

**Creating 21st Century Personnel and Compensation
Systems for the Department of Defense**

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INTRODUCTION

Mr. Chairman and Members of the Committee: It is a privilege to participate in this morning's panel. The views I express are entirely my own, and should not be interpreted as reflecting any position on the part of the Institute for Defense Analyses.

In my judgment, "human capital"—people, their skills and esprit—lie at the heart of any successful military endeavor. Deciding whom you want to serve in your military establishment, how you wish to develop their "capital", and how you expect them to perform, are essential elements in meeting the nation's security needs. The answers to these questions, in turn, should derive from the future military at which you wish to aim, the capabilities you wish it to possess, and the challenges you believe it must be ready to confront.

Those answers include basic decisions about how many actually wear a uniform (and are therefore governed by the laws of war), how many will be civilian employees of the national military establishment (therefore performing with the authority of the government), and how the private sector might provide key services on which both military and civilian functions depend, perhaps in a partnership arrangement. For each community, you will want to specify the characteristics of the personnel you wish to recruit, the preparation and ongoing education and training they should receive, and the service trajectory you expect them to follow.

Grounding the human capital debate in the force you desire also implies it is the force characteristics that should drive personnel policies, not the other way around. This is especially true as today's evolving technology and international security environments alter US needs. It is the responsibility of the compensation system, broadly defined, to produce these desired force characteristics. A key element is the competitiveness of compensation, both military and civilian, with non-government opportunities. And from the enterprise perspective, there is an appropriate concern with costs.

The ultimate cost issue, of course, is not military compensation alone, but what is required overall to operate the Department. Operating costs dominate the Department's budget requirements. They are driven by military equipment decisions (including the reliability of that equipment); by business practices (including, for example, the statutory floor for government depot work, and the impediments to A-76 competitions); and by choices on the mix of active military, Reserve Component military, federal civilian, and contractor personnel.

CHOOSING THE MIX

On the last set of issues (the staffing mix), Secretary Carter recently called for more "permeability"—if I understand correctly, to attract a wider variety of experience and backgrounds in both military and federal civilian personnel. He announced a series of initiatives to address this issue. Some of those confront what his Acting Under Secretary of Defense for Personnel and Readiness has identified, the difficulties created by the federal civilian personnel system, including those involving appointing authority.

The Department faces two obstacles in considering the optimal mix of personnel, one a planning challenge, one institutional. The planning challenge is defining the structure—the nature—of the force of the future. The Department has struggled to meet this challenge since the end of the Cold War, with its initial responses a scaled-down version of its prior choices (Base Force, Bottom-Up Review). Besides the growth of Intelligence, Surveillance and Reconnaissance force elements (including cyber), that remains, as a generalization, the case today. Much of the structure is aimed at high-end, state-on-state conflict, for which we must be prepared, but with little devoted to the challenges we face immediately. The structure emphasizes the ability to destroy targets, not necessarily the ability to secure the political or political-military outcomes we desire. Securing a broader range of capabilities within likely budget limits may require accepting hedges vice full-up solutions, perhaps involving greater use of Reserve Component authorities (conceivably new authorities), and of civilians.

The second obstacle is institutional. The Department's planning processes, as long constituted, do not adequately consider the "total force" solution space in arriving at the mix. Military personnel are decided and budgeted for in terms of a central account (end strength), and once the strength level is established, military personnel are "free" to the using elements of DoD. (Conversely, they cannot easily trade military personnel for federal civilians or contractors.) In this situation, it is not surprising that in most Military Departments the demand for military personnel, as substantiated in various manning documents, exceeds the planned supply, especially for active duty forces.

At the other extreme sit federal civilians. Their numbers are decided on a largely decentralized basis, but often restrained to produce budgetary savings through ceilings (notwithstanding the statutory provision barring such a practice outside of management headquarters). That leaves contracted services as the safety valve, as organizations strive to meet their needs with the funds available.

Repeated analyses demonstrate that there are significant gains possible from a more systematic approach to deciding on the total force mix.

It would be easy to paint too discouraging a picture about the tradeoff process, and only fair to note some of the exceptions. One interesting development is the Air Force's pursuit of composite units, staffed with a mix of active, National Guard and Reserve personnel, benefitting from the differing levels of service that can reasonably be expected from each community. Another is the long-standing Inherently Governmental/Commercial Activity database maintained by DoD, which allows you to examine military-civil tradeoffs (and whose results have long argued DoD could make greater use of civilians). Particular Secretaries of Defense have taken an interest in this issue, whether Secretary Rumsfeld in military-civilian trades (to conserve military personnel for the Long War) and in competitive sourcing (an initiative of the George W. Bush administration), or the in-sourcing initiative launched by Secretary Gates. The last two, of course, are now restricted by statutory restraints.

Staffing mix issues extend beyond broad categories of personnel to include structural issues within each community. For example, the Army has long solved the conundrum of "up or out" in the context of a pilot force (high training costs, substantial payoff to experience, implying long cockpit tours) by staffing extensively with warrant officers, reserving just a few billets for (classically) commissioned

officers who are groomed for leadership positions. Presumably, as the military becomes more highly technical this mechanism—or its analog, the Navy’s Limited Duty Officer—could be used more extensively. Mechanisms like these might be used to strengthen the cyber force, and other areas such as intelligence, language and cultural expertise, science and technology, and acquisition.

Indeed, as one opens the aperture on personnel types it’s quite possible that some duties that are now thought to require officers could be performed by enlisted personnel, given the high aptitude and performance standards of the All-Volunteer Force. The current Air Force Chief of Staff, as you know, has speculated about their possible utilization to meet some piloting needs. Indeed, the Army, Navy and Marine Corps already use enlisted personnel to operate Unmanned Aerial Vehicles.

MANAGING THE MIX

The Committee has expressed its interest in possibly reconsidering provisions of the Defense Officer Personnel Management Act (DOPMA), or the Act in its entirety. I would urge that we first focus on the different *results* that are desired, and analyze the degree to which it is the statutory provisions that make it difficult to achieve those results, versus the manner in which the Act is implemented. If alternate regimes appear attractive, the Department might experiment with those regimes (through existing or new waiver authority, or pilot programs), to understand their possible unintended consequences, before making them permanent.

While key elements of enlisted management parallel that for officers, the rules are largely driven by policy, not statute. Enlisted personnel, of course, constitute the vast majority of the force. Perhaps the management paradigm for this element should receive our attention first.

The challenges of the last fifteen years have demonstrated the value of agility—agility at the individual level, and agility on the part of defense institutions. American military personnel, starting with the Battle of Bunker Hill, have been known for their agility. Could we do even better, whether via the standards we set for recruiting, or the manner in which we prepare the force?

In thinking about managing the mix in a more agile fashion, the Department should be willing to consider hybrid vehicles –vehicles that embrace the strengths of the different personnel communities. Secretary Carter points in this direction with his emphasis on Intergovernmental Personnel Act appointments, but more ambitious models might also be considered. These include the British notion of sponsored reserves (contractor operations in which all personnel hold Reserve Component appointments, and can be shifted to a military status as theater circumstances require), and Government Sponsored Enterprises, where the government retains control but creates an entity that can operate like a private sector actor (the Saint Lawrence Seaway is viewed as one of the more successful examples, I believe).

One issue that has not received the attention it deserves is strengthening the skills of existing federal civilians over the course of their careers. The contrast in DoD could not be more striking: Significant investments in further education and training for military personnel, very limited opportunities for civilians. Some of this result derives from the strictures of civil service rules, some from

the lack of budgetary allocations to support the necessary costs. Greater investment in federal civilian “human capital” should pay handsome dividends in long-term performance, and in the ability to recruit and retain the talent that Secretary Carter is properly seeking.

MILITARY AND CIVIL COMPENSATION

Economic principles and actual experience highlight six characteristics of an effective compensation system:

- Cash compensation is more attractive than compensation in kind
- Compensation now is more attractive than compensation later
- Incentives for special situations (e.g., certain skills, or hard-to-fill positions) are more efficient than across-the-board solutions—especially if implemented through a flexible versus a “hard-wired” system
- Clarity about the incentives you’re offering (and the compensation system as a whole) is critical
- Expectations about future compensation importantly drive current results
- Recognizing individual preferences (“volunteerism”) can produce a much more satisfied team, and lower long-run compensation costs

As the Congressional Budget Office has pointed out, the military compensation system does not score well on these criteria. The civilian compensation system may be better—but not much, in my judgment.

The current military pay system does offer the Department some flexibility, thanks to the considerable leeway Title 10 gives the Department in deciding the amounts and application of various special and incentive pays. But the same is not as true for federal civilians, because of the reliance on the General Schedule structure.

It is also important to acknowledge that compensation includes more—sometimes much more—than pecuniary rewards. One of the most important, of course, is pride and satisfaction in serving the country. Recognition of such service is critical—and it is also critical to keep in mind the effect of all conditions of service on the willingness to join, the willingness to continue serving, and the enthusiasm with which that service is rendered. “Conditions of service” embraces a wide range of personnel and non-personnel decisions, ranging from how assignments are made, to the frequency of change and the length of less desirable or more difficult assignments, to education and training opportunities, to the quality (and quantity) of equipment provided, and to the excellence of leadership.

An important condition of service is the individual’s ability to influence his or her future—to choose, rather than be “assigned”. Civilians enjoy considerable latitude in this regard (even if civil service realities can make it difficult), military personnel less so. The Navy’s administration of

Assignment Incentive Pay is a notable exception to this generalization, as are some long-standing de facto processes of the Reserve Components. Secretary Carter points the way to increased reliance on the volunteer spirit, endorsing the concept pioneered by the Army with its “Green Pages” experiment.

For military personnel, one of the most important conditions of service involves the post-service transition. In our system, the principal responsibility for that transition lies with the Department of Veterans Affairs; thus its substantial resources (over \$160 billion in FY2015) and their most effective employment should not be ignored in any reform agenda. (The Dole-Shalala Commission, for example, urged major changes that the Congress declined to adopt.) Within the Department of Defense’s set of responsibilities, the recent decision to strengthen the Transition Assistance Program is worth noting--encouraging uniformed personnel to start thinking about their post-service interests early in the military career. Such early reflection presumably will help guide their education and training choices.

The “force of the future” may look different from today’s, reflecting both changing needs (think cyber), and the changing nature of our society (think opportunities for women, and changing views of what constitutes a career). As we contemplate change, however, it is worth reiterating that the current system sustained a successful all-volunteer force in the concluding stage of the Cold War, in its immediate aftermath (including the First Persian Gulf War), and in the long period of armed conflict that followed the attacks of 9/11. There are clearly elements that have worked well, or that have adapted effectively.

Perhaps the most important success was recognizing that the compensation “package” must remain competitive. Since we anticipate that real compensation in the private sector will grow over time, so will federal compensation. Those joining need to know that the political system will act consistently with that reality (e.g., for military compensation, sustaining the competitive standards set out by the Ninth Quadrennial Review of Military Compensation), and forbear from making what appear to be arbitrary changes to the trajectory of compensation as a source of near-term budget savings.

A focus on the competitive status of compensation also implies that adjustments to military and federal civil pay packages (e.g., the pay tables) will not necessarily be identical. That is in sharp contrast to the practice of recent and earlier years, in which across-the-board adjustments are matched.

Competitive compensation will not be the same for all skill areas. The American military system confronts this reality using its bonus authority. While there are bonus authorities for civilians, they are not widely employed by most federal agencies, and may not provide the same flexibility of response. Hence proposals to replace the General Schedule with broad pay bands for federal civilians, allowing civilian compensation to adjust for local and skill realities.

Much recent attention has focused on the cost of military personnel. The reform of military retirement you’ve just adopted moves more of the reward “up front”, creating not only a more efficient program (with some cost savings), but one that allows the Department to vary career length by skill area, as operational needs argue should be the case. The prior system encouraged a “one size fits all” mentality, with the result that some skill areas had a more senior force than might be optimal, while

others suffered from a lack of needed experience, despite the Department's efforts to rebalance through the use of retention incentives.

The Military Compensation and Retirement Modernization Commission, whose recommendations Congress considered in making its changes, also proposed a revised military medical benefit. While the proposed change would give military households more choice, and promised some potentially substantial savings, it would also move modestly more compensation to immediate cash (in the health expenditure accounts created), whereas the current benefit is paid entirely in kind—a compensation mechanism we know is less efficient.

One issue the Commission did not address is the disparity between the compensation for single personnel, versus those with dependents—perhaps five to ten percent for junior personnel, measured by Regular Military Compensation (RMC). Moreover, RMC imputes the “value” of living in the barracks as equal to the housing allowance foregone (about one third of the total); we know from survey results that *required* living in barracks housing is actually a detriment to military recruiting. Would overall costs increase if single personnel were paid at the same rate as those with dependents? Not necessarily, since there would be offsetting cost reductions in other elements of compensation (e.g., health care). Indeed, over the long run it might well reduce costs. Such equilibration, coupled with a revised barracks residency policy, amounts to a targeted (i.e., more efficient) pay change, likely to ease the Army's current recruiting difficulty.

CONCLUSIONS

The time is long past for a fundamental re-examination of the appropriate mix of personnel types in the military establishment, as a prelude to deciding what personnel management reforms may be needed for the future military establishment. It is the nature of the future military establishment that should be the starting point, guiding the discussion on personnel types. Perhaps this debate could unfold in the context of whatever national security transition plan a new administration adopts, particularly as it conducts its Quadrennial Defense Review.

With the caveat that those choices have not been made, it may be useful to advance some hypotheses that could be explored in the interim as a basis for any immediate decisions the Committee wishes to consider. On the mix issue:

--It is likely that more Reserve Component and federal civilians will be desired, the latter requiring more flexible appointing and pay authorities.

--It is possible that more use of “intermediate” personnel—i.e., senior enlisted, warrants, LDOs—will be attractive in staffing certain military needs, creating a viable approach to “up or stay” while preserving the best features of “up or out” for those being considered for senior leadership positions.

--It is conceivable that hybrid staffing arrangements will be sometimes be attractive, e.g., composite units, or Government Sponsored Enterprises (e.g., for the DoD overseas K-12 school system).

On compensation:

--Moving more military compensation to cash vice in kind should improve recruiting and retention. Likewise making more cash available earlier in a career would be meritorious, as the retirement reform just enacted permits the Department to do.

--Harnessing individual preferences to the needs of the organization, consistent with the spirit of Secretary Carter's demarche, will help restrain long-term compensation costs.

--Creating greater flexibility in setting civilian pay levels would allow DoD to respond better to local market conditions (with savings in some areas financing increases in others).

--Stabilizing expectations by adopting and honoring a long-run compensation strategy for both military and civilian personnel should help recruiting and retention—and morale.

As these hypotheses imply, much of what's needed lies in the province of the Executive Branch of our government, above all to organize the institutional mechanisms within which good decisions can be made, including recommendations for statutory action where needed. There is no more important set of decisions, if the United States is to enjoy in the future as fine a military as defends us today.