretary and the CMO—what kind of capacity they will have to do this kind of management transformation work. You know, your typical political appointee is not going to necessarily have that kind of background and experience, and so a senior official who wants to take a transformation step is either—you know, either they have to go hire a very expensive outside consultant or they decide, you know, they just don't have the bandwidth to take something on.

One of the things that was included in the last authorization bill was authorization for what is called a delivery unit, which is actually taking a page from the U.K. [United Kingdom], who basically brought, you know, 30, 40 people with deep experience transforming organizations coupled with some real experienced folks from within the Department and basically created an internal resource for the deputy and the CMO to work with the line managers of the organization on transformation plans and to really drive that change internally.

But I do think you have to think about where is—where are these two critical officials actually going to get the capacity—the kind of change that you are talking about and to really drive that.

Dr. HAMRE. You know, I personally think you could save \$115 billion, but very hard choices. Really tough choices we have to make.

You know, the average—I think the average server in a computer center in the Department runs at about 10 percent of capacity, but we—because each of the services is buying their own stuff. But that means you are going in and you are ripping it out of a service. That is painful. It is hard to do that.

We do not take advantage of the pricing power we have as the biggest renter of property in the United States because it is fractured. It is all over the place. We don't have a central place where we are good at that.

We spend money getting rid of things rather than making money getting rid of things. You know, we have got 500 people at the disposal center. We are paying for them to get rid of stuff. We are not making any money off of it.

I mean, look, there are—but these are very hard things to do. They involve people's jobs in very specific locations. You know, it involves a lot of—freeing up a lot of restrictions that have been put on the Department in recent years.

So can we do it? Yes. I think we can do it. They are very painful.

Does that avoid us needing to increase money for the Department because of the problems we have got now? No. I think we need to—we are—we have got real readiness issues in the Department. Real readiness issues.

We have got a lot of airplanes that are really old, you know, that we need to replace. I mean, so I—we need to be objective about it.

I strongly think we should try to save that—the \$115 billion, \$125 billion, whatever that is, especially because it would give credibility to the Department when it asks for additional resources.

Dr. ZAKHEIM. One other area where—related to this is the whole area of contract auditing, which is highly controversial right now. But the fact of the matter is DCAA is billions of dollars behind.

That is hurting industry in another way, which is they have to reserve money that they can't spend because they don't know if they are going to have to give it to DCAA.

But leave that aside. The fact is if you get a good outside auditor they will start to tell you where some of this money that John Hamre just referred to is or isn't, and that gives you the vehicle to start moving monies around, to being more efficient, and, in fact, to reaching that \$125 billion goal.

Mr. LANGEVIN. Well, certainly I know that we are moving in the direction of being able to audit the Department. I know we are trying to get to that point, and certainly this is another area where data analytics will come into play and help us to get where we want to be.

So thank you all for your testimony. And with that I will yield back.

The CHAIRMAN. Yes. I want to just emphasize on the Defense Business Board issue not only did we not bury it, we cited it in our committee report 2 months later. And the increase in incentives to voluntarily leave the Department that we had in last year's bill was one of the specific recommendations that they made.

Now, the bigger dollar savings comes from the sort of civilian personnel reform that we have been talking about, which is part of the reason I have asked y'all several questions about that. As Dr. Zakheim mentioned, there was an effort that didn't go so well to do that a few years ago, but yet, it is a significant area that needs our attention.

Y'all have been very helpful. I have got lots of notes, but I also know where to find you to elicit more information and more questions.

So thank you all for being here and for all that you assist this committee with.

The hearing stands adjourned.

[Whereupon, at 12:15 p.m., the committee was adjourned.]





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# **A P P E N D I X**

APRIL 4, 2017

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**PREPARED STATEMENTS SUBMITTED FOR THE RECORD**

APRIL 4, 2017

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## **Statement from Ranking Member Adam Smith**

### **House Armed Services Committee Hearing: Assessing Progress and Identifying Future Opportunities in Defense Reform**

Thank you Mr. Chairman for holding today's hearing on this topic of critical importance. Also, thank you to the witnesses for sharing their opinions on past and future defense reform opportunities. I look forward to hearing their views on what the Department of Defense should or should not address in the future as it relates to acquisition policy, organizational structure and military personnel reform efforts.

The FY2016 and FY2017 National Defense Authorization Acts (NDAAs), included significant changes to the acquisition division of the Office of the Secretary of Defense. First, decision making authority for large acquisition programs moved from the Undersecretary of Defense for Acquisition Technology and Logistics (AT&L) to the Service secretaries and second, that same Undersecretary position was split into two Undersecretary positions. This shift has created an unknown dynamic for the Department of Defense (DOD) and private sector companies who produce goods and provide services for DOD.

So here we are in 2017, working on next year's NDAA and key acquisition positions are yet to be filled and it is too early to tell if these reforms will prove to be successful. In my view, before we make additional acquisition reforms, we should see if last year's changes are effective because frankly, it seems as if current changes may be overwhelming the system. The Department of Defense can only absorb so much new acquisition reform legislation.

However, one area where DOD does need Congressional support is in helping it right-size its infrastructure by authorizing a new round of Base Realignment and Closure (BRAC). DOD has been asking Congress to authorize a new BRAC round each of the past five years and they estimate a new BRAC can help save \$2 billion a year. At a time of constrained resources, we can't afford to waste \$2 billion a year holding on to infrastructure that is excess to the military's requirement. While some may question the force structure levels or raise concerns with the 2005 round, I believe Congress can and should work with DOD to address these issues and authorize a new round of BRAC this year.

I am also interested in where the Department and the services will go with personnel reforms. The FY16 NDAA reformed the military retirement system to provide 83% of the force a stronger portable retirement plan that they can take with them when they complete their service obligation, but do not reach a 20-year retirement. It is time the personnel system compliments the retirement system with more flexibility and ability to target certain skill

sets when needed. The services have been discussing for years the need for a more flexible personnel system, but have done little with the existing authorities they have to make any meaningful changes. People join the military and depart the military for a variety of reasons; and the system cannot be a one size fits all. I also understand due to the nature of the missions and organizations, there have are requirements and standards that need to be maintained. I am interested in exploring concrete options that create flexibility to attract the qualified individual's it needs to fit the requirements and as those requirements change, retain the quality the military needs to maintain high standards.



**Statement Before the  
House Armed Services Committee**

***“Assessing Progress and Identifying Future  
Opportunities in Defense Reform”***

A Testimony by:

**John J. Hamre**

President and CEO,  
Center for Strategic and International Studies

**April 4, 2017**

**2118 Rayburn House Office Building**

Chairman Thornberry, Ranking Member Smith, distinguished Members of the House Armed Services Committee, it is an honor to be invited back before the Committee to discuss opportunities for further reform of the Department of Defense. And it is a great pleasure to be here with two very dear friends, Under Secretary Flournoy and Under Secretary Zakheim. They have rendered great and honorable service to America, and I am proud to be with them today.

First, let me thank you and congratulate you for your efforts these past years. This is hard and difficult work. But your work is essential if we are to transform the Department into an efficient organization for fighting future wars. Please continue with this vital work.

There are two specific items from last year's National Defense Authorization Act (NDAA) that I would like to review with you. Both deal with section 901 of last year's Act.

First, let me thank you for restoring the stature of the Office of Defense Research and Engineering by making that position an Under Secretary and for making that position the third most important position in the Department, following the Secretary and the Deputy Secretary. But forgive me for saying it, the final conference report undermined the initiative to elevate innovation by creating a second Under Secretary for Defense Acquisition and Sustainment. Let me explain why.

It is now very hard to recruit talented people to serve in senior positions in the Federal government. The pay differential between private sector salaries and public salaries is becoming great. But an even larger deterrent to public service are the onerous and excessive "ethics" requirements imposed on those who serve. We will always be able to recruit a Secretary or a Deputy Secretary. These jobs are so prestigious that individuals will accept the restrictions that are choking these confirmed positions.

If we are to recruit a great talent to become the Under Secretary for Research and Engineering (USD R&E), we must make the job genuinely prestigious. It is not enough to say it is the third ranking job by order of precedence. The job itself has to be genuinely important. The fiscal year 2017 NDAA created a second under secretary job that has decision-making authority over acquisition of major weapons. This is where the real money is found in the Pentagon. Creating this second under secretary position will undermine the stature and attractiveness of the Under Secretary for Research and Engineering. We all know that the life blood of the Department is money. The individual who controls major flows of money is more important than the one who does not. Creating the second under secretary position, and giving that individual control over much flow of funds, will unavoidably diminish the USD R&E.

You were absolutely right to disestablish the old Under Secretary for Acquisition, Technology and Logistics (USD AT&L). That job had become a giant compliance machine, and during the



past 25 years we have seen greater costs, longer development time and far greater spending on overhead. It was right to disestablish USD AT&L. And you were absolutely right to elevate the Under Secretary for Research and Engineering, making that person the head of an innovation ecosystem in the Department. But you also need to give that individual control over major acquisition decisions. Otherwise you have undermined the power base for the job you created.

You may ask, “How is that different from the old USD AT&L position?” The old organization was a giant compliance organization. Someone does need to physically oversee the mechanics of acquisition, review the defense acquisition regulations, etc. Give that job to an assistant secretary who reports to USD R&E. Push the responsibility for acquisition back to the Military Departments. Shrink the size of the staff reporting to the Under Secretary, and create an assistant secretary for procurement policy. But do not undermine your initiative by creating dueling under secretaries.

The second item concerns the creation of the Chief Management Officer (CMO). I had hoped that the Congress would establish a position that would genuinely manage the business operations of the defense agencies. But section 901(c) really just restates existing responsibilities for oversight of the Military Departments. The section does not refer to defense agencies at all.

The Office of the Secretary of Defense (OSD) has one executive—the Secretary. Everyone else is a staff function supporting the Secretary. We have three line organizations in the Department—the Department of Army, Navy, and Air Force. The defense agencies and field operating activities are mini-line organizations, overseen by various under secretaries and assistant secretaries in OSD. But those OSD positions are staff positions, not line-operating positions. No one is managing the defense agencies. I had hoped that the Chief Management Officer would have line responsibility to run the defense agencies. In that capacity, he would hire or fire the operating heads of the agencies, approve their annual operating plans, prioritize and approve their modernization plans, and establish performance objectives.

Section 901(c) simply restates existing oversight authorities. If that is what the Congress wants, okay. But I know from conversations with members last year that they hoped to create a real manager, not a management oversight office.

Again, the Secretary will have great difficulty recruiting anyone of stature to take this job because it has no real authority, despite the words written in the section.

This brings me to the other purpose of the hearing today, and that concerns the report last year by the Defense Business Board (DBB) that there are \$125 billion in savings that can be harvested from within the Department.

I have seen periodic reports like this going back to the days when President Reagan commissioned the so-called Grace Commission to find savings in the federal government. The DBB report was a statement of convictions, but not a roadmap or a blueprint.

I will state for the record that I think there are enormous inefficiencies within the Department. We could get far more “output” from the dollar inputs we are making, but we have to remove those inefficiencies. I believe the Congress would need to give more flexibility and authority to the Secretary, and not tie his hands with excessive reporting requirements, or roadblocks to making changes in specific organizations or locations. The Secretary needs more flexibility to hold honest competitions between the private sector and the public sector for work activities. The old A-76 process allowed objective competitions between government workers and outsourced workers. This was eliminated but should be restored.

Real efficiencies come from changing business models. I remember when I was the Comptroller. I learned that 90% of all Department contracts were for amounts less than \$2500. We could eliminate all of that by using government purchase cards. But the full potential of government purchase cards has been stifled by regulations. We need to revisit these regulations. Real efficiencies would come from consolidating the transportation function with the warehousing functions in the Department. That is what every major corporation has done over the past thirty years. But we continue to live with stovepipe organizations that require business processes to bridge across from one stove pipe to another.

We need to look honestly at the price of labor—uniformed service labor, civil service labor, and contractor-provided labor. We do not honestly show the fully burdened costs and compare them objectively.

We need to remove the artificial barriers that force work into government depots and shipyards, no matter their inefficiency.

We need an objective BRAC-like process to look at the Department of Defense laboratories. We need a rigorous and objective assessment of the real talent and capabilities of these government labs. Are these labs producing breakthroughs that we need, or are we just feeding research establishments?

We have too many congressionally-mandated restrictions on force structure. Congress mandated that the Air Force keep A-10 aircraft when the Air Force wanted to retire the venerable aircraft. We have inefficient C-130 squadron force structure that should be consolidated into more efficient organizations.

We need a new approach to managing real property. We are the largest “renter” in the world except for the General Services Administration, but we get virtually no benefit from scale because of how we rent property.

The Defense Business Board was right to highlight the possibility of improved efficiency in the Defense Department. But we need specific recommendations that will entail very hard choices—politically painful decisions. We need to do this, but the Congress has to be willing to let the Secretary make those decisions and not tie his hands when the decision involves some sacrifice in a district or state.

Mr. Chairman, Mr. Ranking Member, distinguished Members of the Committee, your work is essential. Americans want a strong military, but they are questioning whether we are effective stewards of the enormous sums we give the Defense Department. Your work here will not only help make the Department more efficient, it will also reassure the American people that we are worthy of managing these enormous resources on their behalf.

Thank you for inviting me to appear today. I stand ready to answer any questions the Committee might have.

**John J. Hamre**

John Hamre was elected president and CEO of CSIS in January 2000. Before joining CSIS, he served as the 26th U.S. deputy secretary of defense. Prior to holding that post, he was the under secretary of defense (comptroller) from 1993 to 1997. As comptroller, Dr. Hamre was the principal assistant to the secretary of defense for the preparation, presentation, and execution of the defense budget and management improvement programs. In 2007, Secretary of Defense Robert Gates appointed Dr. Hamre to serve as chairman of the Defense Policy Board, and he served in that capacity for four secretaries of defense.

Before serving in the Department of Defense, Dr. Hamre worked for 10 years as a professional staff member of the Senate Armed Services Committee. During that time, he was primarily responsible for the oversight and evaluation of procurement, research, and development programs, defense budget issues, and relations with the Senate Appropriations Committee. From 1978 to 1984, Dr. Hamre served in the Congressional Budget Office, where he became its deputy assistant director for national security and international affairs. In that position, he oversaw analysis and other support for committees in both the House of Representatives and the Senate. Dr. Hamre received his Ph.D., with distinction, in 1978 from the School of Advanced International Studies at Johns Hopkins University in Washington, D.C., where his studies focused on international politics and economics and U.S. foreign policy. In 1972, he received his B.A., with high distinction, from Augustana College in Sioux Falls, South Dakota, emphasizing political science and economics. The following year he studied as a Rockefeller fellow at the Harvard Divinity School in Cambridge, Massachusetts.

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COMMITTEE ON ARMED SERVICES  
U.S. HOUSE OF REPRESENTATIVES**

**INSTRUCTION TO WITNESSES:** Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 115<sup>th</sup> Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants), or contracts or payments originating with a foreign government, received during the current and two previous calendar years either by the witness or by an entity represented by the witness and related to the subject matter of the hearing. This form is intended to assist witnesses appearing before the House Committee on Armed Services in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee. Witnesses may list additional grants, contracts, or payments on additional sheets, if necessary.

**Witness name:** John J. Hamre

**Capacity in which appearing:** (check one)

☐ Individual

☒ Representative

**If appearing in a representative capacity, name of the company, association or other entity being represented:** Center for Strategic and International Studies (CSIS)

**Federal Contract or Grant Information:** If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) or grants (including subgrants) with the federal government, please provide the following information:

**2017**

Federal grant/ contract	Federal agency	Dollar value	Subject of contract or grant
N/A			

2016

Federal grant/ contract	Federal agency	Dollar value	Subject of contract or grant
N/A			

2015

Federal grant/ contract	Federal agency	Dollar value	Subject of contract or grant
N/A			

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2017

Foreign contract/ payment	Foreign government	Dollar value	Subject of contract or payment
N/A			

2016

Foreign contract/ payment	Foreign government	Dollar value	Subject of contract or payment
N/A			

2015

Foreign contract/ payment	Foreign government	Dollar value	Subject of contract or payment
N/A			



Center for a  
New American  
Security

April 4, 2017

**Testimony before the House Armed Services Committee  
Assessing Progress and Identifying Future Opportunities in Defense Reform**

Michèle Flournoy, Co-Founder and Chief Executive Officer of the Center for a New American Security

Chairman Thornberry, Ranking Member Smith, distinguished members of the House Armed Services Committee, it is truly an honor to testify before you today on the critical topic of defense reform.

It is hard to remember a time when the need for defense reform was more acute. The growing challenges the U.S. armed forces face in protecting American interests, values, and allies in the coming years are truly daunting: the spread of the Islamic State, al Qaeda, and other violent extremist groups; the turmoil in the Middle East; the resurgence of a more aggressive Russia; the rise of a more capable and assertive China that is challenging the rules-based international order in Asia; persistent threats from states like Iran and North Korea; the continued proliferation of deadly technologies to both state and non-state actors; and the emergence of new threats in the cyber and space domains – just to name a few. With strong leadership on defense issues in both the Senate and the House and a sitting Secretary of Defense who is willing to pursue fundamental reforms, now is the time to develop and implement a plan of action to ensure we get the most out of every taxpayer dollar invested in defense. I am glad to see that the members of this committee, Republican and Democrat, share this sense of urgency.

Over the past few years, this committee has lead the charge to reform how the Department of Defense does business in an effort to strengthen the U.S. military and deliver greater value to the American taxpayer. Creating a more agile and cost-effective DoD acquisition system has been a top priority, with this committee formulating a number of the critical reforms that were the hallmark of last year's defense authorization bill. Given the scope and complexity of the changes DoD must now make to its acquisition organization, culture, and practices, I would advocate that the committee give the new Secretary of Defense and his team this year for implementation and consolidation, with close consultation with this committee to ensure the desired impacts and benefits are realized. In the meantime, this committee has an opportunity to use this legislative cycle to examine and advance a number of other critical defense reform initiatives.

Even in a period when the defense budget is likely to increase, I would urge this committee to continue to be aggressive in pursuing a robust defense reform agenda. Although our military is more capable than ever before, its current cost curve is not sustainable. Fundamental defense reforms are needed to free up resources for reinvestment in the people, concepts of operations, and capabilities that will enable us to maintain our military-technological edge in the face of a much more challenging future security environment. Even in an era of modestly higher defense budgets, fundamental trade-offs will have to be made. That is why it is so important that Secretary of Defense Mattis and this committee partner to drive strategy-driven choices and continued progress on defense reform.



Defense reform is, as they say, a “target rich environment.” There is a wealth of opportunities to improve the performance and cost-effectiveness of the defense enterprise. They are not necessarily easy, but they are plentiful. Knowing that my fellow witnesses on this panel may focus on other areas such as reform of the military compensation and retirement system, financial and cost-accounting reforms, acquisition reform, or reforms to the military personnel system, I have chosen to focus on four other areas that I believe should be priorities in any defense reform agenda because they meet two key criteria: they have high potential to improve DoD’s performance and they are likely to free up substantial resources that can be reinvested in higher priority areas. My four areas of focus today are: rightsizing headquarters and transforming defense agencies; reducing excess infrastructure; reshaping and reinvigorating the civilian work force; and improving the quality and cost-effectiveness of military health care.

#### Rightsizing DoD Headquarters and Transforming the Defense Agencies

Since the Goldwater-Nichols amendment, headquarters staffs – namely the Office of the Secretary of Defense, the Joint Staff, the combatant commands, the service headquarters, and the defense agencies – have all grown substantially, even as the size of the active duty military has shrunk. Many functions are distributed or replicated across multiple entities. While some functional duplication may be appropriate and necessary, I believe that much of it is not. Today, the COCOM staffs have grown to almost 38,000 people, the Office of the Secretary of Defense to more than 5,000 people, and the Joint Staff to nearly 4,000, not to mention the headquarters staffs of the military services, which collectively dwarf all three. As Arnold Punaro has previously testified, the Office of the Secretary of Defense, the Joint Staff, the Combatant Commands, and the Defense Agencies now account for some 240,000 people (excluding contractors) and nearly 20 percent of the DoD budget.<sup>1</sup> Some attribute this growth to the increasing complexity of the security environment, the proliferation of tasks assigned to the Department, and the reallocation of work from the services to the agencies. While these factors may account for some of the growth, I suspect that other, more worrisome factors are also to blame: namely, the natural tendency of bureaucracies to expand over time, a lack of role clarity and accountability that fosters duplication of effort across staffs, and lack of leadership focus and authorities to fundamentally re-baseline and reshape headquarters staffs and DoD infrastructure.

This problem is not just a matter of inefficiency; it is also an issue of effectiveness. In the private sector, bloated headquarters staffs have been documented to slow decision-making, push too many decisions to higher levels, incentivize risk-averse behaviors, undermine organizational performance, and compromise agility. The same is certainly true in government. What’s more, in the DoD context, oversized staffs consume precious resources that could otherwise be invested in strengthening our warfighting capabilities. Consequently, this problem should be addressed as a matter of priority.

Perhaps the greatest opportunity for potential savings lies with the defense agencies, which account for the vast majority of the people and resources in DoD Headquarters. On paper, each agency is overseen by an Undersecretary of Defense; in practice, however, this oversight is rarely as rigorous as it should be given the size and complexity of the agencies and the other competing responsibilities of the undersecretaries. A thorough management review of the defense agencies to identify how they could leverage best business practices and new technologies to improve performance and reduce costs is long overdue. Congress should task the Secretary of Defense to undertake a review of the defense agencies to identify and prioritize opportunities for improving mission effectiveness, increasing productivity, eliminating unnecessary functions and layers in the organization, and reducing costs.

Highest priority should be given to those defense agencies that operate most like civilian businesses, to include the Defense Logistics Agency (DLA), the Defense Information Systems Agency (DISA), the Defense Health Agency (DHA), and the Defense Finance and Accounting Service (DFAS). These account for roughly \$134 billion of DoD's \$587 billion budget. Congress should require the Secretary of Defense to undertake a management assessment of these agencies to examine how a combination of best practices from the private sector, new technologies, and automation might improve the performance of these agencies and create cost savings that could be reinvested in core DoD mission areas. For example, automation is already beginning to take over many routine cognitive tasks in fields such as finance and accounting, allowing potentially significant cost savings. A report by McKinsey Global Institute that evaluated 800 occupations found that 45 percent of work activities could be automated using existing technology. DoD could save significant taxpayer dollars by taking advantage of these trends, piggybacking off private sector developments in automation and importing best practices into government. Successful reform of even one of the major defense agencies would provide significant savings to the department writ large as well as proof of concept for how defense reform can be scaled up across the enterprise.

Beyond this focus on defense agencies, Congress should also provide the Secretary of Defense with the necessary flexibility and "breathing room" to assess the degree of functional and organizational duplication across DoD headquarters writ large and to potentially restructure or consolidate entities, reassign personnel, and eliminate unnecessary functions or offices. Such flexibility should be paired with mutual agreement on expected cost savings and improvements in mission effectiveness and efficiency.

In order to facilitate the streamlining of DoD headquarters and agencies, Congress should give the Secretary authorities he needs to reshape the civilian workforce for the 21st century (as described in more detail below) and the ability to eliminate or consolidate organizations and infrastructure as needed. While it is certainly true that DoD has not made full use of some of the authorities Congress has recently provided (particularly in the acquisition arena), the current Secretary of Defense has not been given the types of authorities that some of his predecessors were given to reshape the DoD enterprise for new realities. For example, after the end of the Cold War, Secretary of Defense William Perry was given a broad range of authorities, including Reduction in Force authority, Base Realignment and Closure authority, and meaningful retirement and voluntary separation incentive pays, to reshape the DoD workforce and infrastructure amidst a substantial drawdown. Today's Secretary of Defense will need a comparable set of authorities – and more – to reshape the Department for the demands of a rapidly evolving, increasingly complex and challenging 21st century security environment.

#### Base Realignment and Closure

The Department of Defense is in desperate need of another round of Base Realignment and Closure (BRAC). DoD estimates that 22 percent of its current infrastructure capacity is excess to need, and the Service Chiefs have testified that this infrastructure overhang is diverting money from critical priorities like strengthening military readiness and investing in critical future warfighting capabilities. Based on past experience, the department estimates that it could save at least \$2 billion a year, and perhaps substantially more, if it were allowed to eliminate this excess infrastructure. Furthermore, such facilities are a low priority for the Department in an era of squeezed Operations and Maintenance budgets, and maintaining "keep the lights on" bases to a standard that preserves their value to the local community has become increasingly difficult. End strength reductions since the last BRAC round in 2005 have only exacerbated the gap between force structure and facilities; but even a modest increase in the size of the force would still leave a significant infrastructure overhang. The waiting game is likewise challenging for

local communities, limiting their ability to plan for and invest in the future. Lessons can certainly be learned from past BRAC processes to strengthen transparency, prioritize cost saving, enhance community support, and more clearly define military requirements in line with current and future challenges. But further delay will not make this any easier, and in some cases may actually make it more costly and more harmful to local communities.

Although the Obama administration repeatedly asked for authorization to begin planning for BRAC, Congress has, to date, rejected this request. Politically, BRAC has long been seen as a political “third rail” because of the job losses that are assumed to accompany the closure of bases and facilities. However, a number of analyses of past base closures have concluded that most jobs are replaced and most affected communities recover quite well. For example, a 2005 study by the Government Accountability Office looked back at the first four rounds of BRAC, which ended in 1995 and affected 73 bases, and found that about three-quarters of all lost jobs had been replaced. And in 1 in 3 of the bases, redevelopment after BRAC created more jobs than were lost. If Congress passes a nationwide infrastructure spending bill this year, directing some of this investment to affected communities might also help them through the transition and mitigate job losses associated with BRAC. The time for studying this issue has long past; what’s needed now is congressional action. Every dollar we spend on unneeded infrastructure is a dollar less to support the men and women who serve in harm’s way. I would urge Congress to provide the new administration with the authority to pursue another round of BRAC.

#### Reshaping and Reinvigorating the Civilian Workforce

Today, DoD employs 1.4 million military personnel and 770,000 civilian employees plus more than 800,000 part-time reserve personnel. DoD employees are augmented by a large number of contractors as well. DoD has launched multiple initiatives over the last 15 years to achieve cost savings and improve organizational effectiveness by downsizing personnel, streamlining bureaucracy, and reducing institutional redundancy. These efforts have met with some success. But many of the results have been short-lived, fallen short of original goals, or failed to achieve their full potential. Some of the requisite blame lies with DoD leadership for establishing metrics and targets for downsizing and delayering without an overarching strategy for reform – a critical step for the new administration. But Congress also has the opportunity to significantly enhance the new Secretary’s ability to enact permanent reforms and generate savings. The Trump administration’s current approach of instituting an across-the-board hiring freeze amounts to using a “meat axe” when one needs a scalpel: it effectively starves the Pentagon of new civilian talent even in areas deemed critical to the mission and creates a gap in the talent pipeline that is both harmful and costly over time.

There is a better way. Offering a package of authorities to streamline personnel, organizations, and infrastructure will provide much-needed flexibility to the Secretary of Defense.

Several key assumptions should inform this effort:

- Permanent savings are best achieved by eliminating work/functions, not just eliminating billets.
- Across-the-board percentage cuts to personnel are a blunt instrument that can be as harmful to the DoD human capital strategy as sequestration is to defense more broadly. But if targets must be applied, annual personnel costs rather than personnel numbers are a more effective metric to drive sustainable savings.

- Maintaining the ability to preserve and enhance value is as important as having the authority to eliminate waste.
- Savings may not be immediately realized – achieving permanent savings may require some up-front investment and take time to implement.

The following recommendations would enable the Secretary to comprehensively address known concerns about the size, cost, management layers, and duplicative organizations in the Department. Several of these authorities could be temporarily authorized for a limited period associated with DoD streamlining objectives.

*Human Capital Strategy:* Congress should direct the Secretary of Defense to develop a comprehensive human capital strategy for the Department, supported by strategies for each component across DoD, addressing how the civilian workforce will be recruited, developed and managed over the next five years. This is particularly important in a political climate in which many civil servants feel undervalued or even under attack. This should include an assessment of the optimal mix of military, civilian, and contractor personnel across the department and by function. (Of note, a recent study by the Congressional Budget Office found that shifting 80,000 positions from military to civilian personnel, and eliminating the military positions, could save the federal government \$3.1 billion to \$5.7 billion a year once fully implemented. Optimizing the mix of contractors and civilian employees would undoubtedly save money as well.) A Secretary-directed Human Capital Strategy that would inform DoD's planning, programming, budgeting, and evaluation process and determine the optimal mix of military, civilian, and contractor personnel would be a powerful enabler for reshaping the Department for the future.

*Savings Targets:* In consultation with the Secretary of Defense, Congress should establish targets for personnel cost reductions across the Five Year Defense Plan, offering the Secretary the flexibility to apply these across the organization based on requirements (rather than across the board cuts). Focusing on cutting cost, rather than percentage cuts in billets, incentivizes the Department to manage to the optimal mix of entry-level/mid-career/senior personnel, rather than preserving an imbalanced and expensive staff and severely limiting cost savings over time.

*VSIP Reform:* Significantly increase Voluntary Separation Incentive Pay (VSIP) and empower managers to offer this incentive directly to specific employees as an inducement to leave government service. Last year, Congress temporarily increased VSIP from a maximum of \$25,000 (which had been set back in 1993) to \$40,000 through 2018. This was a positive step, but more is needed to make this an effective instrument. Currently, a supervisor may deny VSIP, but may not offer it to specific employees based on their performance and the relative priority of their function. In addition to extending the broadly available VSIP beyond 2018, Congress should also create a much more substantial, targeted-VSIP authority that permits supervisors to offer – with leadership approval – up to one year of annual salary to induce specific employees to depart.

*Encourage DoD to Use its Modified Reduction in Force Authority:* Historically, attrition and other separation inducements generally prove too slow and astrategic to attain the desired mix of personnel based on functional requirements. But Reductions in Force (RIF) can be an equally blunt instrument. When generally applied, RIFs may not result in cost-savings, and can even result in few if any actual separations due to Priority Placement Programs. In the past, performance has weighed little in determining which employees are RIFed (tenure has been the top criterion). Fortunately, last year the Secretary of Defense was given a modified RIF authority that enables prioritizing the performance of

the individual among RIF criteria – a necessary component of allowing the Secretary the flexibility needed to dismiss lower-quality performers. To date, this authority has not been widely used. Congress should strongly encourage DoD to use this modified authority to help reshape and strengthen the civilian workforce for the 21st century.

*Reassignment and Hiring Flexibility:* Congress should eliminate any statutory barriers to the Secretary of Defense reallocating and reassigning personnel to where mission need is greatest, and to authorizing the Department to hire and retain high-performing individuals as organizational changes are implemented. Congress took some initial steps in this area in the FY17 NDAA, but this may not be enough. There is a widespread view that the 66 different personnel systems currently being used in the DoD hamper the Department's ability to adapt to today's security environment and provide the best possible support to the military. Indeed, a recent report by the Bipartisan Policy Center recommends a wholesale transition to a Title 10 hiring authority "to allow the defense secretary to customize a system to control hiring, management, compensation, and retention policies for the defense-civilian workforce." While the particulars of this far-reaching step deserve more analysis, the rationale for doing so is compelling: "The Defense Department needs a comprehensive set of hiring and personnel-management authorities that enable it to acquire, develop, and retain its civilian workforce" – and today's are not up to the task, regardless of whether the civilian workforce grows larger or smaller.<sup>ii</sup>

*Preserve flexibility for new hires, rewarding talent, and professional development:* Cost-saving objectives should not constrain the Department's ability to bring on new talent in high priority areas or use its resources to develop and reward high-performing talent. Of note, younger workers are already underrepresented in the defense workforce compared with the American workforce. It is, therefore, imperative to preserve the authority and resources for DoD to make targeted new hires in priority areas and to continue to invest in priority professional development efforts. Organization-wide hiring freezes should be avoided like the plague.

*Allow DoD to reallocate a portion of savings from reform and business transformation efforts to invest in high-priority areas, such as innovation.* As the Secretary drives reform and business transformation throughout the department, assigning accountability to business units, tracking cost data, and changing the "budget culture" (in which organizations throughout DoD are incentivized to spend down their budgets at the end of a fiscal year lest they face a pared-down budget the following year), the process should yield savings for the Department. Congress can both incentivize efficiency and drive innovation by expanding reprogramming authorities for DoD to redistribute a portion of demonstrated savings toward high-priority areas like innovation and modernization.

Over the coming years, Congress should also examine more fundamental changes to the DoD civilian personnel system to enhance recruitment and professional development of the next generation of civil servants, tie pay and promotion opportunities more closely to performance, allow for greater flexibility in career paths, and create more effective measures to reward high performers and dismiss low performers.

#### Improving the Quality of Health Care while Reducing Costs

The costs of the Military Health System have nearly doubled over the past decade, with the Congressional Budget Office estimating an additional \$40 billion in costs by 2030. What's more, survey data suggests that the quality of care received by military personnel and their families remains uneven and customer satisfaction is below the civilian benchmark in key areas. DoD should, therefore, explore

and implement ways of improving the quality of care while also reducing costs where possible, leveraging approaches such as value-based health care.

Former DoD Comptroller Bob Hale recently published an excellent CNAS report on defense reform in which he identified five priority areas of health care reform that should be considered, including wartime readiness, value-based reimbursement, utilization of services, productivity, and availability of choice.<sup>iii</sup>

*Wartime readiness.* The Military Compensation and Retirement Modernization (MRCM) Commission concluded that the types of medical care in highest demand in peacetime (such as maternity and newborn care) do not allow DoD doctors to develop and hone the trauma skills they need on the battlefield. The commission recommended both organizational changes and a new law requiring that DoD maintain essential medical capabilities needed for war. This would almost certainly require DoD to pursue new approaches such as enabling more of its doctors to do rotations in civilian medical trauma centers.

*Value-based reimbursement.* Medicare and many private-sector health care insurance plans are moving toward provider reimbursements that are directly linked to the health and well-being of their patients rather than the volume of care provided. With value-based reimbursement, doctors are paid based on the health outcome rather than the number of office visits or tests provided. Given the positive results being achieved in civilian healthcare – better health outcomes at lower costs – DoD should be a “fast follower” and move expeditiously toward a value-based health care approach, as required in the Senate’s proposed authorization language for 2017.

*Utilization of services.* Utilization of medical services by military retirees and dependents under TRICARE exceeds civilian benchmarks by about 40 percent. This has created substantial and unsustainable growth in the government’s share of TRICARE costs. DoD has proposed modest increases in co-pays designed to reduce overutilization and help make this valuable program more sustainable. Congress should also consider legislation that would make TRICARE secondary insurance for beneficiaries who have access to health care insurance through an employer.

*Productivity.* A recent Senate Armed Services Committee report assessed that the productivity of military medical providers is unreasonably low compared with civilian providers. In addition, many medical studies have shown that doctors who undertake certain procedures with greater frequency achieve better outcomes for their patients, enhancing the quality of care. Increasing the productivity of military providers will likely require a combination of measures, from incentivizing greater use of military treatment facilities while also reducing and consolidating the number of facilities, realigning some while closing others and filling any resulting gaps with contracted care.

*Availability and choice.* The MCRM Commission and several surveys of service members have found that military health care beneficiaries want greater choice of providers and better availability of care. The commission recommended creating a menu of insurance choices for military beneficiaries who use private-sector care similar to the one now available to federal civilian employees.

High-quality, affordable military health care is critical to warfighting, maintaining satisfaction among military members and their families, limiting cost growth, and “keeping faith” with those who serve. Continued reform of the military health care system should be a top priority on the defense reform agenda.

### Conclusion

The ability of this Secretary of Defense to be more effective in reforming the DoD enterprise will depend in large part on the authorities, flexibility, resources, and political support provided by this Congress. Now is the time to provide the new Secretary of Defense with the tools and support needed to enhance the Department's performance and free up resources to reinvest in the priority capabilities the U.S. military will need to protect this nation in the future.

But as you assess various options and develop the next chapter of your reform plan, I would urge you to heed three notes of caution. First, it is imperative that we think through the second and third order effects of any changes proposed. In the balance hangs the people, capabilities, and performance of the finest military the world has ever known and our ability to secure our nation going forward. Great care should be taken to hear the full range of views and consider the unintended consequences of proposed reforms.

Second, based on my experience in both government and the private sector, I would warn against assuming that every problem can or should be solved by organizational change. Too often we jump to redrawing the lines on an organizational chart when a more powerful solution might lie in clarifying roles and responsibilities, better aligning authorities, or strengthening incentives and accountability to change behavior.

Third, however successful future reform efforts may be, they are unlikely to yield enough cost savings to bring U.S. defense spending to the levels required to protect this nation given the nature of the security environment we face. It is my hope that, in addition to pursuing critical defense reforms in the coming year, Congress will also consider how to establish more predictable and robust levels of defense spending over the coming 5-10 years without gutting diplomacy and development accounts that are also critical to our national security.

This period of investment could not be more important: it will determine whether the United States can maintain its technological edge and its military superiority over increasingly capable state and non-state actors who are determined to constrain our ability to project power and maintain freedom of action in regions vital to our national security. The Department of Defense simply cannot afford to return to the type of budget uncertainty that has wreaked havoc in recent years – living within the constraints of continuing resolutions, under the threat of sequestration, and with the risk of government shutdowns. The costs of this uncertainty are enormous and they have challenged the Department's ability to set and maintain a strategic course. In short, reaching a comprehensive budget deal that includes all of the obvious elements – tax reform, entitlement reform, and smart investment in the drivers of U.S. economic vitality and growth – is not only an economic imperative, it has become a national security imperative.

Finally, I hope that through the dialogue that this committee is fostering, the Congress and the executive branch will be able to partner more closely to make the hard choices and undertake the reforms that will be necessary to ensure that we keep faith with the men and women who serve in the best trained, best equipped fighting force in the world. They deserve nothing less.

Thank you.

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<sup>1</sup> Major General Arnold L. Punaro, USMC, Ret., "The Urgent Need To Reform And Reduce DoD's Overhead And Infrastructure," Statement to The Senate Armed Services Committee, November 17, 2015, 9, 13, [https://www.armed-services.senate.gov/imo/media/doc/Punaro\\_11-17-15.pdf](https://www.armed-services.senate.gov/imo/media/doc/Punaro_11-17-15.pdf).

<sup>2</sup> "Building a F.A.S.T. Force: A Flexible Personnel System for a Modern Military Recommendations from the Task Force on Defense Personnel," (Bipartisan Policy Center, March 2017), 62, <https://cdn.bipartisanpolicy.org/wp-content/uploads/2017/03/BPC-Defense-Building-A-FAST-Force.pdf>.

<sup>3</sup> Robert F. Hale, "Business Reform in the Department of Defense: An Agenda for the Next Administration," (Center for a New American Security, November 30, 2016) <https://www.cnas.org/publications/reports/business-reform-in-the-department-of-defense>.



**Michele Flournoy**

Michèle Flournoy is Co-Founder and Chief Executive Officer of the Center for a New American Security (CNAS).

She served as the Under Secretary of Defense for Policy from February 2009 to February 2012. She was the principal adviser to the Secretary of Defense in the formulation of national security and defense policy, oversight of military plans and operations, and in National Security Council deliberations. She led the development of DoD's 2012 Strategic Guidance and represented the Department in dozens of foreign engagements, in the media and before Congress.

Prior to confirmation, Ms. Flournoy co-led President Obama's transition team at DoD.

In January 2007, Ms. Flournoy co-founded CNAS, a non-partisan think tank dedicated to developing strong, pragmatic and principled national security policies. She served as CNAS' President until 2009.

Previously, she was senior adviser at the Center for Strategic and International Studies for several years and, prior to that, a distinguished research professor at the Institute for National Strategic Studies at the National Defense University (NDU).

In the mid-1990s, she served as Principal Deputy Assistant Secretary of Defense for Strategy and Threat Reduction and Deputy Assistant Secretary of Defense for Strategy. She has received several awards from the Secretary of Defense and the Chairman of the Joint Chiefs of Staff.

Ms. Flournoy was a member of President Obama's Intelligence Advisory Board and CIA Director John Brennan's External Advisory Board, and is currently a member of the Defense Policy Board, the Council on Foreign Relations, and the Aspen Strategy Group, and a Senior Fellow at Harvard's Belfer Center for Science and International Affairs. She also serves on the boards of The Mitre Corporation, CSRA, Amida Technology Solutions, The Mission Continues, Spirit of America, and CARE, and is a Senior Advisor at the Boston Consulting Group.

Ms. Flournoy earned a bachelor's degree in social studies from Harvard University and a master's degree in international relations from Balliol College, Oxford University, where she was a Newton-Tatum scholar.

CNAS Federal Contract or Grant Information				
2017	Federal Grant/Contract	Federal Agency	Dollar Value	Subject of Contract or Grant
	HQ0034-16-C-0079	DOD, OSD Net Assessment	\$99,608	Long-term Security Risks of Artificial Intelligence
	HQ0034-16-C-0085	DOD, OSD Net Assessment	\$155,079	The Return of Marco Polo's World and the U.S. Military Response
	Intragovernmental Personnel Act of 1970 Agreement	DOD Policy	\$99,592	IPA For Kelley Saylor
	N00244-15-1-0056	PASCC/DOD, NAVSUP Fleet Logistics Center San Diego to CNAS	\$149,645	Managing Escalation and Limiting War in a Conflict in the Western Pacific
	Subcontract Number: P010220314; Prime Contract Number: GS00P002CA	Science Applications International Corporation	\$594,214	Quick Reaction Capability Battle Space Awareness Intelligence, Surveillance, and Reconnaissance (QRCBASR) Support
	FA3300-13-G-0014	United States Air Force	\$27,500	USAF Military Senior Fellow
	TRNGRA-09Y0902BROW	United States Army	\$27,500	USAF Military Senior Fellow
	30-11-G81DCS134-000	United States Coast Guard	\$26,250	USCG Military Senior Fellow
	MOU	United States Marine Corps	\$27,500	USMC Military Senior Fellow
	MOU Between Deputy Chief of Naval Operations (Information, Plans and Strategy) Strategy and Policy Division (OPNAV NS1) and CNAS	United States Navy	\$27,500	USN Military Senior Fellow
2016	Federal Grant/Contract	Federal Agency	Dollar Value	Subject of Contract or Grant
	HQ0034-16-C-0079	DOD, OSD Net Assessment	\$99,608	Long-term Security Risks of Artificial Intelligence
	HQ0034-16-C-0085	DOD, OSD Net Assessment	\$155,079	The Return of Marco Polo's World and the U.S. Military Response
	Intragovernmental Personnel Act of 1970 Agreement	DOD Policy	\$99,592	IPA For Kelley Saylor
	Subcontract Number: 136968; Prime Contract Number: N00024-13-D-6300	John Hopkins University	\$39,161	Strategic Capabilities Office (SCO) Wargame
	N00244-15-1-0056	PASCC/DOD, NAVSUP Fleet Logistics Center San Diego to CNAS	\$149,645	Managing Escalation and Limiting War in a Conflict in the Western Pacific
	Subcontract Number: P010220314; Prime Contract Number: GS00P002CA	Science Applications International Corporation	\$594,214	Quick Reaction Capability Battle Space Awareness Intelligence, Surveillance, and Reconnaissance (QRCBASR) Support
	FA3300-13-G-0014	United States Air Force	\$27,500	USAF Military Senior Fellow
	TRNGRA-09Y0902BROW	United States Army	\$27,500	USAF Military Senior Fellow
	30-11-G81DCS134-000	United States Coast Guard	\$26,250	USCG Military Senior Fellow
	MOU	United States Marine Corps	\$27,500	USMC Military Senior Fellow
	MOU Between Deputy Chief of Naval Operations (Information, Plans and Strategy) Strategy and Policy Division (OPNAV NS1) and CNAS	United States Navy	\$27,500	USN Military Senior Fellow
2015	Federal Grant/Contract	Federal Agency	Dollar Value	Subject of Contract or Grant
	HQ0034-15-C-0048	DOD, OSD Net Assessment	\$320,298	Maturing Precision Strike
	HQ0034-15-C-0101	DOD, OSD Net Assessment	\$99,900	Leveraging History
	Intragovernmental Personnel Act of 1970 Agreement	DOD Policy	\$99,592	IPA for Zachary Hosford
	Order Number XDATA-SUB01-P001; Prime Contract Number: FA8750-12-C-0301 for DOD, DARPA	Giant Oak	\$74,856	Open Source Software for National Security (Disruptive Defense paper)
	2010-0718815-000	Office of the Director of National Intelligence	\$5,000	ODNI Braintrust Indefinite Delivery Indefinite Quantity (IDIQ)

N00244-15-1-0056 Subcontract Number: 085001.011.0220.2105.3; Prime Contract Number: FA8075-14-D-0001 DSIAC, Task Order 0011 for Air Force AFICA and DTIC	PASCC/DOD, NAVSUP Fleet Logistics Center San Diego to CNAS	\$149,645	Managing Escalation and Limiting War in a Conflict in the Western Pacific
FA3300-13-G-0014 TRNGRA-09Y0902BROW 30-11-G81DCS134-000 MOU MOU Between Deputy Chief of Naval Operations (Information, Plans and Strategy) Strategy and Policy Division (OPNAV N51) and CNAS	SURVICE Engineering  United States Air Force United States Army United States Coast Guard United States Marine Corps United States Navy	\$91,337  \$27,500 \$27,500 \$26,250 \$27,500 \$27,500	Beyond Armor: New Force Protection Concepts for U.S. Mounted Troops  USAF Military Senior Fellow USA Military Senior Fellow USCG Military Senior Fellow USMC Military Senior Fellow USN Military Senior Fellow
<b>2014</b>			
<b>Federal Grant/Contract</b> HQ0034-14-P-0148 Subcontract D6851-S3; Prime contract number HCL047.05-D-4000-0209 for the Air Force - SENSAC	<b>Federal Agency</b> DOD, OSD Net Assessment	<b>Dollar Value</b> \$101,338	<b>Subject of Contract or Grant</b> U.S. Strategic Posture in a Proliferating World
FA3300-13-G-0014 TRNGRA-09Y0902BROW 30-11-G81DCS134-000 MOU MOU Between Deputy Chief of Naval Operations (Information, Plans and Strategy) Strategy and Policy Division (OPNAV N51) and CNAS	Georgia Institute of Technology  United States Air Force United States Army United States Coast Guard United States Marine Corps United States Navy	\$91,630  \$27,500 \$27,500 \$26,250 \$27,500 \$27,500	Advancing U.S.-Australian Combined Amphibious Capabilities  USAF Military Senior Fellow USA Military Senior Fellow USCG Military Senior Fellow USMC Military Senior Fellow USN Military Senior Fellow
<b>2013</b>			
<b>Federal Grant/Contract</b> Subcontract agreement, Prime contract number W91331-13-P-0066 to the National Guard Bureau, Army National Guard, Director's Action Group (ARNG-ZAO)	<b>Federal Agency</b> The COGAR Group, Ltd.	<b>Dollar Value</b> \$171,107	<b>Subject of Contract or Grant</b> National Defense Strategic Planning and Policy Development Think Tank
FA3300-13-G-0014 TRNGRA-09Y0902BROW 30-11-G81DCS134-000 MOU MOU Between Deputy Chief of Naval Operations (Information, Plans and Strategy) Strategy and Policy Division (OPNAV N51) and CNAS	National Counterterrorism Center (NCTC)  United States Air Force United States Army United States Coast Guard United States Marine Corps United States Navy	\$27,500 \$27,500 \$27,500 \$26,250 \$27,500 \$27,500	National Counterterrorism Center Fellow USAF Military Senior Fellow USA Military Senior Fellow USCG Military Senior Fellow USMC Military Senior Fellow USN Military Senior Fellow

CNAS Foreign Government Contract or Payment Information				
2017	Foreign Contract / Payment	Foreign Government	Dollar Value	Subject of Contract or Payment
	Memorandum of Understanding between the Center for a New American Security and the Government of Norway signed 27 January 2017	Royal Norwegian Ministry of Defence	\$40,000	Testing Possible Challenges to the Greenland, Iceland, UK (GIUK) Gap: A Table Top Exercise
2016	Foreign Contract / Payment	Foreign Government	Dollar Value	Subject of Contract or Payment
	Memorandum of Understanding between the Center for a New American Security and the Government of France signed 23 December 2016	Ministry of Defence of the French Republic	\$30,000	Testing Possible Challenges to the Greenland, Iceland, UK (GIUK) Gap: A Table Top Exercise
	Agreement dated 26 July 2016	Government of Japan	\$252,500	Beyond the San Hai: Implications of China's Emerging Bluewater Maritime Strategy
	Accepted proposal for "U.S.-Taiwan Strategic Partnership"	Taiwan Economic and Cultural Representative Office (TECRO)	\$230,000	CNAS-TECRO Partnership
	Accepted proposal for "UAE Missile Technology Control Regime (MITCR) Study"	United Arab Emirates	\$250,000	UAE Missile Technology Control Regime (MITCR) Study
	Memorandum of Understanding between the Center for a New American Security and the Government of the United Kingdom signed 16 November 2016	Government of the United Kingdom	\$25,000	Testing Possible Challenges to the Greenland, Iceland, UK (GIUK) Gap: A Table Top Exercise
2015	Foreign Contract / Payment	Foreign Government	Dollar Value	Subject of Contract or Payment
	Agreement dated 11 May 2015	Embassy of Japan	\$36,000	Quarterly briefings and counsel sessions
	Purchase and Sale Agreement between the Center for a New American Security and the Embassy of the Republic of Lithuania to the United States	Embassy of the Republic of Lithuania	\$75,000	Assured Resolve: Testing Possible Challenges to Baltic Security
	MOU between the Center for a New American Security and the Government of Finland Represented by the Ministry of Foreign Affairs and the Ministry of Defense	Government of Finland	\$75,000	Assured Resolve: Testing Possible Challenges to Baltic Security
	Agreement dated 26 May 2015	Government of Japan	\$252,500	Staying Ahead of the Curve: Alliance Requirements for Managing China's Maritime Might
	Agreement between the Kingdom of Denmark and the Center for a New American Security dated 4 December 2014	Kingdom of Denmark	\$91,953	Climate Change in the Developing World
	MOU between the Center for a New American Security and the Ministry of Defence of Estonia	Ministry of Defence, Estonia	\$20,000	Assured Resolve: Testing Possible Challenges to Baltic Security

Grant Letter for USA-15/0001 Assured Resolve: Testing Possible Challenges to Baltic Security	Norwegian Ministry of Foreign Affairs	\$38,220	Assured Resolve: Testing Possible Challenges to Baltic Security
Agreement between the Ministry of Defence of the Republic of Latvia and the Center for a New American Security on Co-operation	Republic of Latvia	\$75,000	Assured Resolve: Testing Possible Challenges to Baltic Security
Grant Letter for USA-15/Exercise Assured Resolve: Testing Possible Challenges to Baltic Security	Royal Norwegian Ministry of Defence	\$36,780	Assured Resolve: Testing Possible Challenges to Baltic Security
Accepted proposal for "U.S.-Taiwan Strategic Partnership"	Taiwan Economic and Cultural Representative Office (TECRO)	\$200,000	CNAS-TECRO Partnership
Swedish Contribution to Center for a New American Security (CNAS) - the project "Assured Resolve - challenges to Baltic Security"	Sweden, Ministry of Foreign Affairs	\$75,000	Assured Resolve: Testing Possible Challenges to Baltic Security

2014	Foreign Contract / Payment	Foreign Government	Dollar Value	Subject of Contract or Payment
Agreement Dated 11 May 2014	Embassy of Japan	Embassy of Japan	\$36,000	Quarterly briefings and counsel sessions
Agreement Dated 11 July 2014	Embassy of Japan	Embassy of Japan	\$249,995	A Cost-imposing Asia Maritime Strategy: Dissuading Coercion and Building Norms
CNAS Government of Japan Maritime Security Project Contract B, Part 2 Dated 7 February 2014	Government of Japan	Government of Japan	\$101,674	Maritime Security Project
Agreement between CNAS and the Singapore Embassy in Washington, DC	Ministry of Foreign Affairs, Singapore	Ministry of Foreign Affairs, Singapore	\$36,669	2014 Singapore-U.S. Strategic Dialogue
144001432	NATO: Supreme Allied Commander Transformation Headquarters	NATO: Supreme Allied Commander Transformation Headquarters	\$59,566	Transatlantic Dialogue
Accepted proposal	Taiwan MND	Taiwan MND	\$150,000	Taiwan MND Washington Delegation

2013	Foreign Contract / Payment	Foreign Government	Dollar Value	Subject of Contract or Payment
	Agreement Dated 11 October 2013	Embassy of Japan	\$30,000	Operational Implications of Japan Exercising the Right of Collective Self-Defense
	Agreement Dated 1 May 2013	Embassy of Japan	\$36,000	Quarterly briefings and counsel sessions
	CNAS Government of Japan Maritime Security Project Contract C Dated 18 October 2013	Government of Japan	\$294,537	Maritime Security Project
	Agreement Dated 1 Feb 2013	Government of Japan	\$66,666	CNAS hosting a Japan Ministry of Defense Fellow for 12 months
	Agreement Dated 30 August 2013	NATO: Public Information Programs	\$13,228	Defense Matters Series

ASSESSING PROGRESS AND IDENTIFYING FUTURE  
OPPORTUNITIES IN DEFENSE REFORM

TESTIMONY BEFORE THE  
HOUSE COMMITTEE ON ARMED SERVICES

Dov S. Zakheim

April 4, 2017

Chairman Thornberry, Ranking Member Smith, Members of the Committee:

It is a privilege to appear one again before you today, to discuss defense reform. I have testified before you on this very same subject several times in the past, and it is gratifying to know that thanks to the efforts of Congress in general, and this committee in particular, there has been significant progress in promoting and achieving greater efficiency on the part of the Defense Department. This is especially the case with respect to the two most recent National Defense Authorization Acts. But there is still quite a ways to go, and I would like to highlight some of the areas that continue to call for reform, particularly in the realm of civilian personnel.

#### Civilian Personnel

The civilian workforce currently accounts for approximately 36 per cent. of all full-time DoD personnel, including full-time National Guard and Reserves. In the past fifteen years, DoD has added 77,000 more civilians, representing an 11.5 per. cent. jump in the civilian workforce since fiscal year 2002. During the same period, military end-strength declined by 8 per cent., or 120,000 personnel.

Over that same fifteen year period, civilian pay increased by a very healthy 31 per cent. Most of that increase went to General Schedule white collar workers, who account for two-thirds of all DoD civilian employees. On the other hand, blue-collar Wage Board pay actually declined by about 5.5 per cent. At the same time, total military pay for all active personnel, including full-time National Guard and Reserves, rose by a mere 0.2 per cent.

It is true that the decline in military end strength means that on a per-capita basis, military pay increased markedly since 2002; military pay increases have either equaled or exceeded civilian pay increases ever since. Nevertheless, with civilian pay consuming a significant portion of the budget, and in light of the need to bolster other elements of the defense enterprise, whether to increase active duty end-strength, or to enhance readiness, or to provide more funding to meet acquisition needs, it is important to examine whether the productivity of the civilian workforce justifies the resources it has consumed over the last decade and a half.

It is arguable that DOD has benefitted from precious few gains in efficiency despite the growth of the civilian workforce. Moreover, it is arguable that the civilian workforce is insufficiently well-trained to deal with the acceleration of changes in technology, as Moore's Law posits.<sup>1</sup> Defense civilians are therefore unlikely to be making the most of Information Technology systems available to them, operating at the cutting edge of cyber technology, or acting as an educated consumer when procuring the vast range of high technology systems that combine with our military personnel to comprise the lifeblood of America's fighting power. Finally, the availability of contractors to carry out many of the same missions as the civilian staff--politely termed staff augmentation-- has often resulted in civilians offloading to

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<sup>1</sup> Moore's Law states that the power of computer central processing units, or CPUs, doubles every two years.

contractors work for which they are themselves responsible, with the result that what is produced is more costly and often, in my experience, less than adequate for the task at hand

I will first address the question civilian manpower efficiency and then turn to some training and education issues and to the matter of staff augmentation. Numerous reports by the Government Accountability Office, most recently those of December 2015, which addressed the acquisition workforce,<sup>2</sup> and of October 2016, which called for efficiencies in both the civilian and contractor workforces,<sup>3</sup> underscore the judgment that the efficiency of the civilian defense workforce leaves much to be desired. The GAO's 2015 report on the acquisition workforce noted that DoD had yet to identify, much less address, all gaps in civilian skills that, it stated, "are essential for effective human capital management." Nor, as of the time of the report, had DoD updated its acquisition workforce plan. It noted that 26 per cent. of all acquisition-related hirings were not in line with DoD's own stated priority career fields. Most troubling, it appeared that DoD had not established time frames for addressing these concerns, all of which go to the heart of workforce efficiency.

The October 2016 report, which, as noted, addressed the entire civilian DoD workforce, not just its acquisition component, pointed out that DoD had "not developed and implemented an efficiencies plan for reducing the civilian and contracted services workforces." Indeed, DoD seemed to be circumventing the intent of Section 955 of the FY 2013 National Defense Authorization Act (NDAA), which called for such an efficiencies plan to cover the period Fiscal Years 2012-2017. Section 955 allowed DoD to exclude required reductions that it identified as critical, and the Department excluded 538,000 of its 776,000 personnel! I recognize that Section 915 of the FY 2017 NDAA repeals the provision for DoD to develop and execute such a plan. But whether or not there is a formal requirement for a plan of this sort, it is arguable that the challenge of personnel inefficiency remains as daunting as ever.

Indeed, DoD itself has not challenged GAO's findings, nor the general assumption that the civilian workforce could be far more efficient than is currently the case. It is noteworthy that in his memo of February 17 of this year, Secretary of Defense Mattis explicitly called for "making our business operations more efficient and freeing up funds for higher priority programs." Moreover, incorporating a taxonomy that the Defense Business Board highlighted in its own January 2015 examination of DoD efficiencies,<sup>4</sup> Secretary Mattis called for "exploring efficiencies [with respect to] human resource management."<sup>5</sup> Significantly, the DBB identified civilian personnel as a major, if not the major, target of opportunity for efficiencies in the human resources realm. The Business Board noted that annual savings from what it termed "Optimizing the Government Labor Footprint" could amount to anywhere from eight to thirteen per cent. of civilian personnel costs, or anywhere from five to eight billion dollars in the FY 17 budget alone.

<sup>2</sup> Government Accountability Office, *Defense Acquisition Workforce: Actions Needed to Guide Planning efforts and Improve Workforce Capability* (GAO-16-80: December 2015) <http://www.gao.gov/assets/680/674152.pdf>

<sup>3</sup> *DOD Civilian and Contractor Workforces: Additional Costs Savings Data and Efficiencies Plan Are Needed* (GAO-17-128: October 2016) <http://www.gao.gov/assets/690/680415.pdf>

<sup>4</sup> Defense Business Board, *Transforming DOD's Core Business Processes for Revolutionary Change* (January 22, 2015); [http://dbb.defense.gov/Portals/35/Documents/Meetings/2015/2015-01/CBP%20Task%20Group%20Out-brief%20Slides\\_FINAL.pdf](http://dbb.defense.gov/Portals/35/Documents/Meetings/2015/2015-01/CBP%20Task%20Group%20Out-brief%20Slides_FINAL.pdf)

<sup>5</sup> James Mattis, "Memorandum for Deputy Secretary of Defense: Establishment of Cross-Functional Teams to Address Improved Mission Effectiveness and Efficiencies in the DoD," (February 17, 2017), p.1.



Part of the reason for the civilian workforce's inefficiency is its lack of the training and education required for it to keep pace with new developments in technology, including cyber, and indeed, in human resource management as well. DoD civilians can take courses in the Defense Acquisition University (DAU) in everything from auditing, to contracts management, to test and evaluation and cost estimation.<sup>6</sup> But many, if not most, of these courses are taught via distance learning, which do not necessarily ensure that students will absorb or retain what they have been taught. Moreover, DAU does not offer courses in human resource management, which is the key to ensuring that officials at every level strive for efficiency on the part of their staffs.

DAU is an important training institution. Section 214 of the FY 2017 NDAA, which authorizes both DAU and the National Defense University to enter into cooperative agreements with universities and non-profit research institutions to support their missions will further strengthen DAU's offerings (as well as NDU's). Moreover, the various Better Buying Power reforms promulgated in the past few years have helped to remedy the paucity of training requirements for acquisition officials, but there is still some way to go. Human resource training programs for DoD civilian managers are even further behind.

Finally, there is no advanced education requirement for members of the Senior Executive Service, or those seeking promotion to the Senior Executive Service. DAU offers training, not education. Yet to be proficient in the management of human resources, or indeed, to be an educated consumer of technology, more than training is required. The military has its system of professional military education; there is no such equivalent for civilians. A civilian with a Masters' Degree can serve forty years in the Defense Department without ever taking another graduate level course throughout his or her career. Such a situation is unacceptable. Specifically, no civilian should be promoted to the Senior Executive Service—which the FY 2017 NDAA limits to 1260 personnel—without receiving a year of appropriate education at either one of the Nation's top business schools, such as Harvard, Stanford, Chicago or Rice, or at a top institute of technology such as MIT, RPI, Cal Tech or Georgia Tech. The Department has never imposed such a requirement, nor has the Office of Personnel Management. Officials do take a year off to attend graduate programs, such as that at Harvard's Kennedy School, which is tailored for senior government executives. Still, participation in these programs is voluntary, and many executives are reluctant to spend a year away from their place of work; or, their superiors are reluctant to lose them for a year.

Section 215 of the FY 2017 NDAA strengthened the link between DoD and major universities, as well as industry and non-profits, by creating the Manufacturing Engineering Education Program, which enables DoD to issue grants to these institutions, both individually and in consortia, in order to support programs that further the Department's missions. There is a parallel need for legislation to ensure that our top civil servants, and those aspiring to the make it to the top, could benefit from these and related university offerings, in order to obtain both the education and the training that they need to carry out their tasks in a most efficient manner. Section 861 of the 2017 NDAA calls on the Office of Management and Budget to identify critical skills for program and project managers and establish a career path for them. Doing so

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<sup>6</sup> The DAU course catalog can be accessed at <http://icatalog.dau.mil/onlinecatalog/tabnav.aspx>

should provide an excellent guidelines for the types of courses that senior executives should attend at major institutions of higher learning as they pursue OMB's recommended career path.

Finally, the acquisition corps in particular needs to be better trained and educated. In addition to the suggestions noted above, there would be considerable value in expanding the Secretary of Defense Corporate Fellows program. Unlike many other DoD fellowship programs, which focus on providing personnel with a better understanding of government processes, the SecDef Corporate Fellowship provides up to twenty officers with the opportunity to spend a year in industry. This program should be increased manifold, allowing perhaps as many as sixty officers to benefit from this valuable experience in industry. It should also be expanded to include civilians as well. The more our military and civilian personnel are familiar with the inner workings of industry, the more likely they will function as "educated consumers."

In addition to changes in the way civil servants are trained and educated for their jobs, there is an urgent need to alter the culture that seems to govern their behavior. Too often, DoD civilians rely all too heavily on contractors for work that they should undertake themselves. For example, many reports to the Congress actually are prepared by contractors, often "staff augmentees" who retired from the military or the civil service only to return to virtually identical jobs in the same office, with the same colleagues, but now are wearing a contractor badge. Yet the reports these contractors produce are often poorly written and formulated; it is questionable whether civilian DoD staffs carefully review what has been produced before forwarding the reports up their command chain. It was for good reason that Secretary Bob Gates sought to reduce the level of staff augmentees; the work should be done by civil servants themselves.

In that regard, the Congress has taken a major step in Section 865 of the FY 2017 NDAA by limiting the funds for staff augmentation contracts to FY 2016 levels and further reducing those funds to 75 per cent. of those levels after FYFY 2018. More needs to be done however. One way to help change what might be termed a poisonous symbiosis of DoD civilians and contractors would be to prohibit anyone retiring from the military, as well as any retiring DoD civilian, from serving in a staff augmentation position for five years after retirement. DoD staff would then either take on the work themselves, or, if they feel uneasy about their workload, find jobs elsewhere.

Given the cost of DoD's civilian workforce and its acknowledged lack of efficiency, it might have been expected that the proposed FY 2018 defense budget as well as the FY 2017 budget amendment would call for a reduction in its end strength. Ironically, however, even as the Trump Administration is proposing cuts to the total Federal civilian workforce, it has not identified any such reductions in the Department of Defense. Neither the proposed \$52 billion increase for Fiscal Year 2018, as well as the \$25 Billion budget amendment for Fiscal Year 2017 reveals any indication that Administration plans to reduce DOD civilian personnel levels. It is true that the current hiring freeze, combined with anticipated retirements, should result in some reduction in current civilian levels.<sup>7</sup> On the other hand, the proposed increases for FY 2018, could well result in a higher civilian force level should the freeze be lifted.

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<sup>7</sup> James Mattis, "Memorandum for Secretaries of the Military Departments, et. al.: Implementation of Civilian Workforce Hiring Freeze," (February 1, 2017), <https://www.defense.gov/Portals/1/Documents/pubs/OSD000999-17-RES-Final.pdf>

Even if the freeze remains in place, civilian personnel levels are unlikely to decline significantly. Only a major targeted effort will result in lowering those levels. The FY 2016 NDAA called for a 25 per cent. reduction in headquarters staffs, and the FY 2017 NDAA reduced OSD and headquarters personnel to 3767—but neither distinguished between military and civilian personnel. Section 1101 of the FY 2016 act required that DoD should establish procedures for using performance as the primary factor in separating employees, but such a standard may not be sufficiently rigorous for reducing overall workforce levels. On the other hand, civilian workforce reduction is the precise objective of the Rebalance for an Effective Defense Uniformed and Civilian Employees Act, commonly known as the R.E.D.U.C.E Act.

This bill, which Congressman Ken Calvert first proposed in January 2015 and has subsequently proposed each year since, would, in its current form, limit full-time positions in the Department of Defense, in each year of fiscal years 2024 to 2028, to a number not greater than 85 per cent. of the number of such positions at DOD as of September 30, 2018. To begin the process, the bill would authorize the Secretary to offer separation incentive early retirement payments to civilian employees. Most importantly, it also requires the Secretary to use involuntary measures, such as reductions in force, beginning on October 1, 2018, “to achieve required reductions in personnel levels if voluntary measures are inadequate.”<sup>8</sup>

Needless to say, this bill, and any similar efforts, have been strenuously opposed by the civil service unions that represent DoD civilians. The unions have been a major stumbling block in the way of civil service reform; they wish to see no changes to the 1978 Civil Service Reform Act (CSRA), which, among other things, enabled civil servants to unionize. Thus, when Secretary of Defense Rumsfeld sought to initiate a merit-based system for evaluating and promoting civilian personnel, which would clearly have led to an improvement in civilian efficiency, he was met with a torrent of criticism and lawsuits filed by the unions and eventually dropped the proposal.

It should be noted, however, that the CSRA also allowed the president to exempt groups in the name of national security.<sup>9</sup> Indeed, the armed services, employees of the CIA and the FBI already are exempted. Should the Trump Administration exempt DoD civilians, it would clear the way for both reducing the level of DoD civilians and implementing reforms along the lines that Secretary Rumsfeld proposed.

#### Re-organizing OSD

The size of the Office of the Secretary of Defense (OSD) staff has expanded over the years. This due in no small part because more and more Assistant and Deputy Assistant Secretaries have

<sup>8</sup> <https://www.congress.gov/bills/114th-congress/house-bill/340>

<sup>9</sup> “(2) The President may issue an order suspending any provision of this chapter with respect to any agency, installation, or activity located outside the 50 States and the District of Columbia, if the President determines that the suspension is necessary in the interest of national security.” PUBLIC LAW 95-454—OCT. 13, 1978  
<https://www.govtrack.us/congress/bills/95/s2640/text/en>

been added to its ranks, all of whom, like the Under Secretaries, have staffs, as do their principal deputies. There is no reason why there should be a separate layer of principal deputies, with staffs all their own. One Assistant Secretary should be dual-hatted as the principal deputy, with a single staff to support both functions.

In this regard, while there is considerable merit to the legislation that divides the office of the Under Secretary for Acquisition, Technology and Logistics into two new under secretariats, for Research and Engineering and for Acquisition and Sustainment, there is a need to ensure that the aggregate size of these two offices does not exceed that of their predecessor. New offices invariably call for additional staff beyond the levels that they have inherited. Indeed, for too long the measure of merit for senior officials in DoD (and in the government as a whole) has been the size of their staffs. While this may be perfectly sensible in the military hierarchy, it is not nearly as important in the civilian workforce. The measure of merit for civilian staffs should be their efficiency, that is, the quality and speed of their output, not their size. It is true that Section 1101 of the FY 2017 NDAA removes restrictions on managing civilian personnel on the basis of man-years, end-strength, or maximum number of employees. Despite a requirement to report annually to the Congress on management of DoD civilians, there is no guarantee that for the most part, promotions and personnel management will undergo drastic change. DoD's civilian personnel management practices are deeply rooted in the bureaucratic culture, and will take more aggressive direction on the part of the Congress, as will be outlined below, if change is to come about.

Section 901 of the FY 2017 NDAA, which establishes the two new Under Secretaries, also creates a Chief Management Officer and repeals the pending authority to create an Under Secretary of Defense for Business Management. The impulse for creating this new office is clear: despite recent legislation, the Department continues to lag well behind state-of-the-art management methods, with the result that considerable potential savings remain foregone. For example, the DoD has been conducting Business Process and Systems Reviews along core lines of DoD business, most of which were identified by the DBB.<sup>10</sup> Yet all the Department could report on this effort was the vague promise that “using this focus on core lines...[will] result in cost savings over the next 8 years,” without specifying even a rough order of magnitude estimate of those savings.<sup>11</sup> Similarly, the Department advertised that it launched an effort to “review requirements for, and ... potential redundancies of, service contracts supporting the OSD and DA/FAs [Defense Agencies/Field Activities]. Yet all this effort appears to have yielded was savings estimated at \$1.9 billion for the five years beginning Fiscal Year 2017,<sup>12</sup> in other words, less than 0.1 per cent. of the five year defense program, a far cry from the DBB's most modest projections of potential contract savings that were thirty times as large.

<sup>10</sup> These include the six lines identified by the DBB: 1) human resources management; 2) health management; 3) financial flow management; 4) supply chain and logistics; 5) acquisition and procurement; 6) real property management. OSD staff added two more: Defense Resale and Acquisition Technology.

<sup>11</sup> “Statement of David Tillotson III Acting Deputy Chief Management Officer Department of Defense before the House Oversight and Government Reform Committee On “Findings of the Defense Business Board Study ‘Transforming DoD's Core Business Processes for Revolutionary Change’” (March 21, 2017), p. 5. <https://oversight.house.gov/wp-content/uploads/2017/03/Tillotson-DOD-Statement-DBB-Efficiency-Study-3-21.pdf>

<sup>12</sup> *Ibid.*, p. 6.

Moreover, an under-secretary would have overlapping authority with the other under-secretaries, creating considerable confusion and generating unnecessary turf wars. It is hoped that a Chief Management Officer would on the one hand, deliver meaningful efficiencies, not vague promises, and, on the other hand, benefit from a clear line of authority devolving from the Secretary of Defense.

The effective management of DoD's back office activities requires, as the legislation puts it, "an extensive management or business background and experience with managing large or complex organizations." Such a background is necessary for an official whose responsibilities are meant to include: "business transformation, business planning and processes, performance management, and business information technology management and improvement activities and programs, including the allocation of resources for business operations, and unifying business management efforts across the Department."

Clearly, the scope of the Chief Management Officer's mandate is exceedingly broad. Indeed, it may be too broad. Traditionally, it has been the Deputy Secretary of Defense who was meant to be, in effect, the Department's Chief Operating Officer, with responsibility for overall management of the DoD's back office activities.<sup>13</sup> Nevertheless, even those Deputy Secretaries who were management oriented have not had the time to monitor the complex of agencies, field activities and headquarters staffs, what has been termed the so-called "Fourth Estate," as carefully as they might have wished. Nor have the Under Secretaries within whose organizational structure the various agencies are to be found.

The reason for this situation is quite straightforward. The Defense-Wide activities that constitute the bulk of the Fourth Estate, many of which are agencies as large as Fortune 500 companies, consumes about 103 billion dollars or 18 per cent. of the FY 2016 and the FY 2017 DoD proposed budget. Managing this complex is itself a full-time task. Yet both the Deputy Secretary and the Under Secretaries have other priority responsibilities. For that reason, the Chief Management Officer might be most effective if he/she focused solely on managing these agencies. That official in effect would serve as the "Under Secretary for Defense Agencies." In that capacity, the Chief Management Officer would have a more focused area of responsibility, yet one that would be of major importance and critical to the achievement of greater efficiency on the part of the Department.

Finally, rationalizing OSD should include a further reduction in the number of Assistant Secretaries, which would ipso facto reduce the number of OSD personnel. In particular, it is not clear why there should be three Assistant Secretaries covering international matters, when one would be sufficient. Similarly, the Assistant Secretary for Strategy and Plans, a position that was not long ago held by a Deputy Assistant Secretary, could incorporate special operations and homeland defense.

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<sup>13</sup> It is true that not all DepSecDef's functioned that way; some preferred to be alter-egos to the Secretary, and focused primarily on policy not management. Still, the role of the Deputy was widely understood to be that of a COO.

### Acquisition Reform

The Congress has made great strides, especially over the past few years, in legislating changes to the acquisition system. The Department's series of Better Buying Power have been helpful as well. The creation of the two new Under Secretaries will further improve the Department's ability both to focus on innovation and new technologies and then to acquire and maintain the systems that are based on them.

More can still be done, however. Deputy Secretary of Defense Bob Work rightly identified the need for a "Third Offset" to address the accelerating technological advances by potential adversaries. The Third Offset Strategy, so named because it is meant to emulate two previous offset strategies that enabled the United States to rely on the quality of its force posture rather than its quantity has been subsumed within the broader Defense Innovation Initiative (DII), encapsulating advances in technologies, in innovative leadership, war gaming, operational concepts and business practices. The widely advertised Third Offset comprises six major thrusts: accelerated research on anti-area/access denial (A2/AD) technologies, on guided munitions and on addressing submarine and other undersea warfare challenges; human-machine collaboration and teaming; cyber and electronic warfare; and war-gaming and the testing of operational concepts. In addition, DOD increased funding for its the Strategic Capabilities Office, which was created in 2012 to repurpose existing weapons for asymmetric advantage and which has already managed and fielded over twenty projects. Finally, as part of the strategy, DOD established three Defense Innovation Unit Experimental (DIUx) offices, commonly known as DIUx, to draw upon technological innovations in the non-defense industrial base.

While the objective of the Third Offset Strategy is certainly worthy, its introduction seemed to be a vehicle for offsetting ongoing declines in force structure. Moreover, the overall research and development budget was not increased as a result of the new strategy; rather, funds appeared to be moved from other r&d accounts to finance the strategy. Finally, the Department's bureaucratic culture did not bode well for the entire Third Offset effort. Technological advances require experimentation; attempts to accelerate those advances even more so. Experimentation, by its very definition, calls for risk-taking, and a recognition that experiments can and will fail. Yet experimentation flies in the face of the Department of Defense's risk-averse bureaucratic culture. How such behavior can be modified in accordance with the strategy's urgent timetable remains an open question.

The Third Offset Strategy confronts other pitfalls as well. The system has too many review cycles, while too many offices must concur before a project can move forward. It tolerates too many changes to engineering proposals (ECP's) during the course of a project's development, adding unnecessary costs and schedule delays. As a result, many systems have been terminated well before their anticipated production runs. In some cases, a weapon system has taken so long to develop that it is virtually obsolescent upon its incorporation into the force structure and must be terminated. A case in point was the Army's Division Air Defense gun, later called the Crusader, that took so long to develop that it was out-ranged by its anticipated targets. Schedule delays, even more than cost increases, would completely undermine the intent and potential of the "Third Offset Strategy."

In the context of the third offset strategy, the Strategic Capabilities Office's mission is to accelerate DOD's acquisition programs. Yet one might question why accelerated efforts were not already launched some time ago, when force levels began to drop. Examples would include underwater acoustics and related anti-submarine warfare programs, as well as hypervelocity development.

These and related concerns appear to have been part of the mixed response to the strategy encapsulated in FY 2017 NDAA. It rightly extends authorization for the DoD's Rapid Innovation Program, which accelerates funding of innovative technologies, such as those incorporated in the Third Offset. On the other hand, it calls for a limit on the availability of DIUx funding pending a report on the program.

DIUx certainly confronts major challenges. To succeed, the Office will have to find ways to enable the commercial sector to work more closely with DOD than has been the case in the past. This is no small matter. Commercial firms are profit-driven. They invest in research in order to get returns when their products reach the market. They seek both to develop a competitive advantage and maintain it.

On the other hand, despite protestations to the contrary, DOD's business practices act as disincentives to working with firms that are outside the defense industrial base. The DOD procurement system is complicated, stove-piped and overregulated. Its cost accounting standards (CAS) require firms to have a second set of financial statements alongside those that comply with Generally Accepted Accounting Principles (GAAP). Its emphasis on lowest price, technically acceptable contracting, upon which Section 813 of the FY 2017 NDAA discourages and imposes limits, is the polar opposite of the profit-driven practices of commercial firms.

Few of the Department's career acquisition officials have any real experience in the private sector, so that even when they do have the opportunity to acquire commercial items in accordance with Federal Acquisition Regulations (FAR Part 12), they default to traditional contract by negotiation (FAR Part 15) with which they are more familiar and therefore more comfortable. It is therefore not surprising that many commercial firms, especially technology leaders, have been loath to entangle themselves with DOD's regulations and its DOD bureaucracy and have therefore shown far less enthusiasm for the DIUx effort than the Department had anticipated.

Finally, even if DIUx successfully orchestrates the sale to the military of hi-tech prototypes produced by non-traditional suppliers, these systems may still have to undergo modification, unless military specification "milspec" requirements are fully waived. For DIUx' efforts to succeed in generating DOD acquisition of commercial cutting edge technologies; in encouraging companies to make such technologies available to the military; and in ensuring that commercial hi-tech products are not so transmogrified that their costs skyrocket and their delivery schedules seriously delayed, DOD will have to ensure that the military's approach to "milspec" undergoes fundamental revision.

Nevertheless, in spite of all these legitimate concerns, there is a case for revisiting the budget limitations that have been imposed on DIUx. Its initial staff has been replaced with

individuals, including reservists who have an intimate knowledge of the high-tech industry. Until now the military has not had a consistent policy of assigning hi-tech experts, whether corporate leaders or staff technologists, to related fields—such as cyber, or defense research—while serving in their capacity as Reserves. All too often, a cyber expert, or a CEO of a cutting edge hi-tech firm, will find him or herself driving trucks or working in the ship's engine room when they don the uniform. Incorporating Reserves into the DIUx effort, and giving them leadership positions, as is the case in the Austin, Texas DIUx cell, actually have implications well beyond this small program and should serve as both a model for, and a spur to, the Services to create Military Occupational Specialties (MOS) that relate directly to the hi-tech capabilities of their Reserve personnel.

It is also noteworthy that the Services have shown a willingness to co-fund projects with DIUx. For example, acting on behalf of the Navy Special Warfare Command, DIUx awarded \$1 million to a small California company for a nine-month project to develop a prototype development of an autonomous tactical airborne drone. Finally, if DIUx and any of the hi-tech initiatives are to succeed, they require stable leadership. Annual changes to these programs will discourage hi-tech industry officials from participating in the Third Offset effort, despite legislative and DoD encouragement to the contrary. For the Third Offset to succeed, it must be given the same priority that it has received from the previous Administration.

I have touched upon only a few of the many DoD activities that continue to call for reform. For example, while the FY 2017 made great strides with respect to TRICARE choice, streamlining the Defense Health Agency, and addressing battlefield medicine, especially trauma issues, it still did not completely overhaul the TRICARE system as had been recommended by the Military Compensation and Retirement Modernization Commission on which I had the privilege to serve. There is also a need to focus more stringently on the steady growth in Operation and Support costs that have eaten into other elements of the defense budget. I have nevertheless attempted to highlight some key issues that I do hope this Committee and the Congress will focus on as it prepares the FY 2018 NDAA.

In sum, legislation should focus on reducing the size of the DoD civilian workforce. It should call for transforming that force, and the acquisition corps in particular, into a true educated consumer that benefits from, and draws upon, a rigorous program of continuing education. It should continue to mandate efforts to streamline both the Office of the Secretary of Defense and the number of staff augmentation contractors. It should seek additional efficiencies in the workings of the "Fourth Estate." And it should pursue further progress in defense innovation, and outreach to commercial industry beyond the traditional industrial base, notably sustaining and expanding the "Third Offset" strategy.

All of these, and other reforms, are urgently needed, given an increasingly unstable and threatening international environment that will continue to call upon American military capabilities in both the shorter term and for the foreseeable future. Again, thank you for the opportunity to appear before this Committee; I will be happy to respond to the Committee's questions.



Zakheim (born December 18, 1948) was born in Brooklyn, New York, and was a 1970 graduate of Columbia University with a bachelor's in government. He earned his doctorate in economics and politics at St. Antony's College, University of Oxford, where he was graduate fellow in programs of both the National Science Foundation and Columbia College, and then a research fellow. Zakheim has been an adjunct professor at the National War College, Yeshiva University, Columbia University and Trinity College, where he was presidential scholar.

From 1985 until March 1987, Zakheim was Deputy Under Secretary of Defense for Planning and Resources in the Office of the Under Secretary of Defense (Policy). In that capacity, he played an active role in the Department's system acquisition and strategic planning processes. Dr. Zakheim held a variety of other DoD posts from 1981 to 1985. Earlier, he was employed by the National Security and International Affairs Division of the Congressional Budget Office.

Zakheim served on the United States Commission for the Preservation of America's Heritage Abroad; the Task Force on Defense Reform (1997); the first Board of Visitors of the Department of Defense Overseas Regional Schools (1998); and the Defense Science Board task force on "The Impact of DoD Acquisition Policies on the Health of the Defense Industry" (2000).

During the 2000 presidential campaign, Zakheim served as a senior foreign policy advisor to then-Governor Bush. In May 2001, Zakheim was sworn in as the Under Secretary of Defense (Comptroller) and Chief Financial Officer for the Department of Defense. He served in this capacity until April 2004.

In 2008, Zakheim was appointed by President Bush as a member of the Commission on Wartime Contracting in Iraq and Afghanistan.

In 2010, Zakheim retired as a Senior Vice President of Booz Allen Hamilton.

**DISCLOSURE FORM FOR WITNESSES  
COMMITTEE ON ARMED SERVICES  
U.S. HOUSE OF REPRESENTATIVES**

**INSTRUCTION TO WITNESSES:** Rule 11, clause 2(g)(5), of the Rules of the U.S. House of Representatives for the 115<sup>th</sup> Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants), or contracts or payments originating with a foreign government, received during the current and two previous calendar years either by the witness or by an entity represented by the witness and related to the subject matter of the hearing. This form is intended to assist witnesses appearing before the House Committee on Armed Services in complying with the House rule. Please note that a copy of these statements, with appropriate redactions to protect the witness's personal privacy (including home address and phone number) will be made publicly available in electronic form not later than one day after the witness's appearance before the committee. Witnesses may list additional grants, contracts, or payments on additional sheets, if necessary.

**Witness name:** Dov S. Zakheim

**Capacity in which appearing:** (check one)

☒ Individual

☐ Representative

**If appearing in a representative capacity, name of the company, association or other entity being represented:** N/A

**Federal Contract or Grant Information:** If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) or grants (including subgrants) with the federal government, please provide the following information:

2017

Federal grant/ contract	Federal agency	Dollar value	Subject of contract or grant
None			

2016

Federal grant/ contract	Federal agency	Dollar value	Subject of contract or grant
None			

2015

Federal grant/ contract	Federal agency	Dollar value	Subject of contract or grant
None			

**Foreign Government Contract or Payment Information:** If you or the entity you represent before the Committee on Armed Services has contracts or payments originating from a foreign government, please provide the following information:

2017

Foreign contract/ payment	Foreign government	Dollar value	Subject of contract or payment
None			

2016

Foreign contract/ payment	Foreign government	Dollar value	Subject of contract or payment
None			

2015

Foreign contract/ payment	Foreign government	Dollar value	Subject of contract or payment
None			

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**QUESTIONS SUBMITTED BY MEMBERS POST HEARING**

APRIL 4, 2017

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#### QUESTIONS SUBMITTED BY MR. LANGEVIN

Mr. LANGEVIN. In the 1940s and 1950s, almost 40 combat aircraft were competed and awarded, invigorating the industrial base in the process. This period of development stands in stark contrast to the last 25 years when only 4 new fighters or bombers were developed: the B-2, the F-22, the F-35, and the B-21 last year. Today, if a company does not prime or partner on a winning design, they risk being shut out of the industry until the next competition a decade or more later. How do we increase the number of competitions and reduce this feast or famine cycle to increase the vitality of our defense industrial base?

Dr. HAMRE. I recall this history, and it was astounding how many different aircraft design efforts we were able to sustain during that period. Part of the answer is greater resources. Back during this period, defense spending was between 6-7% of GDP, and today it is less than 3% GDP. We also have seen huge real cost increases in the price of labor, both civilian and military, which reduces the amount we can devote to research, development and acquisition. I mention these two factors because I think this will hugely constrain our ability to solve the problem you outlined. In fairness, during the last 15 years we have launched major efforts to use unmanned air vehicles. But your point is still valid.

I think the only practical way to do this with the constrained budgets we currently have is through expanded emphasis on prototyping. That will support the design teams, but would not necessarily support the shop floors. It is hard to see how this can change until we allocate more resources to aircraft procurement.

Mr. LANGEVIN. In the 1940s and 1950s, almost 40 combat aircraft were competed and awarded, invigorating the industrial base in the process. This period of development stands in stark contrast to the last 25 years when only 4 new fighters or bombers were developed: the B-2, the F-22, the F-35, and the B-21 last year. Today, if a company does not prime or partner on a winning design, they risk being shut out of the industry until the next competition a decade or more later. How do we increase the number of competitions and reduce this feast or famine cycle to increase the vitality of our defense industrial base?

Ms. FLOURNOY. Increasing the number of competitions is indeed critical to enhancing the vitality of our defense industrial base. It is also essential to ensuring that our armed forces can fully leverage rapidly evolving technological innovation to maintain their military edge in the future. Working with Congress, the Department of Defense can and should take several steps to increase the opportunities for competition.

First, and perhaps most importantly, Congress must act to restore predictability in defense budgeting so the military services can plan and execute their programs over a multiyear period without constant uncertainty and disruption. Nothing does more to undermine DOD's ability to make smart investments in future defense capabilities than not knowing whether and when defense authorization and appropriations bills will be passed or how much defense spending will be approved over the FYDP. Negotiating a budget deal that would permanently lift the BCA caps, end the threat of sequestration, and return the system to regular order should be a top national security priority. Restoring predictability would enable the services to let contracts with greater frequency and regularity while increasing industry's confidence in having more bites at the apple.

Second, Congress should fully support DOD's efforts to enact defense reforms that would enable the reallocation of resources to priority investment accounts. The list of promising reforms is long and includes, among others: authorizing another round of Base Realignment and Closure (BRAC), streamlining DOD headquarters staffs and defense agencies, leveraging information technologies and big data to transform DOD's business practices, and adopting a value-based approach to health care that would improve the quality of care while reducing costs. Every dollar saved by improving the performance and efficiency of the DOD enterprise is a dollar that could be reinvested in ensuring our troops have the capabilities they will need in the future.

Third, DOD should adopt a new approach to acquisition that incentivizes innovation and strengthens the vitality of the defense industrial ecosystem. As described

in greater detail in the recent CNAS Report, *Future Foundry: A New Strategic Approach to Military-Technological Advantage*, by Ben Fitzgerald, Alexandra Sander, and Jacqueline Parziale, the Department should pursue an “optionality strategy” to develop an expanded and more diverse portfolio of defense capabilities and concepts. This approach would provide industry with more opportunities to innovate and rapidly prototype and field new technologies. It would generate more opportunities for companies, both traditional defense firms and new entrants to the market, to compete for a wide variety of contracts, stimulating a healthier industrial base while generating greater technological advantage for the U.S. military.

These steps are necessary not only to ensure the future health and vitality of the U.S. defense industrial base but also to ensure that the U.S. armed forces maintain their technological edge and, most importantly, their ability to deter and prevail in a more complex and challenging future security environment.

Mr. LANGEVIN. In the 1940s and 1950s, almost 40 combat aircraft were competed and awarded, invigorating the industrial base in the process. This period of development stands in stark contrast to the last 25 years when only 4 new fighters or bombers were developed: the B-2, the F-22, the F-35, and the B-21 last year. Today, if a company does not prime or partner on a winning design, they risk being shut out of the industry until the next competition a decade or more later. How do we increase the number of competitions and reduce this feast or famine cycle to increase the vitality of our defense industrial base?

Dr. ZAKHEIM. A number of factors enabled the United States to produce a larger set of combat aircraft in the 1940s and 1950s. First, aircraft were less complex, rendering it easier for more firms to enter the market, or remain in it. Second, the complexity of modern aircraft increases the financial and related scheduling penalties that accompany engineering change proposals; one change will likely affect many other aircraft components and even sub-systems. Greater costs limit aircraft buys. Third, although the War and Navy Departments, and, succeeding them, the Defense Department, imposed military specifications during that era, there were far fewer such specifications than is the case today. Meeting all specifications can drive up costs, again limiting production. Fourth, the overwhelmingly bureaucratic nature of the current acquisition process itself causes delays, and increased costs that always accompany such delays. There are too many approval levels. Fifth, while operational testing is critical, government development testing should be minimized. Industry should be held accountable for testing at the developmental level. Sixth, the huge backlog of DCAA audits forces companies to reserve cash that might otherwise be spent on new development, or serve as dividends. This too, inhibits companies from participating in the defense sector. Finally, bureaucracy is also a deterrent to new companies entering the defense industrial sector. Excessive paperwork (apart from milspec); excessive oversight; limits on profit; restrictions on retention of intellectual property; and a different cost accounting method (government cost accounting standards (CAS) as opposed to commercial Generally Accepted Accounting Principles (GAAP), are among the leading factors inhibiting companies from working with government. Therefore, in order to increase competition, and ramp up production of new aircraft, the DOD must, to the extent it can, reverse the foregoing factors.

1) While aircraft are not likely to become less complex, DOD can minimize the frequency of engineering change proposals by requiring that any proposal involving more than a month's effort be certified at a flag, general officer, or SES level. 2) DOD should mandate an immediate fifty per cent. reduction in military specifications. 3) Approval levels should be reduced by twenty per cent. DOD-wide, to include service and OSD approvals. 4) Development tests should be reduced by at least twenty per cent. 5) Mandate that any DCAA audit that has not been completed in twelve months shall be dropped entirely, enabling companies to free funds currently held as reserves. 6) DOD, working with OMB, should modify CAS so that it more nearly approximates GAAP.