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DEFENSE DEPARTMENT BUDGET INITIATIVES

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, SEPTEMBER 30, 2010

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DEFENSE DEPARTMENT BUDGET INITIATIVES

THURSDAY, SEPTEMBER 30, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 2:05 p.m., in room 210, Cannon House Office Building, Hon. Robert C. Scott, presiding.

Present: Representatives McCollum, Scott, and Connolly.

Also Present: Representative Wittman.

Mr. SCOTT. I ask unanimous consent that the Representative Rob Wittman of Virginia be allowed to sit at the dais to receive testimony by witnesses, and that he also be allowed to ask questions of the witnesses after all Committee members have had a chance to do so. And without objection, so ordered.

Today's hearing is on the Defense Department's efficiency initiatives announced on August 9, 2010. I would like to welcome our witnesses. Todd Harrison, Senior Fellow at the Center for Strategic and Budgetary Assessments; Retired Army Lieutenant General Bob Wood; Mr. Stan Soloway, President and CEO of Professional Services Council and Former Deputy Under Secretary of Defense for Acquisition Reform; and Ms. Jacqueline Simon, the Public Policy Director of the American Federation of Government Employees. And I would like to thank Chairman Spratt for calling this hearing. He was unavoidably detained and will not be with us today.

Due to our deteriorating fiscal situation many have suggested that the rate of growth in the base, or non-war, defense budget over the last decade many not be sustainable over the long term. In 2001 to 2010 the Defense Department's base budget increased an average annual rate of between 6 percent and 7 percent, from roughly $300 billion in 2001 to $535 billion in 2010. Going forward, the President's 2011 defense budget begins to reflect a more modest level of growth as more emphasis is placed on reducing the deficit. It reduces the average annual rate of growth in the Department of Defense's budget to about 1 percent above inflation over five years, a rate many deem to be insufficient to both maintain current force levels and recapitalize aging weapons systems.

In August Secretary Gates announced a Pentagon initiative to find overhead savings of $100 billion over five years in order reinvest them in higher priority defense programs. He maintains that finding these savings is necessary in order for the Pentagon to adequately support defense plans within the President's budget.

Although I commend and appreciate the Secretary of Defense's desire to weed out wasteful spending and redundant bureaucratic functions, I have been alarmed at the lack of transparency and

basic analysis on how the Secretary arrived at these particular conclusions, and specifically on the decision to disestablish the U.S. Joint Forces Command in Norfolk, Virginia. A decision of this magnitude must go through a thoughtful process which the Department appears determined to avoid. Since August 9 the Defense Department has failed to provide me or any of my colleagues in the Virginia Congressional Delegation, or the Governor of Virginia, any meaningful analytics to show how the Secretary arrived at his decision. There are no numbers to show what savings may be achieved, nor any briefing documents to Secretary Gates on how he arrived at his decision.

Furthermore, it is unclear if the Secretary has the authority to eliminate such a large command without current congressional approval or going through a BRAC process. If the BRAC law is not specifically clear in this regard, as the Department's legal analysis contends, it is still clear the decision is inconsistent with the spirit of the BRAC law. Additionally, closing JFCOM was mentioned nowhere in the latest quadrennial defense review, and if anything the QDR only stressed the importance of the branches of the military working together, a key function of the Joint Forces Command.

Adding insult to injury, the Department's rationale for closing JFCOM was been extremely inconsistent since August 9. In its prepared statement announcing his decision Secretary Gates stated that JFCOM costs at least $240 million to operate annually. However, just this week Deputy Secretary of Defense William Lynn indicated that JFCOM cost the Department nearly $1 billion annually to operate. On September 8 the Defense Department officials briefed the Virginia delegation staff and the only new information received was Comptroller Hale's decision was philosophical and that the true savings are still being determined.

Additionally Ms. Christina Fox from the Program Evaluation Office stated that the cost savings were not even a significant factor in the JFCOM decision. Instead, the Department now says its elimination would reduce redundant bureaucratic layers and make the Department more agile and efficient. And just this week in both meetings at the Pentagon with me, Governor Robert McDonnell, and other members of the Virginia Congressional Delegation, and before the hearings in the House and Senate Armed Services Committees, Deputy Secretary Lynn now submits that the decision to disestablish JFCOM was purely a military decision and even indicated there was no internal dissent, none.

Even more interesting, General James Cartwright stated this week during questions and answers during the House Armed Services Committee that when the Department finally looks "at the full range course of action, status quo is an option." Which leads me to believe that even after the announcement closing JFCOM may still be considered an option, or keeping it open may be an option.

So even after seven weeks and no tangible analysis provided to Congress, the Department of Defense cannot even get its story straight. But if this decision is the right one for our military and our national security goals, and if it meets the Secretary's efficiency goals, then the Department should be eager to explain and justify its decision before Congress, the President, and the men and women directly affected, and to respond to their invitation to testify

today before the Budget Committee. And after eleven years of testimony before Congress highlighting its critical importance and indoctrinating jointness among the military the Department should be prepared to explain what functions the Joint Forces Command will need to continue.

Unfortunately, after this week's hearing it now appears that the Secretary has made a decision based on who knows what and now the Department is scrambling to justify it. So I think Congress needs to focus on the documents that were prepared before August 9 if we are to understand the real rationale for the decision. Anything prepared after August 9 only attempts to justify a decision that was already made.

Although I appreciate the closed door briefing held earlier today with Comptroller Hale, I think it is very telling that the Department declined to allow him or any other official from the Department to testify before the Committee on the Budget on the budgetary implications of these efficiencies even seven weeks after their announcement. And seven weeks after the announcement we still have not been provided any documents with numbers on them that support the contention that any money will be saved at all.

At this moment I ask unanimous consent to introduce into the record several documents. One, testimony from the Governor of the Commonwealth of Virginia Robert McDonnell outlining the impact of the proposed decisions on the Commonwealth of Virginia; as well as an op-ed by Retired Admiral Hal Gehman, a former of the Joint Forces Command, on the reasons why JFCOM is still critical and why the mission of jointness is still not complete. And without objection, those documents will be placed in the record.

[The testimony of Robert McDonnell follows:]

PREPARED STATEMENT OF HON. ROBERT F. MCDONNELL, GOVERNOR, COMMONWEALTH OF VIRGINIA

Chairman Spratt, Ranking Member Ryan and other distinguished members of the Armed Services Committee, on behalf of the Commonwealth of Virginia, I thank you for inviting me to offer testimony today in this important hearing to consider the Efficiencies Initiative announced by the Secretary of Defense on August 9, 2010.

The Commonwealth of Virginia is proud to be the home of many elements of this Country's national defense establishment. The Pentagon—the headquarters and virtual epicenter of America's military is located in Arlington County, and the Central Intelligence Agency Headquarters—the headquarters and virtual epicenter of America's civilian foreign intelligence activities responsible for providing national security intelligence to senior U.S. policymakers—is located in Fairfax County. Virginia has a long and proud history of being a close and trusted partner with the United States military and national security agencies that goes back to 1608 when Captain John Smith recognized the importance of building a fort at Point Comfort in Hampton Roads, building Fort Algernourne with the mission of protecting the approaches to the colony at Jamestown. As a result of the War of 1812, Fort Monroe was built to protect the entrance to Hampton Roads and the several port cities that had access to its waters.

As the United States grew its presence of military and national security facilities in the Commonwealth, Virginia was embraced as a full participating partner in that growth. The Commonwealth and many of her local governments located in the Northern Virginia and Hampton Roads regions, partnered with the United States to develop and build the infrastructure required to support the growth of these facilities. This infrastructure included not only roads, curbing and guttering to provide access to the expanding facilities of the military and national defense establishments, it included building and manning fire facilities, rescue and first responder facilities, schools and neighborhoods necessary for its maintenance and growth. It was the Arlington County Virginia Fire Department that served as the lead agency in the response to the attack on the Pentagon on September 11, 2001. On that fate-

ful day, the Arlington County Fire Department employed 279 men and women. As a result of the attack on the Pentagon, however, additional career firefighters were hired, bringing the total to 305 in 2005. Minimum staffing on the county's engine companies was also increased to four firefighters from three in the months after the attack. The county trained CERT Teams—Community Emergency Response Teams—in cooperation with the federal Department of Homeland Security stepped up disaster preparedness programs. These additional components of local infrastructure were added as a full partner with the military to insure adequate first responder requirements to any future acts of terror against the Pentagon.

Virginia, and her localities and local governments, have been, and continue to be, a willing, responsive partner with the United States in providing for the general welfare of all of the citizens of the Commonwealth, including those citizens who serve our Nation in both the military and the national security agencies, as well as their families to insure the best possible quality of life for each and every Virginia citizen. That high quality of life includes excellent school systems to educate the children, the police, fire and rescue resources required to protect our citizens and communities, and the facilities used to exercise the right to vote on each election day for the leaders of this Country and the Commonwealth.

The Commonwealth has endured economic adversities as a result of the several rounds of the Base Realignment and Closure (BRAC). Throughout the BRAC process, however, the Commonwealth was, as usual, treated as a full participating partner in giving input in the decisionmaking process of removing many federal government agencies from commercial leased space in both the Northern Virginia and Hampton Roads regions. While business owners of the commercial leased space have suffered adverse economic impact from the loss of federal government agency tenants in buildings that were largely built to accommodate past growth and additional requirements of the military and national security agencies, the BRAC process does provide the time and additional resources required to address those economic adversities.

The BRAC process in 2005 that removed federal agencies from commercial leased properties resulted in those agencies being moved to military and national security properties at Fort Belvoir, Quantico Marine Operating Base, Fort Eustis, Fort Lee and many other facilities within the Commonwealth. Tremendous growth has occurred at these federal properties necessitating additional infrastructure—streets and roads, curbing, guttering and the like—to accommodate the growth generated by the movement of these agencies to the federal properties in the Commonwealth. Again, however, the Commonwealth was treated as a full partner in the decision making processes such that Virginia could address the needs of its citizens.

On August 9, 2010, that cooperation, openness and partnership between the federal government and the Commonwealth was conspicuously absent with the announcement by the Secretary of Defense that it was his intent to close the U.S. Joint Forces Command (USJFCOM) and reduce the use of defense contracts by a total of 30% over the next three (3) years. The Secretary of Defense did not provide, and has not provided since that time, any material information in support of his decision. In fact, the Department of Defense has told staff that the decision was "philosophical" and now they are putting together a plan of action to justify and effectuate these decisions. He has directed several flag officers at USJFCOM to put together a plan to eliminate USJFCOM and provide to him an interim report by the middle of October, and a final report in December. Furthermore, he has directed that all personnel who participate in the formulation of a plan to support his decision must sign a nondisclosure statement—in essence, the Secretary of Defense has imposed an embargo on all information that is needed by the Commonwealth to evaluate and respond to the August 9th announcement.

The Commonwealth, after over two hundred (200) plus years of partnership with the federal government in the development and growth of the military and national defense infrastructure, is not being treated as a partner with the federal government. The Commonwealth is no longer provided a seat at the table to be a part of the planning process for an announced closure of a major employer in the Hampton Roads and Northern Virginia regions. The Commonwealth has worked with a number of private sector employers that have announced plant closures affecting many Virginia citizens to minimize the adverse economic consequences of such closures—the most recent example being the 2008 Ford Motor Company closure of the F-150 truck assembly plant in Norfolk that employed 2,433 workers. That plant had a direct payroll of $160 million, and drew parts from 17 local suppliers that employ about 2,700 people.

After several letters requesting a meeting with the Secretary of Defense, followed up with repeated personal requests from the Virginia Congressional Delegation to members of the White House staff, as well as the President of the United States,

the Department of Defense has responded with an offer to meet with the Governor and the Congressional Delegation. The meeting is with the Deputy Secretary of Defense and the Vice Chairman of the Joint Chiefs of Staff. The state is still waiting for an opportunity to meet with Secretary Gates.

The focus of the Secretary of Defense with reducing the overhead of his department, shrinking the number of military headquarters in the department and reducing the size of military headquarters staff is both a responsible and commendable goal given the current difficult economic and fiscal situation currently being experienced by our nation. It is important to achieve savings through reductions in overhead expenses, but not the best course for the security of the nation when achieved through the reduction of force structure or elimination of successful modernization programs—especially when this country is engaged in fighting determined and elusive adversaries that have chosen approaches to warfare that avoid our military's conventional strengths. As Virginia's Governor, I have undertaken a similar goal by appointing a Commission on Government Reform and Restructuring which I have challenged with putting forth bold and innovative ideas to ensure that duplicative, outdated, unnecessary and ineffective services and service delivery methods are eliminated, and that state revenues are dedicated to the core functions of government. These are good strategies.

There is, however, a significant difference in the methods chosen by me and the Secretary to pursue the goal of achieving efficiencies in government operations. The term "transparency" generally refers to public access to information held by the government, including information upon which government relies in making its decisions. I have chosen to pursue the goal of eliminating government waste and achieving operational efficiencies by means of a transparent process involving public hearings of the Reform Commission and receiving input and ideas from the public. DoD has chosen to accomplish the goal of eliminating government waste and achieving efficiencies without being transparent to the public. No Virginia leaders, Congressmen, Senators, private contractors or JFCOM leaders appear to have been part of the planning or decision making process.

During the last weeks of July, rumors began to circulate that the Defense Business Board, an advisory board of retired economic and business leaders, would recommend ways to reduce department costs. One such rumored recommendation was to eliminate the Joint Forces Command in Norfolk. At his news briefing on August 9th, Secretary Gates announced, without any prior notice or warning, that he was recommending to the President the closure of the Joint Forces Command.

As Governor of Virginia, I was asked by the President to serve on the Council of Governors, a group of ten governors appointed for the purpose of providing State Governors a forum to exchange views, information, or advice with the Department of Defense. I was told that the appointment was to establish an open and continuous dialogue with the Secretary of Defense, and achieve transparency in the exchange of ideas. Close cooperation and communication between the federal government and the individual states is absolutely vital if the most effective use of state and federal resources is to be achieved on matters of national defense and homeland security. In support of establishing an open and continuous dialogue, I appointed an active duty Air Force general officer as a member of the Virginia National Guard so that he could command the Joint Task Force responsible for the National Boy Scout Jamboree. The appointment of a Title 10 general officer as a member of the title 32 Virginia National Guard was the first time such an appointment had been made in the history of this nation. The recommendation relating to the closure of the Joint Forces Command was not taken with a similar spirit of cooperation nor was it as a result of open dialogue and transparency in the decision making process by the Secretary.

I have twice asked DoD to provide answers to detailed questions pertaining to the reasons for the closure, its impact on national security and joint operations, and the implementation plan. Responses to date from Pentagon leadership have been wholly inadequate. In my letter of September 24, 2010, I inquired into six major areas of concern (copy attached) and I still await complete answers to this inquiry.

The U.S. Joint Forces Command (JFCOM), established in 1999 as the successor to the U.S. Atlantic Command, is uniquely organized and tasked for providing joint forces and developing joint training, joint concept development and experimentation, and the joint capabilities development needed to adjust to the demands of 21st-century military operations. It traces its origins to the shortcomings in joint operations revealed during the 1980s and Operation Desert Storm. Following the Gulf War, Gen. Colin L. Powell, the chairman of the Joint Chiefs of Staff, and others recognized that refining how each branch of the armed forces works together to train and deploy for joint operations was key to meeting future challenges. He felt that a single, U.S.-based unified command should be responsible for training forces from all

services for joint operations. Today, JFCOM is a forceful advocate for "jointness." Retired Navy Admiral Hal Gehman, former Commander of the Joint Forces Command, had it right in his widely published article this past Sunday (September 26, 2010) when he disagreed with Secretary Gate's decision to close JFCOM. He said "The core of work JFCOM does is essential to the future success of the United States military and, despite claims to the contrary, is not duplicated anywhere else in the department. History has proven this work certainly can not be accomplished inside the beltway".

The 2005 Base Closure and Realignment process validated JFCOM's mission and contributions to joint warfighting. The DoD panel reviewing the command recommended that JFCOM purchase its leased spaces to support its permanent presence. Congress has responded through the authorization and appropriation of funding for military construction projects at the command. In 2009, JFCOM opened a 49,000-square-foot Joint Deployment Center and Maritime Operations Center shared with the Navy's Fleet Forces Command.

Admiral Michael G. Mullen, the chairman of the Joint Chiefs of Staff, spoke to the importance of JFCOM's missions at a 2007 change command ceremony. Referring to the command's work to develop "lessons learned" from ongoing military operations to preserve the experience of U.S. service men and women, he said, "It is vital that we capture that for the future health of our armed forces." The 2010 Quadrennial Defense Review echoed this view, stating, "Perhaps more than ever before, the United States requires joint military forces able to function and succeed across a wide geographic and operational spectrum. Moreover, military forces must be capable of working effectively with a range of civilian and international partners."

Recent projections indicate that complete closure of the JFCOM function would eliminate more than 10,000 direct and indirect jobs and a loss of annual salaries of more than $200 million in Virginia. The decision to close Joint Forces Command will also result in the loss of numerous contractor jobs in both the Hampton Roads area and the Northern Virginia area. The recommendation to the President is a significant base realignment and closure action that should be treated as such. The transparent process that must be used by the Secretary is established by the Base Realignment and Closure (BRAC) legislation that was enacted by the Congress to ensure sufficient time and opportunity is available for review of such proposals in an open and transparent manner. The BRAC process ensures that such critical base infrastructure closure and realignment decisions are made only after a complete review, without political interference, and within the national strategic framework. The Department of Defense has previously used BRAC in the Commonwealth to reorganize its base and force structure to more efficiently and effectively support United States forces, increase operational readiness, and facilitate new ways of doing this nation's business.

The BRAC Commission is an independent body charged with the responsibility for reviewing the Secretary's recommendations for closures such as this recommendation involving the Joint Forces Command. BRAC specifies the selection process for the Commissioners, and the President is required to consult with congressional leadership on nominations to serve on the Commission. The Commission has the authority to change the Department's recommendations if it determines that the Secretary deviated substantially from the force structure plan and/or selection criteria. The Commission holds meetings to solicit public input prior to making its recommendations.

I recognize the integral part the military and national security operations and facilities play in the economic vitality of our citizens. I intend on being proactive in identifying the appropriate strategies to both retain existing military operations and facilities that are so very vital to the security of this nation, and to identify and attract operations and facilities that should be located within Virginia. Therefore, last month I ordered the creation of a Commission on Military and National Security Facilities in the Commonwealth. The Commission consists of my Secretary of Commerce and Trade and my Assistant to the Governor for Commonwealth Preparedness and distinguished members of the business community, including the defense contracting community, and retired senior military officers.

I have charged the Commission with the following responsibilities:

- Identify appropriate opportunities for relocating additional military commands and missions to the Commonwealth.
- Identify appropriate opportunities for relocating additional federal facilities to the Commonwealth.
- Recommend, as appropriate, the best business practices for the Commonwealth to retain its existing military installations and commands.

• Recommend, as appropriate, the best business practices for the Commonwealth to retain its existing non-military federal facilities.

• Support and foster collaboration among local and regional entities in identifying appropriate opportunities for placement of additional federal facilities in the Commonwealth.

• Determine the best and most efficient manner to foster and promote business, technology, transportation, education, economic development and other efforts to support, attract and retain existing military installations and commands in the Commonwealth.

• Determine the best and most efficient manner to foster and promote business, technology, transportation, education, economic development and other efforts to support and retain existing non-military federal facilities in the Commonwealth.

• Identify and track all federal government facilities located in the Commonwealth and their building plans.

• Determine the best industrial and economic development for the localities included in or adjacent to military installations and commands in the Commonwealth.

• Determine the best industrial and economic development for the localities included in or adjacent to federal facilities in the Commonwealth.

• Inform the Governor on a regular basis on all pertinent findings and recommendations.

I have asked Commission members to consider that this great Nation is in parlous times and under severe economic and fiscal stress. History records that hard times often force the policy makers in this Country into making ill considered decisions. It is my intent that the efforts of Commission members will result in better planning, more transparency in deliberations and recommendations that do not place our national security in jeopardy.

Growing groups of business, senior retired military and political leaders are opposed to this decision, and are frustrated with the lack of available information to support it. The use of an independent commission and public meetings make the process as transparent, open and fair as possible. The last BRAC process in 2005 did not recommend closure of the Joint Forces Command. Decisions regarding the future of the Joint Forces Command and the use of defense contractors located in the Commonwealth should be made in the context of the existing transparent, open and public process that is represented by BRAC.

Thank you for your consideration of these important issues, and for doing what is best for the military and our nation.

ATTACHMENT, AREAS OF CONCERN

1. Business case analysis of activities to be eliminated

• Numerous documents and statements from DoD have indicated that a plan for disestablishment of JFCOM, including a determination of the functions that should continue to exist, should be eliminated, or should be moved, is being developed over the next several weeks. How does DoD justify making a decision to close JFCOM before first carrying out such an assessment?

• What studies on cost savings has DoD conducted concerning the JFCOM closure and contractor reduction? Please provide details.

• What studies on workload impacts has DoD conducted (e.g., what are impacts on JCS of force provider function shift)? Provide details.

• Has DoD contacted contractors and civilians to determine their intent to move locations if their functions are moved? What impact on moving functions, and the service members who receive JFCOM training and operations support, could result from the loss of these personnel from the workforce?

• What process was used to identify JFCOM for closure and what factors were considered in proposing the JFCOM closure? Why was it not done within the QDR completed this spring, or as part of a BRAC realignment?

• What specific legal authority exists for such strategic closures outside of BRAC?

• Jointness and joint interoperability give the U.S. military a great strategic advantage. How will such important characteristics of the modern military be met if JFCOM closes?

• The modeling and simulation work done at JFCOM is a critical low cost test and evaluation function. How can it be done if JFCOM closes?

2. Will the process to reduce/elimnate JFCOM and defense contractor support ever become transparent to the public?

• Did OSD review the process and decision made by the OSD Headquarters and Support Activities Joint Cross Service Group during the 2005 BRAC process that resulted in the recommendation that JFCOM continue to exist and should in fact

purchase its leased facilities? How does DoD reconcile the recommendation to close JFCOM with the 2005 BRAC recommendation?

• Various personnel at JFCOM have been directed to sign non-disclosure agreements relating to the review and closure process. Why does the Department not take a transparent review and decision-making process in this action?

• The Secretary indicated that he authorized the services to consider additional closures, and Mr. Hale recently indicated that no "more" closures would be announced until at least February. Is DoD currently considering additional base or function closures or realignments that would affect Virginia? If so, what are the metrics and process being used in that review?

• If the Secretary and the military departments are considering additional closures and realignments, does DoD believe that another round of the BRAC process is necessary?

3. Impact of infrastructure in place within local communities

• Have specific locations outside of Hampton Roads been identified to host any JFCOM mission that will remain intact after the proposed disestablishment of JFCOM?

• Has DoD considered moving a new mission to backfill the sudden loss of this Command in the Hampton Roads region? For example, has DoD considered moving AFRICOM or other functions to the region? Which locations are being considered to host AFRICOM?

• What specific JFCOM functions will remain in Suffolk and Norfolk? What are the estimated civilian, uniformed, and contract job positions at each location? Are these personnel assigned to specific billets at each location?

• What is the DoD plan for use of leased space in Suffolk? Will the leases be terminated and what are the termination fees?

4. What JFCOM functions are being relocated or left in place?

• If similar functions to JFCOM exist within the Joint Chiefs of Staff and other organizations, did DoD consider consolidation of those functions to JFCOM, rather than disestablishment? Should alternatives, such as expanding or strengthening the JFCOM function, have been considered instead of selecting the JFCOM closure option?

• For those activities that DoD determines should continue to exist, what process will DoD use to determine whether they should remain in place or move elsewhere?

• Was there consideration given to simply reducing the number of contractors and eliminating the duplication of missions versus eliminating the entire command?

5. Economic impact

• Has DoD calculated the extreme economic costs to Virginia of the contractor reduction; and what is the estimate? Where are the displaced contractor functions going to be performed?

• Will the JFCOM closure make the region eligible for base closure assistance, including OEA grants, from the federal government?

• Will the JFCOM closure result in an increase of personnel in the National Capital Region?

6. Reduction in the use of defense contractors

• What costs, and savings, are associated with the use of defense contractor personnel at JFCOM? What costs, and savings, are associated with the use of defense contractor personnel in the National Capital Region? How will DoD decide which defense contractors and contracts to cut or eliminate in order to achieve the announced reduction?

• What studies has DoD conducted on both the short and long term real cost savings by reducing the use of defense contractors? Please include any existing examples where reducing the use of defense contractors—either by using uniformed personnel or by in-sourcing—has actually reduced costs to DoD.

• If the Department is looking for efficiencies, why was the decision made to cut the government contracting services sector rather than finding efficiencies through the streamlining of administrative operations?

• Upon what basis or analysis was the decision made to reduce the use of defense contractors by a total of 30% over the next three (3) years? Please provide a copy of any analysis conducted by DoD that forms the basis of this action.

• What universe of service will the reduction affect? Will it be an across the board? If not, which categories of service will be targeted?

• Will the reduction in the use of defense contractors be spread equally throughout the country or will any such reduction be confined to a specific region, such as

the National Capital Region of Northern Virginia, which appears to be hit extremely hard by this decision.

[The statement of Hal Gehman follows:]

[From the Norfolk, VA, *Virginian-Pilot,* September 26, 2010, Op-ed page]

Journey to Jointness is Not Complete

By ADMIRAL HAL GEHMAN, (Ret.)

I DISAGREE with Secretary of Defense Robert Gates' message to the staff at U.S. Joint Forces Command that jointness in military operations has already been achieved and the job is done.

This is a journey, not a destination. Since efforts to achieve better cooperation in U.S. military operations must go on, Gates' decision to close JFCOM is abandoning a decades-long effort, initiated and supported by multiple secretaries of defense and chairmen of the Joint Chiefs of Staff, to ensure the maximum effectiveness of our armed forces.

The natural turnover of military personnel requires a continuous joint training program; new systems and equipment require continuous oversight to ensure joint interoperability; and new global threats require continuous development, testing and implementation of new joint doctrine and tactics.

So, what is jointness, and how important is it? Many military operational tasks can be assigned to individual services. For example, there is little or no jointness involved in hunting submarines.

But in a number of operational tasks, joint requirements outweigh service requirements. Integrated air defense, control of battlefield fires, combat search and rescue, ballistic missile defense and logistics are best done in a joint manner. Failure to get this right will result in at least ineffective employment of forces and, at worst, fratricide.

A first requirement is to think about, develop, test and advocate for joint doctrine, tactics, techniques and procedures. There will be no joint procedures and doctrine if there is no organization responsible for developing them.

JFCOM improved and perfected the process using newly developed modeling and simulation skills that are unique, saving millions of dollars and thousands of man-years of effort. Since joint procedures and doctrine underpin all our military operations, now and in the future, this work must go on by someone, somewhere.

The second requirement is to ensure the compatibility and interoperability of systems and equipment. Service acquisition processes are built to optimize their own purchases. Even in the few cases where there are technical requirements that equipment be interoperable, the actual acquisition is left to the individual services.

Detailed, independent testing of first-line systems has always been needed. Who will do the unbiased testing? Who will determine the interoperability standards? Who will advocate the expenditure of extra money to make systems not just meet service requirements but meet the requirements of the joint battlefield?

Finally, once doctrine and procedures have been developed and approved, and interoperable systems are in the field, the force must be trained to operate in a joint environment. The services spend years teaching warriors to become proficient in their specialty. Joint operations are more complicated.

When JFCOM was formed in 1999, there was no joint modeling and simulation-based war gaming tool. Now joint operations can be perfected in simulation, saving millions of dollars without burdening our already over-tasked forces.

While the efforts to enhance jointness have been supported by top officials, they have had difficulty attracting a natural constituency. Except for some academic students of military affairs, a few members of Congress and one or two assistant secretaries, the mission of JFCOM has little or no institutional support, and has many detractors because it takes away resources and adds requirements.

The core work JFCOM does is essential to the future success of the U.S. military and, despite claims to the contrary, is not duplicated anywhere else in the department.

History has proven this work certainly cannot be accomplished inside the Beltway. The jointness journey must go on.

Retired Navy Adm. Hal Gehman is former commander of U.S. Joint Forces Command. He also served as chairman of the 2003 Space Shuttle Columbia Accident Investigation Board.

Mr. SCOTT. Again, I thank Chairman Spratt for convening this afternoon's hearing and look forward to testimony from our distinguished panel of witnesses. I now turn to the Acting Ranking Mem-

ber for the Subcommittee, Rob Wittman, for any statement he might want to make.

Mr. WITTMAN. Thank you, Chairman Scott. And I wanted to say good afternoon to our witnesses. Thank you so much for joining us today. I want to also thank Chairman Spratt for convening this meeting today so we can explore more the decision to recommend the closure of Joint Forces Command.

Mr. Chairman, I would like to first ask unanimous consent to submit Ranking Member Ryan's statement for the record and to read a few comments for the benefit of the panel in the Committee.

Mr. SCOTT. Without objection.

[The prepared statement of Paul Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, RANKING MINORITY MEMBER, COMMITTEE ON THE BUDGET

Thank you Chairman Spratt for calling this hearing.

I'd like to welcome our witnesses: Todd Harrison of the Center for Strategic and Budgetary Assessments, Stan Soloway of the Professional Services Council, Jacqueline Simon of the American Federation of Government Employees, and retired Army Lieutenant General Bob Wood, the former Deputy Commander of the Joint Forces Command. Thank you for your service, sir.

The Defense Department is our largest discretionary expenditure, and has seen robust growth over the last decade. This growth is understandable—and in my opinion, justified—by the fact we were attacked on September 11th.

We cannot lose sight that the Defense Department provides one of the most critical functions of the federal government—national security. The Chairman and I recently had a chance to go to Afghanistan, and witnessed firsthand the extraordinary accomplishments of our troops in harsh terrain against a fierce enemy. For the tireless sacrifice of our country's bravest men and women, Congress must continue to make the funding for our troops and their families a top priority.

The Defense budget should not, however, get a pass from a rigorous review of its budget. If there is waste, we need to eliminate it. If there are efficiencies we need to pursue them.

I am concerned that some of the growth in the defense budget will prove difficult to slow. Tricare and the Defense Health Program—critical priorities aimed at caring for our nation's heroes—are growing at unsustainable rates, as military and civilian pay and fuel costs continue to grow faster than inflation. I want to learn more from our witnesses on whether they believe the President's budget, which provides for average real growth of about 1 percent annually over the next five years, is sufficient to fund its current mission.

As deficits and debt continue their explosive growth—a challenge Admiral Mullen describes as our top national security threat, it is incumbent on the Department and Congress to address the fundamental cost drivers before they overwhelm DOD's budget.

The Efficiency Initiative announced by Secretary Gates over the past several months is a modest start in making it possible for the Defense Department to live within this budget.

Congress needs more details about the rationale and analysis that support the specific elements of this Initiative. It's for that reason that I am disappointed that the Defense Department declined to provide a witness for today's hearing. Those of us who are supporters of a strong defense and would like to support the Secretary in his efforts to improve the Defense Department's tooth-to-tail ratio are hamstrung when we lack the necessary details from DOD.

Finally, in preparing for this hearing, I was struck by the contrast between the calls for reducing defense expenditures in the aggregate and the opposition to some of the specific efficiencies Secretary Gates is pursing. It appears the Appropriations Committee plans to reduce President Obama's defense request by $7-8 billion, while others are objecting to the reductions Secretary Gates is trying to achieve to bring the DOD budget in-line with the President's request.

These are the sorts of tough choices that Congress will have to grapple with while ensuring our men and women in uniform get the resources they need.

Mr. Chairman, thank you for calling today's hearing. I look forward to the witnesses' views on the Efficiency Initiative and on the broader question of how we can

better meet that the Federal government's highest priority of providing for the common defense.

Mr. WHITTMAN. Mr. Chairman, I would like to continue with brief opening remarks of my own. And in the midst of these serious economic challenges we face I know that we all face tough decisions in the coming years. And in many different areas of the government in order to reduce our deficit and our national debt we will need to really carefully examine the choices out there for us as members of Congress. And in fact, some of the initiatives made by Secretary Gates to find efficiencies within our Defense Department may turn out to be reasonable and good from a financial point of view. But until I see some sort of analysis on these initiatives I cannot support this unilateral, unchecked decision by Secretary Gates.

And furthermore, I cannot support cuts to the top line of the budget of the Defense Department when I have yet to hear of similar cuts in other federal agencies. We certainly cannot find the solution to our currently budget deficit and national debt solely within the discretionary budget within the Department of Defense. And I am in favor of a common sense approach that uses a rational and objective analysis of our national security needs and requirement to determine our priorities, which should then drive the budget. Long term strategic planning documents like the quadrennial defense review, which was published earlier this spring, are perfect planning documents that can be used to drive the budget.

Within this document there are no comments of inefficiencies, nor any mention of the need to cut defense contracts or eliminate Joint Forces Command, two very specific initiatives in the current plan by Secretary Gates. In fact, the QDR was criticized by some as actually being budget driven, which yields a potential train wreck for our national security, which is a quote from the Independent Panel of the QDR as requested by the House Armed Services Committee earlier this summer. And my common sense approach would have started with an objective analysis. And I have been told by the DOD that such an analysis exists. Yet after nearly two months have been unable to see a single document from that analysis.

In the absence of that analysis I have started to deduce that these initiatives were well-intentioned but sorely misguided. And I fear that a potential result for our national security will put that at risk, and that's something that I will not allow to happen.

And again, I want to thank Chairman Spratt for allowing me to participate today, and Chairman Scott for his graciousness in today's hearing, for allowing me to sit here and participate and also to stand as the Ranking Member. And I look forward to the testimony of our witnesses.

[The prepared statement of Robert Wittman follows:]

PREPARED STATEMENT OF HON. ROBERT J. WITTMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Thank you, Chairman Spratt, and good afternoon to our witnesses. I want to thank the Chairman and the committee for having me here today on this most important issue.

Mr. Chairman, I would first like to ask unanimous consent to submit Ranking Member Ryan's statement for the record, and to read a few comments for the benefit of the panel and the committee:

BRIEF SUMMARY

Mr. Chairman, I would like to continue with brief opening remarks of my own:

In the midst of serious economic challenges, I know we will all face some tough decisions in the coming years, in many different areas of government, in order to reduce our deficit and our national debt. In fact, some of the initiatives made by Secretary Gates to find efficiencies within our Defense Department may turn out to be reasonable and good from a financial point of view. But until I see some sort of analysis on these initiatives I cannot support this unilateral, unchecked decision by Secretary Gates.

Furthermore, I cannot support cuts to the top line budget of the defense department when I have yet to hear of similar cuts in any other federal agency. We certainly cannot find the solution to our current budget deficit and national debt solely within the discretionary budget within the Department of Defense.

I am in favor of a common sense approach that uses a rational and objective analysis of our national security needs and requirements to determine our priorities, which would then drive the budget. Long-term strategic planning documents, like the Quadrennial Defense Review, which was published earlier this Spring, are perfect planning documents that can be used to drive the budget.

Within this document there were no comments of inefficiencies, nor any mention of the need to cut defense contracts or eliminate Joint Forces Command, two very specific initiatives in the current plan by Secretary Gates. In fact, the QDR was criticized by some as actually being budget driven—which yields a potential train wreck for our national security which is a quote from an Independent Panel Review of the QDR as requested by the House Armed Services Committee earlier this summer.

My common sense approach would have started with an objective analysis, and I have been told by DoD that such an analysis exists, yet after nearly two months have been unable to see one single document from that analysis.

In the absence of that analysis, I have started to deduce that these initiatives were well-intentioned but sorely misguided. I fear that a potential result our national security will be put at risk and that I something I will NOT allow.

Again, I thank Chairman Spratt for allowing me to participate in today's hearing and I look forward to the testimony of our witnesses.

Mr. SCOTT. Thank you. Mr. Connolly?

Mr. CONNOLLY. Thank you. Thank you so much, Mr. Chairman, and welcome to my friend and colleague Mr. Wittman for being with us today. And thanks to all the panelists for joining on what I think is a very important subject. My concern, of course, with this issue is not only about JFCOM but about the decision to bring in 10 percent of outside contracts for the Pentagon every year for three years. Now, my concern with that is the same as what both you, Mr. Chairman, and Mr. Wittman, articulated about your concerns with JFCOM. There is no analysis to justify that decision. It is a number picked out of a hat. It may in fact be correct. It may be too big, it may be too little. We do not know. And essentially in the private meetings we have had, including the Deputy Secretary of Defense, they have conceded as much. They have not to their credit tried to defend the indefensible. There is no analysis that went into that, it is a goal.

But it is a goal that has consequences for contractors who have currently contracts, and men and women who serve our country through that mechanism who have reason to be concerned about employment now, lacking clarity. It is not clear that there is any sense of priorities about, well, which contracts are we talking about? Are we distinguishing between, you know, high end combat readiness related contracts and, you know, more service contracts that truly could be competed with the public sector, and fairly so.

My own view is that on this kind of issue, insourcing/outsourcing, it cannot be a matter of theology. It has to be a matter of what works. Now, we have gone through the exercise of defining that

which is inherently governmental. And I think frankly the administration listened to labor, to business, to the public sector, and actually came up with a definition that is quite workable and that I think actually meets the concerns by and large of everybody involved. And I was heartened to hear in the closed session today with Comptroller Hale that that is what they are looking at, and that is good to hear. But it was not what we heard several weeks ago when this was just arbitrarily put out there.

I also think we have to dispel the myth that this is designed to save money. It is designed, and everyone holding their fingers, to actually free up internal resources and reallocate them to other higher priority missions, recognizing that the growth in external resources will not be there the way it has been the last decade. And I applaud that. That shows initiative, identifying internal savings to help finance your priorities and their growth is, I think, a wise and prudent way to go.

However, my word of caution, there is not a lot of evidence yet that this or the JFCOM decision will in fact free up those additional resources. If BRAC is at all instructive, it is a story of disappointments with respect to those kinds of expectations. The savings that we had originally projected in BRAC have in fact not materialized. They have been significantly eroded because there were ancillary costs and other upfront investment costs that greatly exceeded the original projections and significantly eroded the consequent savings as a result.

So mine is a word of caution. But I believe that there has to be analytical rigor. This cannot be a matter of faith and theology that one is better than the other, insourcing or outsourcing. It is what makes sense. And if doing it inside because it is inherently governmental makes sense, great. If on the other hand the expertise and the economy are also on the outside then it has to be competed in a fair manner. And so I would hope, and the reason I mention that, Mr. Chairman, is that in listening to the Deputy Secretary he indicated that, well, we have grown out of balance. Outside contracting has grown to 39 percent, and its historic norm is 26 percent. Well, all right. I am certainly open to a fresh look at whether that balance makes sense. But to decide a priority, it does not. Based on what? Theology? Because I do not like it? That is not good enough.

The same rigorous analysis that you called for, Mr. Chairman, and that you called for, Mr. Wittman, with respect to JFCOM, must also apply to this decision on contracting. Otherwise, the decision is being made for reasons unrelated, frankly, to cost savings or any kind of analysis as to whether it would work and improve the operation. And sadly, that is the testimony we are lacking from the Pentagon. So I am looking forward to this private sector panel, but I sure wish we could get the Pentagon to testify in open session not only here in the Budget Committee but they were also scheduled yesterday at the Oversight and Government Reform Committee and declined to participate as well.

Mr. Chairman, I look forward to the testimony and rigorous questioning. Thank you.

Mr. SCOTT. Thank you very much. Does the gentle lady from Minnesota have an opening statement?

Ms. MCCOLLUM. No, Mr. Chairman.

Mr. SCOTT. Thank you, we are pleased to have you at the hearing. We will now begin with our witnesses and we will begin with Mr. Harrison.

STATEMENTS OF TODD HARRISON, SENIOR FELLOW, DEFENSE BUDGET STUDIES, CENTER FOR STRATEGIC BUDGET ASSESSMENTS; JOHN R. (BOB) WOOD, LIEUTENANT GENERAL, USA (RET.), STAR STRATEGIES GROUP; STAN Z. SOLOWAY, PRESIDENT & CEO, PROFESSIONAL SERVICES COUNCIL; AND JACQUELINE SIMON, PUBLIC POLICY DIRECTOR, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO

STATEMENT OF TODD HARRISON

Mr. HARRISON. Thank you, and thank you for having me here today to testify before the Committee. As fiscal year 2010 draws to a close and the economy struggles to recover from the deepest recession since the Great Depression the federal government faces a number of fiscal challenges. The budget deficit is projected to exceed $1.4 trillion due in part to increased spending on fiscal stimulus programs and a sharp reduction in tax revenues due to the recession. But underlying the current fiscal situation is a structural deficit that the economic downturn only exacerbated. As Congress and the administration focus more attention on reducing the deficit all areas of the budget, including defense, have come under increased scrutiny.

The defense budget is in many respects a microcosm of the rest of the federal budget, and the issues in the defense budget, such as the rising costs of pay, pensions, healthcare, contracting, infrastructure, and education are issues in other parts of the federal budget as well. What I hope to do today in my testimony is provide an overview of the trends and issues in the defense budget and what DOD is doing, or in some cases not doing, to address these issues.

I want to begin by taking a look at defense spending from a historical perspective. The total national defense budget request for fiscal year 2011 adjusted for inflation is at the highest dollar amount since World War II, and it is higher than total defense spending at any point in the Vietnam or Korean Wars, even if the costs of the current Wars in Iraq and Afghanistan are excluded. Defense spending rises and falls in cycles which are primarily driven by external events, such as the Wars in Korea and Vietnam and the Cold War arms buildup. After each up turn the budget tends to return to a floor and that floor is gradually rising over time. These two trends suggest that if the current cycle were to follow the same pattern, and there are reasons to think it may not, the defense budget could experience a significant decline over the coming decade. While such cycles are understandable given the ever-changing threat environment that the nation faces, sharp rises and declines in the defense budget complicate long term defense planning.

And just as the top line of the defense budget has varied over time the way in which money is allocated within the defense budget has also varied. At the previous peak in defense spending in fis-

cal year 1985 the operations and maintenance and military personnel accounts together garnered 51 percent of the total DOD budget versus 45 percent for acquisition. Compared to today, in the fiscal year 2011 budget request 67 percent is allocated for operations and maintenance and military personnel compared to 30 percent for acquisition.

The rapid growth in personnel and operational costs is of particular concern because the total number of personnel has not varied significantly over the past decade and in fact it has come down significantly from the 1980's. The 2011 budget request for military personnel totals $139 billion and that does not include War funding. What is not included in the military personnel budget is the defense health program, which is funded under operations and maintenance at a total of about $30 billion a year. Also not included in the military personnel budget is the cost of DOD civilian personnel, which adds another $77 billion. In total, DOD spends some $246 billion on the uniformed military and DOD civilian personnel. With a payroll of 2.3 million direct, full time employees DOD makes up 51 percent of the federal workforce and employs more Americans than Walmart and the United States Postal Service combined. I should note that these figures do not include the number or cost of support contractors.

A growing portion of military compensation is consumed by noncash and deferred benefits. Military healthcare is a major contributor to this growth due in part to more and more military retirees and their dependents electing to use their military healthcare benefit. A total of 9.5 million Americans are now eligible beneficiaries in the military healthcare system. The fee charged to military retirees for enrollment in TRICARE, the military health plan, was set in 1995 at $460 a year for a family plan and has not increased one dollar since then. For comparison, the average annual premium paid by private sector workers, and this is the portion paid by the workers, is $3,500 a year for a family plan. About 70 percent of military retirees have access to private sector insurance. But because of this growing differential more and more of them are choosing to stay on the military system.

Another factor in the rising cost of military healthcare is the enactment of the TRICARE for Life Program in 2001. This is a Medicare supplemental insurance program for military retirees over the age of sixty-five who are on Medicare. Accrual payments to this trust fund now total $11 billion annually out of the DOD budget.

But personnel related costs are not the only area of the budget that has grown over the past decade. The budget for acquisitions has also grown by a total of 46 percent since 2001 adjusting for inflation and not including War funding. A notable trend within the acquisition budget is the relatively high level of funding allocated for the development of new weapons systems. The ratio of procurement to RDT&E has fallen from a peak of 3.5 to 1 in the early 1980's to its current level of 1.5 to 1 in the fiscal year 2011 base budget. What this trend indicates is that DOD continues to spend a greater share of its acquisition budget to develop new and sophisticated weapons systems but it does not adequately fund for the procurement of these systems in quantity. As a result DOD's inventory of equipment, the planes, the ships, and the ground vehicles

that our military depends on, has gotten smaller and older over the past decade despite large increases in what we spend on acquisitions.

However, DOD is attempting to reverse this trend. In the future year defense program submitted with the 2011 budget it projects a rise in procurement and a reduction in RDT&E funding over the coming years and this would increase the ratio to levels not seen since the early 1990's.

Classified funding in the DOD budget has also grown at a rapid pace. Total classified funding, including both the base and the war budgets, is nearly $58 billion in fiscal year 2011. Adjusting for inflation, this is a highest level seen since CSBA, my organization, began tracking it in 1987. The Air Force receives the largest share of DOD's classified acquisition funding, nearly 80 percent of the total. The record for classified acquisition programs is mixed. There have been notable successes, such as the Corona program for reconnaissance satellites in the sixties and seventies. But some classified programs have had troubled histories, such as the National Reconnaissance Office's Future Imagery Architecture Program that was to develop the next generation of spy satellites. This program was canceled in 2005 due to significant cost overruns and technical issues at a reported loss of $4 billion to the government.

However, it should be noted that the mere existence of classified programs can create uncertainty in the minds of potential adversaries. Such uncertainty complicates their planning, and potentially compels them to divert resources to hedge against an unknown capability. Classified programs can therefore be a part of a cost imposing strategy on potential adversaries.

Funding for the wars in Iraq and Afghanistan is also a significant share of the DOD budget, totaling some $159 billion in the fiscal year 2011 request. Funding for operations in Iraq continues to decline as troop levels there subside, and funding for Afghanistan continues to increase as the surge there is nearing completion.

The budget request does not include a projection for war costs in future years. Instead it includes allowances of $50 billion per year for fiscal year 2012 to fiscal year 2015, an amount that is likely far below what will actually be needed. The future costs of the wars depends on a number of external factors that cannot be known in advance, such as operational tempo, fuel prices, and the number and composition of forces deployed in future years. But our analysis has demonstrated a strong correlation between the number of troops deployed and the total annual cost. The annual cost per troop since fiscal year 2005 has averaged $1.2 million per troop in Afghanistan, and $690,000 per troop in Iraq. Given current and projected troop levels it is likely the funding for the wars will exceed the $50 billion allowance per year for several years to come.

In conclusion I would note that the trends in the defense budget I have outlined here, particularly the growth in military personnel costs and the low ratio of procurement to RDT&E funding are cause for concern. If these trends are not reversed it will not be possible for the Department to maintain its current force structure and capabilities without significant increases in funding above the current level.

Secretary Gates has made preserving the force structure a top priority. And as part of his efficiency initiatives has directed the Department to find savings in other parts of the budget that could be directed to force structure and acquisitions. However, efficiencies alone are not likely to result in the magnitude of savings required. The largest source of savings proposed is to reduce spending on support contractors by 30 percent over the next three years. According to congressional and research service estimates this could generate savings of $3.6 billion annually once it is fully implemented. For comparison, this is only enough to offset one year's worth of growth in military healthcare costs. Smaller cuts include the elimination of the Networks and Information Integration, NII; J6; the Business Transformation Agency; and Joint Forces Command. While these eliminations appear to be justified the total savings achieved will depend greatly on how these decisions are implemented. If these organizations are eliminated without corresponding reductions in the head count of military personnel, DOD civilians, and support contractors, the savings will be limited.

The initiatives announced by the Department so far I believe are a step in the right direction but they do not address some of the fundamental issues that plague the defense budget, such as the rising cost of military healthcare. To its credit, the Department has made specific, targeted cuts to programs and activities it has deemed to be a lower priority. This is a sound approach and if applied to the rest of the defense budget it is one that will make the military more efficient and effective in the long run. The alternative would be to simply spread cuts around evenly throughout the Department. The risk with spreading the cuts around evenly is that it does not prioritize programs and activities and could result in a military that looks and operates much like the one we have today but is smaller and less capable.

The challenge for policy makers in such a constrained budget environmental is to adequately fund for the support and modernization of our national defense capabilities without spending one dollar more than is necessary. Rooting out waste, inefficiency, and low priority activities within the defense budget is a difficult and delicate task. In some cases it will mean lost jobs. In other cases it will require taking on vested interest, both within the Pentagon and outside the building.

While the prospect of a flat or declining defense budget may seem like a daunting challenge, particularly while the nation is still engaged in two ongoing wars and unemployment is over 9 percent, it is also an opportunity. This moment provides both the fiscal and political imperative to jettison programs and activities that are no longer needed, budget artifacts from a bygone era, and focus more effectively on the capabilities needed to deter, fight, and win wars in the future. Thank you.

[The prepared statement of Todd Harrison follows:]

PREPARED STATEMENT OF TODD HARRISON, SENIOR FELLOW, DEFENSE BUDGET STUDIES, CENTER FOR STRATEGIC BUDGET ASSESSMENTS

As fiscal year 2010 draws to a close and the economy struggles to recover from the deepest recession since the Great Depression, the federal government faces a number of fiscal challenges. The budget deficit is projected to exceed $1.4 trillion due in part to increased spending on fiscal stimulus programs and a sharp reduction

in tax revenues due to the recession. But underlying the current fiscal situation is a structural deficit that the economic downturn only exacerbated. As Congress and the administration focus more attention on reducing the deficit, all areas of the budget, including defense, have come under increased scrutiny.

The Obama Administration's FY 2011 budget request includes a total of $712 billion for the Department of Defense (DoD). The base budget for the Department includes $549 billion in discretionary funding and $4 billion in mandatory funding. An additional $159 billion is requested for the wars in Afghanistan and Iraq. The budget also requests $19 billion for defense-related atomic energy programs, $8 billion for defense-related activities in other agencies, and $122 billion for veterans. Together these expenses total $861 billion, or 22 percent of the total federal budget.

The defense budget, in many respects, is a microcosm of the rest of the federal budget, and the challenges facing DoD in pay, pensions, healthcare, infrastructure, contracting, and education, to name a few, are also issues in other areas of the budget. My testimony provides an overview of trends and issues in the defense budget and their potential impact on future defense spending and capabilities. I begin by providing an overview of defense spending from an historical perspective and explaining how the share of the defense budget devoted to acquisition and operations and support has varied over time. I then explore in more detail trends in military personnel costs, acquisition costs, classified funding, and war funding. While the issues I identify are not new, what makes these issues of more concern now is that in a constrained budget environment we no longer have the luxury of simply spending our way out of difficult decisions.

The total national defense budget request for FY 2011, adjusted for inflation, is at the highest dollar amount since World War II and is higher than total defense spending at any point in the Vietnam or Korean Wars, even if the cost of the wars in Iraq and Afghanistan are excluded. However, defense spending as a percent of GDP is 4.8 percent in the FY 2011 budget request, below the post-World War II average of 6.5 percent. The apparent discrepancy between defense spending being at a peak level in inflation-adjusted dollars but not as percent of GDP is due to the different rates of growth in the defense budget and national economic output. From the previous peak in defense spending in FY 1985 to the FY 2011 budget request, defense spending grew by 37 percent in real terms compared to 102 percent real growth in GDP over the same period. As a result, the total defense budget as a percent of GDP has fallen from 7.1 to 4.8 percent over that time period because the denominator (GDP) has grown much faster than the numerator (defense spending).

Looking at the defense spending over time, two trends become apparent. The first is that defense spending rises and falls in irregular cycles, which are primarily driven by external events. In the early 1950s, the budget increased sharply for the Korean War. During the Vietnam War, defense spending steadily increased for six years before it peaked in FY 1968 and then declined for the next seven years. The Cold War buildup of the 1980s saw the budget increase for six years until it peaked in FY 1985 and declined for the next ten years. The current cycle, however, is different in several respects: the budget may not have peaked yet, depending on how the war in Afghanistan progresses; and the global economic outlook and federal deficit are worse than in previous cycles. Moreover, the current buildup in defense spending has been a "hollow" buildup in many respects because the military's end strength has remained nearly constant at 1.5 million in the active force, and the equipment inventory has gotten smaller and older in many areas.

The second notable trend is that after each cycle the budget returns to a floor, and that floor is gradually rising over time. At the end of WWII, defense spending plummeted to less than $100 billion in today's dollars. After the Korean War, the defense budget dropped again, but only to about $290 billion, this time due, in part, to the emergence of a peacetime defense industry. Following the Vietnam War, defense spending fell again to about $300 billion. After the end of the Cold War buildup, the defense budget never dropped below $350 billion. These two trends suggest that if the current cycle were to follow the same pattern—and there are reasons to think it may not—the defense budget could experience a significant decline over the coming decade. While such cycles are understandable given the ever-changing threat environment the nation faces, sharp rises and declines in the defense budget complicate long-term defense planning.

Just as the topline of the defense budget has varied over time, the way in which money is allocated within the defense budget has also varied. In recent years, funding has shifted away from acquisition accounts toward operation and maintenance and military personnel accounts. At the previous peak in defense spending in FY 1985, the operations and maintenance and military personnel accounts garnered 51 percent of the total DoD budget versus 45 percent for acquisition. In the FY 2011 budget request, 67 percent is allocated for operations and maintenance and military

personnel, compared to 30 percent for acquisition—or 62 percent and 34 percent, respectively, if war funding is excluded.

The rapid growth in personnel costs is of particular concern because the total number of personnel has not varied significantly over the past decade. Since 2001, the military personnel budget has grown by a total of 46 percent, adjusting for inflation and not including war funding, to $139 billion in the FY 2011 request. What is not included in that figure is the Defense Health Program, which is funded under the operations and maintenance title of the budget at $30 billion. Also not included is the cost of DoD civilian personnel, which adds another $77 billion. In total, DoD spends some $246 billion on uniformed military and DoD civilian personnel—not including the cost of contractors. With a payroll of 2.3 million direct employees, DoD makes up 51 percent of the federal workforce and employs more Americans than Wal-Mart and the U.S. Postal Service combined.

A notable trend in military personnel funding is the growing portion of military compensation that is consumed by noncash and deferred benefits. For comparison, in the private sector about 29 percent of total compensation costs go to non-cash and deferred benefits, such as healthcare and pensions. At General Motors, before it went into bankruptcy, noncash and deferred compensation made up 45 percent of total compensation costs. For DoD, the figure is 52 percent. Military healthcare is a major contributor to noncash and deferred compensation costs for DoD, due in part to more and more military retirees and their dependents electing to use their military healthcare benefit. A total of 9.5 million Americans are now eligible beneficiaries in the military healthcare system, including the active-duty military, military retirees, and their dependents, at a cost to DoD of $50.7 billion in the FY 2011 budget request.

The fee charged to military retirees for enrollment in TRICARE was set in 1995 at $460 for a family plan and has not increased since then. For comparison, the average annual premium paid by private-sector workers is $3500—not including the share of annual premiums paid by their employers. About 70 percent of military retirees have access to private-sector insurance, but because of this growing price differential more of them are choosing to stay in the military system. Another factor in the rising cost of military healthcare is the TRICARE for Life program, a Medicare supplemental insurance program for military retirees over the age of 65 that was enacted in 2001. Accrual payments to this trust fund now total $11 billion annually.

But personnel-related costs are not the only area of the defense budget that has grown over the past decade. The budget for acquisitions, including research, development, test, and evaluation (RDT&E) and procurement, has also grown by a total of 46 percent since FY 2001, adjusting for inflation and not including war funding. A notable trend within the acquisition budget is the relatively high level of funding allocated to RDT&E for the development of new weapon systems. Over time, this has undermined DoD's ability to substantially fund for the procurement of new weapon systems and correct the lagging pace of procurements from the past two decades. The ratio of procurement to RDT&E has fallen from a peak of 3.5 to 1 during the early 1980s to its current level of 1.5 to 1 in the base budget request for FY 2011. What this trend indicates is that DoD continues to spend a greater share of its acquisition budget to develop new and sophisticated weapon systems but does not adequately fund the procurement of these systems in quantity. However, the future-year defense program submitted with the FY 2011 budget request begins to reverse this trend. Funding for procurement is projected to rise and RDT&E is projected to decline over the coming years. By FY 2015 the ratio of procurement to RDT&E in the base budget will reach 2.0 to 1, the highest level since FY 1990.

Classified funding in the DoD budget has also been growing at a rapid pace. Total classified funding, including both base and war funding, is some $57.8 billion in the FY 2011 request. Adjusting for inflation, this is the highest level seen since CSBA began tracking it in FY 1987. Classified O&M funding has not been consistently reported in previous years, but this year's budget request reveals that it is the fastest-growing area within classified funding. Classified O&M increases 9.6 percent in real terms in the FY 2011 request over the previous year, which follows a similar 11.0 percent real increase in FY 2010.

The Air Force receives the largest share of DoD's classified acquisition funding—nearly 80 percent of the total. Classified programs account for about 43 percent, or $19.1 billion, of the Air Force's procurement request and 46 percent, or $12.6 billion, of its RDT&E request. The concentration of classified funding in the Air Force's budget is the result of two factors. First, the Air Force acquisition budget is believed to contribute funds to a number of intelligence agencies, including the Central Intelligence Agency (CIA), National Security Agency (NSA), and National Reconnaissance Office (NRO). Second, the Air Force is responsible for most command, control,

communications, and intelligence (C3I) functions and related assets such as reconnaissance satellites and satellite launch and control facilities, which tend to be heavily classified programs.

The record for classified acquisition programs is mixed. A notable success was the Corona program for reconnaissance satellites, which produced valuable imagery intelligence from 1960 to 1972. Several successful and effective aircraft have also been developed and even produced as black programs, including the F-117 stealth fighter, the B-2 stealth bomber, and the SR-71 reconnaissance plane. Some classified programs have had troubled histories, such as the National Reconnaissance Office's Future Imagery Architecture program to develop the next generation of spy satellites, which was cancelled in 2005 due to significant cost overruns and technical issues at a reported $4 billion loss for the government. However, it should be noted that the mere existence of classified programs can create uncertainty in the minds of potential adversaries. Such uncertainly complicates their planning and, potentially, compels them to divert resources to hedge against an unknown capability. Classified programs can therefore be part of a cost-imposing strategy on potential adversaries.

Funding for the wars in Afghanistan and Iraq totals $159.3 billion in the FY 2011 request. The budget request continues the trend of declining funding for Iraq, as troops levels there subside, and increasing funding for Afghanistan. The budget request does not include a projection for war costs in future years. Instead, it includes "allowances" of $50 billion per year for FY 2012 to FY 2015, the same amount that was used in the FY 2010 budget request as a placeholder for future war funding.

The future cost of the wars depends on a number of external factors that cannot be known in advance, such as operational tempo, fuel prices, and the number and composition of forces deployed in future years. While the cost of each conflict depends on many variables, previous analysis by CSBA has demonstrated a strong correlation between the number of troops deployed and the total annual cost. Based on the most current information on troop levels and costs, the annual cost per troop since FY 2005 has averaged $1.2 million in Afghanistan and $0.69 million in Iraq, in constant-year FY 2011 dollars.

The trends in the defense budget outlined here, particularly growth in military personnel costs and the historically low ratio of procurement to RDT&E funding, are cause for concern. If these trends are not reversed, it will not be possible for the Department to maintain its current force structure and capabilities without significant increases in funding above the current level. Secretary Gates has made preserving the force structure a top priority, and as part of his efficiencies initiative has directed the Department to find savings in other parts of the budget that could be directed to force structure and acquisitions. However, efficiencies alone are not likely to result in the magnitude of savings required.

The largest source of savings proposed is to reduce spending on support contractors by 30 percent over the next three years. According to Congressional Research Service estimates, this could generate savings of $3.6 billion annually once it is fully implemented. Smaller cuts include the elimination of Networks and Information Integration (NII), J6, Business Transformation Agency (BTA), and Joint Forces Command (JFCOM). While these eliminations appear to be justified, the total savings achieved will depend greatly on how they are implemented. If these organizations are eliminated without corresponding reductions in the headcount of military personnel, DoD civilians, and support contractors, the savings will be limited. The initiatives announced by the Department so far are a step in the right direction, but they do not address some of the fundamental issues that plague the defense budget, such as the rising cost of military healthcare.

To its credit, the Department has made specific, targeted cuts to programs and activities it has deemed to be a lower priority. This is a sound approach, and if applied to the rest of the defense budget it is one that will ultimately make the military more efficient and effective in the long run. The alternative is to simply spread the cuts around evenly throughout the Department. The risk with this approach is that it does not prioritize programs and activities within the budget and could result in a military that looks and operates much like the one we have today, but is smaller and less capable.

The challenge for policy makers in such a constrained budget environment is to adequately fund for the support and modernization of our national defense capabilities without spending one dollar more than is necessary. Rooting out waste, inefficiency, and low-priority activities within the defense budget is a difficult and delicate task. In some cases, it will mean lost jobs. In other cases, it will require taking on vested interests both within the Pentagon and outside the building. While the prospect of a flat or declining defense budget may seem like a daunting challenge, particularly while the nation is still engaged in two ongoing wars and unemployment is over 9 percent, it should also be viewed as an opportunity. It can provide

both the fiscal and political imperative to jettison programs and activities that are no longer needed—budget artifacts from a bygone era—and focus more effectively on the capabilities needed to deter, fight, and win wars in the future.

ABOUT THE CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS

The Center for Strategic and Budgetary Assessments (CSBA) is an independent, nonpartisan policy research institute established to promote innovative thinking and debate about national security strategy and investment options. CSBA's goal is to enable policymakers to make informed decisions on matters of strategy, security policy and resource allocation.

CSBA provides timely, impartial and insightful analyses to senior decision makers in the executive and legislative branches, as well as to the media and the broader national security community. CSBA encourages thoughtful participation in the development of national security strategy and policy, and in the allocation of scarce human and capital resources. CSBA's analysis and outreach focus on key questions related to existing and emerging threats to US national security. Meeting these challenges will require transforming the national security establishment, and we are devoted to helping achieve this end.

Mr. SCOTT. Thank you. General Wood?

STATEMENT OF JOHN R. WOOD

LTG WOOD. Mr. Chairman thank you for inviting me to testify before the Budget Committee. It is an honor to be here and to be afforded an opportunity to present my views and to answer your questions. My comments represent my personal opinion and are based on my own experience while on active duty in the United States Army. My duty concluded in 2009 after serving three years as the Deputy Commander of Joint Forces Command.

On August 9, 2010 Secretary of Defense Robert Gates announced a number of initiatives to promote efficiencies and cost savings at the Department of Defense in advance of expected reductions in discretionary federal spending. Through these initiatives Secretary Gates wants to change the budget culture of the Department, promote affordable acquisition, become more efficient and eliminate redundancies or needless command staff, or functional layers where possible.

While seeking more than $100 billion over the next several years in efficiency savings, the Department will seek some real growth in overall spending. More importantly, efficiency and cost savings will be invested in greater support to deploy troops and greater capabilities for this operating force. This shift of expenditures from the tail of supporting functions to the tooth of operating forces is a vital focus and a laudable objective.

This notion of finding more capability output within given resources, this synergistic result, is crucially important in the face of severe resource constraints. Now these ideas of efficiency, reduction of organizational layers, elimination of redundancy, and achievement of synergy, underlie another prominent long term goal of the Department of Defense, the efforts to build a truly joint force. But Secretary Gates said that we have reached the point where we fully appreciate the value of a joint force and in his judgment we no longer need a four-star headquarters to advocate for the joint force. For that reason he has recommended the elimination of the Unites States Joint Forces Command. According to the Department elimination of this command will reduce a layer of headquarters, and return savings, an amount as yet undetermined, to the Department's economies and efficiency efforts.

Now, this recommendation has attracted attention and review for good reason. The training of joint operational skills, the operation of joint command and control, and the development of joint capabilities are by objective and purpose economizing and efficient. Few other activities within the Department so naturally and closely align with the goals and objectives announced by Secretary Gates on August 9. The whole purpose of acting as a joint force is to capitalize on the synergy of complementary or integrated capabilities unified in action under the joint force commander. Why, then, eliminate a command like JFCOM that commits itself every day in every mission to achieve economical and more efficient joint objectives to support the combatant commanders? It is certainly within the authority of the Secretary to make such a recommendation, and it is certainly a military decision to establish and align headquarters to accomplish assigned missions. But it is a legitimate question to ask how the alternative solution to achieve joint readiness will not stop or reverse progress in this area?

The ability of the U.S. military to act as a joint force resulted from difficult lessons learned in past conflicts and national missions, whether recovering from the aftermath of Desert I, overcoming command and control lessons learned in Operation Urgent Fury, or building speed or response required for the next Katrina, progress in this joint business has been difficult. Today's ability for joint action is a hard won strength that sets our military apart from other militaries around the world. To act is the key idea. Joint is not a state of being, but instead is a state of action. We can be a soldier, sailor, airman, or marine, but we act jointly. This action is one that involves integration of functions, formations, and missions to achieve at a minimum unity of purpose, or optimally unity of effort. And typically one person, a joint commander, is in charge.

All in the military and those who support it have worked hard to achieve this progress. Along the way we needed to alter the culture, build the doctrine, train the forces, and learn to integrate joint capabilities. Laws such as Goldwater-Nichols were passed to guide this journey. Successive chairmen of the Joint Chiefs and Secretaries of Defense gave guidance and emphasis on various aspects of joint integration or specific joint missions as the military proceeded. And through years of combat experience supported by adaptive joint training, we have now built a generation in the military who are proficient in the employment of joint fires, intelligence, mobility, logistics, command and control to combat today's threats.

Our success to act is evident in the remarkable performance of our troops in Iraq, Afghanistan, the Horn of Africa, and elsewhere in this global battle against terrorism. This outcome is no accident, nor has it been easy to accomplish. Now it is not false bravado or overstatement to simply say our historical approach to building joint force operational readiness by specifying such duties to a combatant commander contributed in real ways to our current state of joint war fighting success.

Since 1947, from early roots in the naval commands of the Atlantic Fleet in NATO, until today, unified combatant commanders in Norfolk, Virginia have been in charge to build and sustain joint

force readiness and improve the joint war fighting qualifies of the nation's military. Earlier designs of unified commands in Norfolk that combine this important task to promote joint action with geographic responsibilities, geopolitical tasks, or service specific missions, ultimately fell short of expectations. The operational, cultural, doctrinal, and material barriers to successful joint action demanded singular attention.

Secretary Cohen recognized this and established USJFCOM in 1999 with a clear mandate, to understand the future requirements of the joint force, and build or train the joint capabilities needed for success. With the elimination of all geographic responsibilities in 2002 JFCOM became even more focused on this mission. Just as the integrating functions for space, transportation, cyber, missile defense, and special operations found homes in today's functional combatant commands, joint war fighting became the functional mission for JFCOM. The future became its area of responsibility.

The makeup of JFCOM, its assigned missions, its many deployments, and its daily operations all were defined and driven by national level guidance, DOD mandate, or JCS directive. This activity was not a capricious choice or self-generated action. At each point in its growth as a command or change in its mission, strong rationale was presented by past chairmen and Secretaries of Defense as they directed changes to achieve better joint synergy, joint operational capability, or joint force integration.

The many talented, military and civilian, who earlier served the U.S. Atlantic Command and today serve the U.S. Joint Forces Command answered this call to action and made a huge contribution to our nation's military readiness and strength. And the civilian communities and their leaders broadly supported the command's important work along the way. To mention just few examples, JFCOM joint training programs are perhaps best known. From combatant commander training support to expansion of network training capabilities, to federation of advanced modeling and simulation, command activities contributed repeatedly and materially to the training of all joint conventional and special operations headquarters and staffs in the wars of the last nine years. Less known are the activities of JFCOM's ready forces. These smaller elements have repeatedly deployed worldwide to support Joint Commanders responding to crisis on behalf of national missions. They stand ready tonight to deploy again and immediately provide trained, critical operational capabilities such as command and control, public affairs, fires integration, personal recovery, and other special staff skills. Then there are the activities in JFCOM's joint integration directorate, that attend to critical coordinating tasks confronting the joint force. Prevention of fratricide, elimination of redundant or competing IT systems, and promotion of coalition information sharing are just some examples of its daily work. The list goes on to include teams and subordinate commands under JFCOM that tackle tough integration tasks, all delegated down from the chairmen. Such as joint fires integration, irregular warfare competence, joint personnel recovery proficiency, and coordinated joint unmanned aerial system integration. And in the area of joint experimentation, JFCOM has kept a focus on future joint war fighting and operational needs. Interagency and coalition integration,

operational planning methods, and integration of advanced technologies into joint operations comprise a small part of its work.

The joint force provider mission consumes a major part of the command's energy, particularly as transitions continue in Iraq and Afghanistan. Intense daily coordination with the services with uniquely skilled force managers permit JFCOM to develop and offer objective advice and specific force packages to answer every changing combatant commander requirements. The force management agility to accomplish the surge in Iraq, and now in Afghanistan, depended greatly on the quiet professionals working diligently in JFCOM.

Finally, unique elements in the joint world, such as the Joint Warfare Analysis Center and the Joint Center for Operations Analysis, continue to provide key support to the combatant commanders and the Department of Defense. JWAC daily advances the art and science of targeting in both the kinetic and non-kinetic realm. The Joint Center for Operations Analysis has perfected an ability to not just record joint lessons learned but analyze and report why operational outcomes happen and why it matters to the proficiency of the joint force. Their reports and briefings have informed DOD and White House leaders.

The Secretary's clear recognition of the value of joint war fighting and his intention to keep many of the functions that reside within the Joint Forces Command are not insignificant points. He is stating what our military knows: we have and must retain our ability to act jointly. He has recommended pursuit of this final goal in a different way than through a unified command under four-star leadership. It will be the job of the nominated new commander, General Odierno, to do the analysis and propose a plan to do it. There is no better commander than General Odierno to lead this mission, with his wealth of experience in current joint operations.

There is no real way to know what General Odierno will recommend in his plan, though. We can say that functions key to joint war fighting readiness will continue to exist. We do not know how large these activities will be or where they will be stationed. Activities such as joint training, joint capability integration, and joint doctrine development will likely continue. The Secretary has already suggested some functions, such as joint force management, could be returned to the Joint Staff. Joint experimentation could either be eliminated or transferred to the combatant commands. And the guesswork continues across the many other smaller activities that currently reside under JFCOM.

But it is important again to assert that we must retain our hard won ability to act as a joint force. The merits of any plan going forward must be judged not by what we have achieved today or in the past, but what we can do tomorrow as a joint force against the very threats highlighted by Secretary Gates in August. Or stated differently, will we still be able to act as a joint force against these future threats with new capabilities, evolved doctrine, practiced techniques and procedures, and trained and ready leaders?

Like any other military decision there must be an accounting for risk. The risk in this decision to eliminate JFCOM is about momentum, to a great extent. The question could be asked, do we need the structure and strength of a combatant command to sustain the

momentum of our progress towards enduring joint war fighting proficiency? I firmly believe the leadership of the Defense Department understands the risk of this decision, to choose a new model to ensure joint war fighting proficiency. I also know the troops who have learned to fight as a joint team will expect effective joint solutions. If we eliminate JFCOM we leave a solution that works, and works well.

Going forward we must not, once again, confront old lessons learned in Vietnam, Desert I, Urgent Fury, or Desert Storm about inadequate joint training, joint force integration, and joint war fighting. It will be important to empower the next alternative approach with the authority, the responsibility, and the resources to succeed equally well if not better. And if it is more economical, more efficient, and more capable as evidenced by integrated action, not simply a general description, will know the momentum and the essential development of the nation's joint force capability continues. Thank you.

[The prepared statement of John R. Wood follows:]

PREPARED STATEMENT OF JOHN R. (BOB) WOOD, LIEUTENANT GENERAL, USA (RET.), STAR STRATEGIES GROUP

Mr. Chairman, thank you for inviting me to testify before the Budget Committee. It is an honor to be here, to be afforded an opportunity to present my views, and to answer your questions. My comments represent my personal opinion and are based on my own experiences while on active duty in the U.S. Army. My duty concluded in 2009 after serving three years as the Deputy Commander of Joint Forces Command.

On August 9th, 2010, Secretary of Defense Robert Gates announced a number of initiatives to promote efficiencies and cost savings in the Department of Defense in advance of expected reductions in discretionary Federal spending. Through these initiatives, Secretary Gates wants to change the budget culture of the department, promote affordable acquisition, become more efficient, and eliminate redundancies or needless command, staff, or functional layers where possible.

While seeking more than $100B over the next several years in efficiency savings, the Department still seeks some real growth in overall spending. More importantly, efficiency and cost savings will be invested in greater support to deployed troops and greater capabilities for this operating force. This shift of expenditures from the "tail" of supporting functions to the "tooth" of operating forces is a vital focus and a laudable objective. This notion of finding more capability output within given resources, this synergistic result, is crucially important in the face of severe resource constraints.

These ideas of efficiency, reduction of organizational layers, elimination of redundancy and achievement of synergy underlie another prominent, long term goal of the Department of Defense * * * the efforts to build a truly Joint force. But Secretary Gates said that we have reached the point where we fully appreciate the value of a Joint force and, in his judgment, "we no longer need a four star headquarters" to advocate for the Joint force. For that reason, he has recommended the elimination of United States Joint Force Command. According to the Department of Defense, elimination of this command will reduce a layer of headquarters and return savings, an amount as yet undetermined, to the department's economies and efficiency efforts.

This recommendation has attracted attention and review for good reason. The training of Joint operational skills, exercise of Joint command and control, and the development of Joint capabilities are, by objective and purpose, economizing and efficient. Few other activities within the Department so naturally and closely align with the goals and objectives announced by Secretary Gates on August 9. The whole purpose of acting as a Joint force is to capitalize on the synergy of complimentary or integrated capabilities unified in action under the Joint force commander. Why then eliminate a command like JFCOM that commits itself every day in every mission to achieve economical and more efficient Joint objectives to support the Combatant Commanders? It is certainly within the authority of the Secretary to make such a recommendation. And, it is certainly a military decision to establish and align headquarters to accomplish assigned missions. But, it is a legitimate question

to ask how the alternative solution to achieve Joint readiness will not stop or reverse progress in this area.

The ability of the US military to act as a Joint force resulted from difficult lessons learned in past conflicts and national missions. Whether recovering from the aftermath of Desert One, overcoming command and control lessons learned in Operation Urgent Fury, or building speed of response required for the next Katrina, progress in this Joint business has been difficult. Today's ability for Joint action is a hard won strength that sets our military apart from other militaries around the world. To Act is the key idea. Joint is not a state of being but, instead, is a state of action. We can be a Soldier, Sailor, Airman, or Marine but we act jointly.

All in the military and those who support it have worked hard to achieve this progress. Along the way, we needed to alter the culture, build the doctrine, train the forces, and learn to integrate joint capabilities. Laws such as Goldwater-Nichols were passed to guide this journey. Successive chairmen of the joint chiefs and Secretaries of Defense gave guidance and emphasis on various aspects of Joint integration or specific Joint missions as the military proceeded. And, through years of combat experience supported by adaptive Joint training, we've now built a generation in the military who are proficient in employment of Joint fires, intelligence, mobility, logistics, and command and control to combat today's threats. Our success to act is evident in the remarkable performance of our troops in Iraq, Afghanistan, the Horn of Africa and elsewhere in this global battle against terrorism. This outcome was no accident nor has it been easy to accomplish.

It is not false bravado or overstatement to simply say our historical approach to building Joint force operational readiness by specifying such duties to a combatant commander contributed, in real ways, to our current state of Joint warfighting success. Since 1947, from early roots in the naval commands of the Atlantic Fleet and NATO until today, unified combatant commanders in Norfolk, Virginia, have been charged to build and sustain Joint force readiness and improve the Joint warfighting qualities of the nation's military. Earlier designs of unified commands in Norfolk, that combined this important task to promote Joint action with geographic responsibilities, geo-political tasks, or Service specific missions, ultimately fell short of expectations. The operational, cultural, doctrinal, and material barriers to successful Joint action demanded singular attention.

Secretary Cohen recognized this and established USJFCOM in 1999 with a clear mandate to understand the future requirements of the Joint force and build or train the Joint capabilities needed for success. With the elimination of all geographic responsibilities in 2002, JFCOM became even more focused on this mission. Just as the integrating functions for space, transportation, cyber, missile defense, and special operations found homes in today's functional Combatant Commands, Joint warfighting became the functional mission for JFCOM. The future became its Area of Responsibility or AOR.

The makeup of JFCOM, its assigned missions, its many deployments, and its daily operations all were defined and driven by national level guidance, DoD mandate, or JCS directive. This activity was not capricious choice or self generated action. At each point in its growth as a command or change in its mission, strong rationale was presented by past Chairmen and Secretaries of Defense as they directed changes to achieve better Joint synergy, Joint operational capability, or Joint force integration.

The many talented military and civilians who earlier served the US Atlantic Command and today serve the US Joint Forces Command answered this call to action and made a huge contribution to our nation's military readiness and strength. And, the civilian communities and their leaders broadly supported the command's important work along the way. To mention just a few examples:

- JFCOM's Joint Training programs are perhaps best known. From Combatant Commander training support, to expansion of networked training capabilities, to federation of advanced Modeling and Simulation, command activities contributed repeatedly and materially to the training of all Joint conventional and special operations headquarters and staffs in the wars of the last 9 years.
- Lesser known are the activities of JFCOM's ready forces. These smaller elements have repeatedly deployed worldwide to support Joint commanders responding to crisis on behalf of national missions. They stand ready tonight to deploy again and immediately provide trained, critical operational capabilities such as command and control, public affairs, fires integration, personnel recovery, and other special staff skills.
- Then, there are the activities in JFCOM's Joint Integration directorate that attend to critical coordinating tasks confronting the Joint force. Prevention of fratricide, elimination of redundant or competing IT systems, and promotion of coalition information sharing are just some examples of its daily work.

• The list goes on to include teams and subordinate commands under JFCOM that tackle tough integration tasks delegated to them from the Chairman such as joint fires integration, irregular warfare competence, Joint personnel recovery proficiency, and coordinated Joint UAS operations.

• And, in the area of Joint experimentation, JFCOM has kept a focus on future Joint warfighting and operational needs. Interagency and coalition integration, operational planning methods, and integration of advanced technologies into joint operations comprise a small part of its work.

• The Joint Force Provider mission consumes a major part of the command's energy, particularly as transitions continue in Iraq and Afghanistan. Intense, daily coordination with the Services by uniquely skilled force managers permit JFCOM to develop and offer objective advice and specific force packages to answer ever-changing Combatant Commander requirements. The force management agility to accomplish the surge in Iraq and now in Afghanistan depended greatly on the quiet professionals working diligently in JFCOM.

• Finally, unique elements in the Joint world such as the Joint Warfare Analysis Center and the Joint Center for Operational Analysis continue to provide key support to the Combatant Commanders and the Department of Defense. JWAC daily advances the art and science of targeting in both the kinetic and non-kinetic realm. JCOA has perfected an ability to not just record Joint lessons learned but analyze and report why operational outcomes happened and why it matters to the proficiency of the Joint force. Their reports and briefings have informed DoD and White House leaders.

The Secretary's clear recognition of the value of Joint warfighting and his intention to keep many of the functions that reside within the Joint Forces Command are not insignificant points. He is stating what our military knows * * * we have and must retain our ability to act Jointly. He has recommended pursuit of this vital goal in a different way than through a Unified command under four-star leadership. It will be the job of the nominated new commander, General Odierno, to do the analysis and propose a plan to do it. There is no better commander than General Odierno to lead this mission, with his wealth of experience in current Joint operations.

There is no real way to know what General Odierno will recommend in his plan. We can say that functions key to Joint warfighting readiness will continue to exist. We don't know how large these activities will be or where they will be stationed. Activities such as Joint training, joint capability integration, and joint doctrine development will likely continue. The Secretary has already suggested some functions such as Joint Force management could be returned to the Joint Staff. Joint experimentation could either be eliminated or transferred to the Combatant Commands. And, the guesswork continues across the many other smaller activities that currently reside under JFCOM.

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Like any other military decision, there must be an accounting for risk. The risk in this decision to eliminate JFCOM is about momentum, to a great extent. The question could be asked, "Do we need the structure and strength of a Combatant Command to sustain the momentum of our progress toward enduring Joint warfighting proficiency?"

I firmly believe the leadership of the Department of Defense understands the risk of this decision to choose a new model to insure Joint warfighting proficiency. I also know the troops who've learned to fight as a Joint team will expect effective Joint solutions. If we eliminate JFCOM, we leave a solution that works and works well. Going forward, we must not, once again, confront old lessons learned in Vietnam, Desert One, Urgent Fury, or Desert Storm about inadequate Joint training, Joint force integration, and Joint warfighting. It will be important to empower the next alternative approach with the authority, the responsibility, and the resources to succeed equally well if not better. And, if it is more economical, more efficient, and more capable as evidenced by action, not simply in description, we'll know the momentum in the essential development of the nation's Joint force capability continues.

Thank you.

Mr. SCOTT. Thank you. Mr. Soloway?

STATEMENT OF STAN Z. SOLOWAY

Mr. SOLOWAY. Thank you Mr. Chairman and members of the Committee. I appreciate the opportunity to appear here today and share the views of the nearly 350 members of the Professional Services Council on the different and important efficiency and insourcing initiatives underway in the Defense Department. PSC is the largest organization of government services contractors in the nation with a membership that includes companies of all sizes performing services of all kinds across the government, very prominently including the Defense Department.

Let me start by saying that I am not here today to challenge the intent or focus of Secretary Gates' initiatives. The Secretary has set in motion a series of efforts that are most necessary and timely. The fiscal pressures faced by the government as a whole, and DOD in particular, coupled with the clear workforce challenges that have existed for some time, mandate that the Department move aggressively to both optimize its resources and balance its workforce. As such, our approach to each of these initiatives, which I will address individually in a moment, has been to seek a collaborative dialogue aimed at enabling success.

As many have already pointed out this afternoon, in addition to being important initiatives they must be conducted in a manner that meets basic principles of analytical rigor, transparency, and collaboration. Unfortunately to varying degrees and in different ways none have fully met these basic tests.

There are actually three separate but interconnected and interdependent initiatives underway today. The Secretary's efficiency initiative, through which he has established an ambitious but achievable goal of some $100 billion in savings over the next three years. Under Secretary Carter's acquisition improvement initiative, which is designed to ensure the Department gets best value in its acquisition process. And the Secretary's insourcing initiative, which was designed to help DOD address shortfalls in critical workforce skills.

Under Secretary Carter's acquisition improvement initiative is very much a work in progress. And while many questions have arisen relative to some of the goals he has established, the process of defining the details associated with execution are just now underway. The Department has pledged to work with a number of different groups, including industry, in developing those details and we welcome that opportunity. As such, for the purposes of this hearing I will focus more on the Secretary's efficiency initiative and the trend to insource.

With regard to the Secretary's efforts to find $100 billion in savings, our principal questions revolve around the analytics underpinning several of the specific actions. We take no position on organizational questions, such as the closure of JFCOM, BTA, or NII, but do agree with everyone that it would be helpful if the Department were to share more of the data that led to the specific decisions. I might add in addition to the comments, Mr. Chairman, that you made earlier this afternoon, in his comments on closing JFCOM the Secretary also made a major point of the fact that JFCOM is very "contractor heavy," whatever that may mean. But that in and of itself does not seem to me to be a reason to close

a command. Who is performing the work is of far less significance than the nature, relevance, and quality of the work being performed. The core issue should be mission focused, not who focused.

Similarly the Secretary has mandated a 10 percent per year reduction in contract support services for the next three years. This begs much the same question: what is magical about reducing contract services? Clearly if the work involved is inherently governmental that is one thing. But beyond that I think it is fair to ask why that directive was not targeted more holistically, to include the full range of departmental activities without regard to who is performing the work, a strategic mission focused approach.

The record surrounding DOD's insourcing initiative is far more troubling. In simple terms, the Secretary set out in April of 2009 to address the Department's workforce issues by adding 35,000 new positions, many of them in acquisition. Half of those positions were to come through insourcing currently contracted work, the other half through new hires. We strongly supported this initiative, even though many of our member companies would likely be affected. We all recognize the importance of ensuring DOD has the right skills in place to plan, manage, and oversee its missions. And to be fair, some progress has been made amongst the acquisition work force. But overall, the initiative has devolved into a quota-driven exercise tied to arbitrary budget assumptions that have little or no analytical data to support them. More than half of the positions identified for insourcing involve routine support services and will thus do nothing to help address the workforce issues the Secretary identified.

In my written statement I have detailed some of what we have seen, and the lack of analysis and transparency that has underpinned those decisions. I would be happy to discuss it in more detail during the question period.

As a result of this highly undisciplined process, insourcing is taking place that will actually increase cost to the taxpayer without addressing the Department's workforce needs. Moreover, the Department has been entirely unwilling to share any of the analyses that are being done to support either individual insourcing decisions or the overall budgetary assumptions. In addition, no consideration is being given to the broader economic impacts associated with insourcing, particularly with regard to local and regional economies and the associated loss of tax and other revenues.

Clearly, the government should not be a jobs program for the private sector, nor for the public sector for that matter. And where work must be done by federal employees the economic and cost impacts are what they are and must be accepted. But where options exist for performance those impacts should very much be a part of the analytical equation. When small businesses shutter their doors as a result of an undisciplined insourcing we should ask where the analyses are to support such effects. Likewise, when local tax revenues or investment bases are reduced as a result of this process we should ask how the trade offs and the analytics to support that have been structured and meet the best needs of the government and the taxpayer. And when insourcing decisions result in the government assuming vastly greater deferred liabilities than imme-

diate savings it has projected, we should ensure that the analytics broadly support such decisions.

Unfortunately, today that is not occurring. And as this process has unfolded the Department and the military services have refused to share publicly, or with the directly affected companies or unions, the analyses underpinning their decisions. Frankly, the unwillingness to do so is inexplicable and directly counter to the increased transparency Congress and the administration have been advocating.

Mr. Chairman, as I said Secretary Gates and Under Secretary Carter have embarked on important and ambitious initiatives that we support and want to succeed as designed. Our hope as these processes unfold the degree of openness and dialogue will dramatically increase so that together we can ensure that success. Thank you very much.

[The prepared statement of Stan Soloway follows:]

PREPARED STATEMENT OF STAN SOLOWAY, PRESIDENT & CEO, PROFESSIONAL SERVICES COUNCIL

Mr. Chairman and members of the committee, thank you for the opportunity to appear before you today. My name is Stan Soloway and I am the President and CEO of the Professional Services Council, the nation's largest association of government services contractors.

The Department of Defense has embarked on several important and ambitious initiatives to reduce its overhead costs, eliminate unnecessary work, and properly balance its workforce. I appreciate the opportunity to share our views on those initiatives. As these initiatives unfold, it is in everyone's interests to ensure that they do so in a transparent, evidence-based, mission-focused manner. Moreover, those attributes should exist in advance of any decision or action, not as a post-hoc rationalization.

Let me make clear that we fully recognize the imperatives the Secretary of Defense has identified and support his commitment to ensuring that the department optimizes its resources and appropriately aligns its workforce needs. There is no question that there are savings to be had and that, in this time of exceptional fiscal pressures, every effort needs to be made to identify and capitalize on those opportunities. Moreover, as we have made clear repeatedly to the department, the members and staff of the Professional Services Council stand ready to work closely with the department in the development and implementation of strategies that will enable the department to meet its goals. We already have had some of those discussions but many more are needed. Conversely, the Secretary's ambitious objectives will not likely be met if the department attempts to operate in a vacuum, solely through directives, or on the basis of arbitrary goals.

The department has set in motion three independent but interconnected objectives. These include the Secretary's insourcing initiative, which was launched in early 2009; the department-wide efficiency initiative he announced earlier this year and elaborated on in his August 9 statement; and Undersecretary Carter's acquisition improvement initiative which was initially announced on June 28 and more fully unveiled on September 14. Since the acquisition initiatives remain a work in progress, particularly with regards to improvements in what Dr. Carter called "tradecraft" in services acquisition, I will focus most, but not all, of my remarks on the other two initiatives. In all cases much work remains to be done to ensure they truly meet the tests of transparency, rigorous analysis, and collaboration.

THE ACQUISITION INITIATIVES: A WORK IN PROGRESS

We commend Undersecretary Carter for undertaking an acquisition improvement initiative and we look forward to engaging in substantive dialogue with the department as the details of the initiative unfold. Our goal is to engage with the department to identify ways to ensure the objectives of the initiatives are met. For now, let me make just a few brief comments on the initiatives as they currently stand.

First, with regard to competition, Dr. Carter made clear his concern that competition for services is not what he would like it to be. In so doing, he mentioned that some 28 percent of awards that were solicited broadly and were intended to be awarded competitively, attracted only one bid. His stated goal is to lower that per-

centage. While we would not disagree with him on the importance of competition and of maximizing the number of offers that the department receives, there are strong explanations for industry's lack of response to some solicitations that should be disclosed and discussed.

Improvements in performance work statements, genuine openness to innovation, and more are all key ingredients to enhancing competition and attracting more bidders. But we should also recognize that competition is not simply defined by the number of bidders. Every contractor performing on a services contract knows that his or her competitors are watching them constantly, and prepared to pounce on opportunities that emerge through recompetition for the work. At the same time, those competitors are simply not going to bid if they perceive that the incumbent is performing well and the contract appears to be competitively priced. Nonetheless, the very fact that they are prepared to bid when an incumbent stumbles or a new innovation opens a door, creates a kind of implied competition that must also be considered and appreciated.

Second, it is important to recognize that the issues of competition and the market dynamics of the services sector are entirely different from the hardware or weapons system sectors and thus demand very different actions. As Dr. Carter noted, the department does not yet have an adequate taxonomy for defining services and developing the right kinds of acquisition strategies for each relevant case. We believe that a common taxonomy must be developed and in place before specific policy or strategy decisions are made.

Finally, Dr. Carter appropriately discussed the need to drive more innovation. We agree, and we look forward to engaging with him and his team to affect acquisition practices that genuinely enable innovation. But let's be clear, while the statutory and regulatory authority clearly exists to enable the department to make the value-based decisions that are essential to attracting and rewarding innovation, the current environment is overtly hostile toward what is known as "best value" acquisitions. I believe it is fair to say that every one of our member companies is deeply concerned that the government has, over the last four or more years, regressed in its acquisition practices to the point where virtually every award decision is made on the basis of the lowest price—even if that is NOT what the request for proposal states. To some extent, this is a result of the ongoing fiscal pressures facing the department. To another extent, it is the direct result of the influence of elements of the oversight community that almost invariably criticize, sometimes very harshly, acquisition professionals who make value-based judgments and do not award to the lowest bidder. This dynamic serves no one's best interests and must be reversed, at a minimum through specific policy guidance.

INSOURCING: A GOOD IDEA GONE AWRY

In April 2009, Secretary Gates announced an initiative to rebuild the department's critical workforce skills, particularly, but not solely, within the acquisition workforce. The Secretary expressed concern that a combination of factors, including workforce demographics and a broken hiring and personnel system, had created an over-reliance on contractors. At that time, the Secretary outlined a strategy to increase the department's organic workforce with those critical skills by approximately 35,000 people. He said that roughly half of the increase would result from insourcing and the other half would represent new hires. As part of the implementation of the Secretary's action, the DoD Comptroller issued a classified "Resource Management Decision 802" (RMD 802) that provided budgetary guidance to the military departments and defense agencies. That RMD has never been made public.

There is no question that the department simply does not have adequate internal capability or skills to design, award, or manage contracts for its many and diverse missions. As such, PSC was supportive of the Secretary's plan. Although a number of companies recognized that some of their work could be affected, the consensus among our member companies then was that the Secretary's actions were on the right track. Unfortunately, the implementation of his plan has not accurately reflected either his stated intention or addressed the department's most pressing needs.

First, the Secretary's numeric personnel targets were allocated across the military departments and other defense agencies, which, in turn created individual quotas for each component. Indeed, widely distributed Air Force Materiel Command (AFMC) documents confirm this fact. Those documents state that AFMC's "share" of the Secretary's directive is roughly 3,500 positions." Similar statements were made by components of the Army and Navy.

Second, the AFMC documents clarified that, through Resource Management Decision 802, the department was assuming a 40 percent savings for every position

insourced. If this extraordinary declaration was based on any analysis, it has never been publicly released, despite repeated requests from industry and, members of Congress. But the AFMC documents are enlightening on the question of how such savings could possibly be achieved. It says and I quote: "The objective is to replace contract costs with personnel costs."

In other words, the department was comparing fully burdened operational contract costs—which include salaries, benefits, equipment, hardware procured under a contract, other overhead and, of course, profit—with just the salaries and immediate benefits of a federal employee. No consideration was apparently given to any of the expense categories for contract performance that also apply to government performance, nor was consideration apparently given to unique government costs, principally post-employment costs such as retirement benefits and long-term health care.

In January 2010, the department finally issued "guidance" in the form of a Directive Type Memorandum, or DTM, to provide a methodology that would enable a more accurate assessment of the relative costs of contract performance versus in-house federal performance. However, as we outlined in an extensive analysis we provided to the department,[1] the DTM provides neither a workable methodology nor a comprehensive listing of all of the identifiable costs that must be considered in any objective process.

Other analyses have also concluded that the DTM contains a number of inexplicable contradictions. For example, in assessing the relative costs of performing work using uniform military or civil servants, the DTM requires that all post retirement and other benefits costs for each be considered. But in comparing the costs of civil service performance versus contractor performance, the DTM specifically prohibits the consideration of any costs that would not be incurred by DoD. What might those costs be? By far the biggest category would be the post retirement costs associated with the civil service since they become the responsibility of the Office of Personnel Management. Moreover, it is notable that the DTM was not issued until some nine months AFTER the Secretary issued his insourcing directive and six or more months after RMD 802 declared the savings that would be achieved. This led to funding decisions that were embedded in the budget before the cost comparison process, weak as it may be, was even developed. Obviously, the order of events should logically have been reversed.

ANALYSES NOT MADE AVAILABLE TO AFFECTED PARTIES OR THE PUBLIC

Regrettably, while the department has acknowledged our analysis and concerns, it has not responded to any of the specific issues we raised. The same occurred in 2009 when Congressman Jeff Miller wrote the Air Force requesting information about the insourcing of routine base support services—primarily because those actions resulted in a small business with nearly twenty years of service to DoD literally going out of business. In its response to Congressman Miller, the Air Force did not share any of the analytics underpinning that insourcing decision.

With the combination of established numerical headcount quotas and specific dollars savings assumptions, along with the lack of a workable, analytically rigorous process for assessing relative costs, the department's insourcing process has been marked more by efforts to meet those targets and survive presumptive budget cuts than by strategic workforce efforts focused on the kinds of skills the department needs most and that the Secretary set out to address. By the department's own estimates, at least half of the positions identified to date for insourcing fall outside of the kinds of critical skills the Secretary was targeting in his original directive. That means that the department has based at least half of the insourcing decisions reached to date on incomplete and highly questionable cost analyses and thus is insourcing contracted positions performing entirely routine work rather than obtaining the critical skills that were identified by the Secretary in 2009.

A LACK OF TRANSPARENCY

In addition to the apparently arbitrary and undisciplined manner in which DoD insourcing has progressed, we are deeply concerned about the continued refusal of the department's components to publicly share the analyses that have led to individual decisions. In virtually every case I am aware of, DoD activities have not even been willing to share the bottom line conclusions they reached in their analyses, let alone the analyses themselves. This is consistent with the AFMC guidance ref-

[1] See the PSC June 16, 2010 letter to The Honorable Christine Fox, director of Cost Assessment and Program Evaluation, available at *http://www.pscouncil.org/AM/Template.cfm?Section=Policy—Issues&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=5562.*

erenced earlier that states that the analytical tools are only available at the major command level. But it is highly inconsistent with the government's otherwise broad commitment to transparency and, indeed, to decades of tradition in contracting, where contract prices are announced at the time of contract award. Moreover, because the analyses do not involve competing proposals, there is no objective reason they cannot be shared with the affected incumbent contractors.

This has left the affected parties, including companies and their workforces, with only the option of filing Freedom of Information Act requests. For example, the International Association of Machinists and Aerospace Workers have filed numerous such requests. After the first of those requests was responded to in a relatively timely manner, they have been entirely unsuccessful with each of their subsequent requests. This simply does not need to be. Indeed, if there was more transparency in the process, the need for costly and time consuming FoIA requests would largely disappear.

AIR FORCE DOCUMENTS REVEAL ANALYTICAL WEAKNESSES

However, the one FOIA request on which the IAM was successful was highly informative and may reflect one of the reasons there has been such resistance to responding to additional requests.

In this case, the Air Force decided to insource a contract with an estimated five year value of approximately $225 million. The documents obtained as a result of the FOIA request show that the Air Force expects to save only $450,000 over the life of the contract, equal to 0.02 percent. This clearly contradicts the long-held consensus that a minimum savings of about 10 percent should be required for any insourcing OR outsourcing decision, just to cover the inevitable costs associated with the workforce churn that will take place. What is even more telling about this Air Force analysis are the details behind it.

For instance, the Air Force assigned to the contract cost elements that were never executed; had just one of those elements been eliminated as they should have been, the result of the analysis would have been a net cost INCREASE resulting from the insourcing. In addition, the Air Force clearly did not include a wide range of training, personnel development and support costs that are covered under the contract and which will accrue similarly to the government.

Even more telling however, are two other aspects of the analysis. First, the Air Force is planning to perform the work with approximately 15 percent fewer personnel than the contract calls for. In light of the fact that the Air Force's own, highly questionable analysis shows that the savings from the insourcing will be negligible, one can fairly and clearly conclude that the cost per person associated with performing the work in house will be significantly higher than under the contract—and that's before adding in the many cost elements ignored by the analysis. If, in fact, the work can be performed with fewer people, imagine the savings that would be possible if the Air Force and the contractor worked together to identify workforce efficiencies.

Finally, the Air Force analysis did not include any assessment of post-retirement costs associated with the federal workforce. A simple calculation shows clearly that just post-retirement health insurance premiums will result in the government assuming tens of millions of dollars in deferred liabilities against a purported savings of less than a half million dollars.

This example is one of the very few where data is available. But it is instructive and reflective of the broader departmental approach, as illustrated in the AFMC documents. And it is clear from this example that the only real explanation for continuing with this particular insourcing action is to meet pre-determined quotas—even if, as in this case, the real short and long term costs to the government will actually be higher.

This is not a new finding. More than a decade ago, when the Army moved so heavily into contractor logistics support, it did so because it recognized that it is cost prohibitive for a permanent civil service to perform work that is variable in both nature and scope. Similarly, following the early phases of the Iraq war, the Navy realized that far too many of its sailors were engaged in out-of-theater support work at a cost the Navy could no longer afford. Since so much of that work was variable in scope and amount, the Navy also chose, in some but not all cases, to hire private contractors rather than incur the permanent and long-term costs of civil service employees.

This is not to in any way demean the value or importance of the civil service. Rather, it is merely to reinforce the importance of conducting, on a case-by-case basis and in a manner consistent with the missions involved, meaningful and complete cost comparisons.

THE SECRETARY OF DEFENSE ACKNOWLEDGES THAT INSOURCING SAVINGS HAVE NOT MATERIALIZED

In light of the issues and concerns outlined above, it is not surprising that the Secretary of Defense on August 9 acknowledged that insourcing has not resulted in the desired savings. As a result, with the appropriate exception of some critical acquisition skills, he announced a significant de-emphasis on insourcing as part of his efficiency initiative. However, the Secretary's changed strategy applies only to the Office of the Secretary of Defense, the combatant commands and the defense agencies. It has no direct effect on insourcing activities within the military departments, which appear to be continuing apace, despite the clear and compelling evidence that real savings are illusory.

ECONOMIC IMPACTS IGNORED

Finally, with regard to the current insourcing initiative, no consideration is being given to either the loss of imputed corporate tax and other revenues to local or state governments or the impacts associated with reducing well-paying, private-sector jobs at a time when such jobs are what the economy needs more than anything. While the government should not be a jobs program for either civil servants or contractor employees, it is reasonable to ask the critical question of how insourcing, in the cases where it involves routine commercial activities that do not need to be performed by federal employees, serves the nation's broader economic interests or the interests of the local economies that are affected.

Some would argue that this is a false premise and that, in fact, insourcing simply changes the identity of the employer and that employees keep their jobs. However that is simply not the case. Some work actually does change locations. Moreover, as noted explicitly in the AFMC guidance, incumbent contractor employees are not in any way assured of a continuation of their jobs, their salaries, or their employment status. Indeed, with the exception of the limited benefits associated with direct hire authority that has been granted for acquisition positions only, incumbent contractor employees face the very same gauntlet of employment processes and procedures as any other new government hire.

In addition, insourcing actions have a very real effect on local governments and economies associated with reduced private sector revenues. Real estate taxes and development, local corporate use and sales taxes and other critically important sources of local revenue are eliminated when work is insourced. If the work involved is inherently governmental or so critical that it must be performed by a government employee, then we agree that it is a price that needs to be paid. But when it is not, such impacts cannot be ignored, particularly in the current difficult economic environment.

TOWARD AN ACCURATE COMPARATIVE PROCESS

Given the track record thus far, and the extreme paucity of information being shared, we would propose that, for each insourcing action involving OTHER than inherently governmental functions or work that is otherwise deemed so critical that it must be performed by federal employees, the department be required to conduct an analysis of the total lifecycle costs borne now or in the future by the American taxpayer associated with performing the work in house. This analysis should also include an assessment, made on the basis of reasonable market research, of the potential benefits that might accrue through a new competitive award process or through contract adjustments negotiated with the incumbent contractor. Finally, there should be an analysis of the impact of an insourcing decision on small businesses prior to finalizing the decision. After all, as the President has said, small business is the engine of innovation and is critical to our economic recovery. As such, it seems counter-intuitive to take work away from small businesses unless doing so results in meaningful and measurable benefits for the American taxpayer.

SECRETARY GATES' EFFICIENCY INITIATIVE: SOME ANSWERS, SOME QUESTIONS

On August 9, Secretary Gates announced a new initiative to find $100 billion in defense budget savings over the next several fiscal years. Among the components of this initiative are a freeze on new hires within the Office of the Secretary, the defense agencies and combatant commands; reductions in the number of senior flag and general officers; proposed reductions in the general bureaucracy; and a 10 percent reduction in contract support services each year for the next three years.

We support efforts to achieve the Secretary's desired results. The department has no choice but to reduce its overhead costs and eliminate unnecessary spending if it is to meet its mission needs. While we take no position on his specific decisions to

close Joint Forces Command (JFCOM), the Business Transformation Agency (BTA), or the Network Information and Integration (NII) office, questions about the strategic analyses underpinning these decisions, much like many of the insourcing decisions discussed earlier. Regardless of whether those are decisions that are the discretion of the department or whether there are additional statutory procedures that must be followed, all stakeholders should be privy to the factors considered and the justification to shutter commands and programs.

In his August 9 statement, the Secretary echoed the words of the Defense Business Board when, in explaining his decision to close JFCOM, he talked specifically about how the command was "contractor heavy." Whether closing JFCOM is the right action or not, we find that justification wanting. In our view, WHO is doing the work has nothing to do with whether the work being done remains important and valuable to the mission. It is the mission need and not the badge of the worker that should drive such a decision. In that vein, it would be very helpful to understand more about the analytical underpinnings of this decision, particularly given the effect the JFCOM closure will have on the economy of the Tidewater region in Virginia. The same rigor should underpin the decision to close BTA and NII.

The same concerns apply to the Secretary's direction that contract support services be reduced by 10 percent each year for the next three years. There are already conflicting reports as to what contracted services are included in this directive. Is it all service contracting? Is it specific subcategories? How was the 10 percent goal determined?

Most importantly, what is magical about contracted support services? Why target only contractor-performed work rather than the totality of the work being done by the department? Why does the directive not seek a more holistic approach to all work being performed by DoD in an effort to find areas of redundancy or changed needs, regardless of who is performing that work?

In short, our principal concern with the 10 percent per year target is its arbitrary nature and its failure to look comprehensively and strategically within each defense activity at all of the work being performed by the total force of uniform military, civil servants and contractors.

Finally, as these reductions are executed, questions remain as to whether the execution strategies will be developed through a collaborative process in which the contractors and the department work together to find ways to reduce the overall costs of performance or will be implemented through prescriptive direction. Again, the best hope for effective implementation is the kind of communication and collaboration that marks the best in customer/supplier relationships. Unfortunately, in today's environment, our public-sector partners too often feel that they are under increasing pressure to reduce, not enhance, their communications with industry. This violates common sense and the most fundamental premises of good business relationships. In fact, the problem became so severe that Deputy Secretary of Defense William Lynn issued a memorandum in June reminding the department's workforce of the essential importance of constant and open communication with their private-sector partners.[2] Unfortunately, the pressure remains. And there is thus an abject need to not only remind the workforce of the importance of communication, but to insist that they engage in it.

CONCLUSION

Mr. Chairman, our goal today is not to question the objectives Secretary Gates has set forth through any of these initiatives. What he is seeking to do is the right thing to do and he deserves our strong support. At the same time, to the degree actions taken in the field run contrary either to his guidance or to the best chances of successfully implementing his initiatives, it is important for us to speak out. We have reached out to the department on many occasions with some limited success. And we look forward to more detailed and ongoing dialogue. The decisions being made today and in the months ahead will have enormous repercussions for the department, the taxpayer and the thousands of high performing companies supporting our national security mission. As such, those decisions must be analytically rigorous and the process behind them must be open and transparent to the degree our national security interests allow. Without such analyses or transparency, the likelihood of falling well short of the Secretary's important goals is increased many times over.

Thank you again for your time and the opportunity to provide this information and our perspective. I would be happy to answer any questions you might have.

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[2] "Policy for Communication with Industry" memorandum from Deputy Secretary of Defense William Lynn, attached.

Mr. SCOTT. Thank you. Ms. Simon?

STATEMENT OF JACQUELINE SIMON

Ms. SIMON. Mr. Chairman and members of the Committee, I want to thank you for the opportunity to present the views of federal employees on DOD's efficiency initiative. The more than 200,000 civilian DOD employees represented by AFGE support efforts to increase the efficiency of the Department's operations that are consistent with its mission. We realize that the Department's initiative involves many different tasks and we are here today to talk about three in particular: the freeze on civilian positions, the restrictions on insourcing, and the cuts in contractor spending.

During the previous two administrations the civilian workforce experienced efficiency initiatives and in these cases efficiency turned out to be code for massive and indiscriminate privatization that increased costs to taxpayers and caused the outsourcing of many important and sensitive functions that should always be performed by civilian employees. So AFGE members understandably have questions about the Department's most recent efficiency initiative, which include a three-year freeze on the size of the civilian workforce and a severe restriction in the effort underway to rebalance the federal workforce so as to reduce reliance on contractors. Both efforts appear to be contrary to laws that, number one, forbid the management of the civilian workforce by arbitrary constraints, and number two require DOD to use civilian employees, or at least give special consideration to using civilian employees, to perform various functions.

Technically the Department's initiatives apply to the Office of the Secretary of Defense, the combatant commands, and the defense agencies, but not to the military departments which employ the bulk of the civilian workforce and which conduct the vast majority of insourcing efforts. However, because of the Department's sometimes copycat corporate culture, there are some in the military departments who are using the efficiency initiatives to advance proposals to arbitrarily reduce the civilian workforce and to discourage meritorious insourcing efforts.

Our AFGE members who work in acquisition have also questioned how the Department can implement cuts in service contractor costs, especially given the Department's apparent inability to either implement the contractor inventory requirements or integrate the results into the budget process.

Ultimately, AFGE members are very concerned that for the third administration in a row the civilian workforce will bear a significantly disproportionate share of the sacrifices necessary to achieve efficiencies. As history shows, DOD has repeatedly frozen and shrunk its civilian workforce, resulting in wasteful, wholesale privatization, as well as widespread losses of critical in-house capacities. At the same time DOD has been consistently unable to manage its contractors, let alone reduce their costs. Understandably, our members fear that the well-intentioned initiative announced by Secretary Gates last month will not turn out any differently.

The case for insourcing functions that are inherently governmental, functions that are closely associated with inherently governmental work, and considering insourcing for government work

that was outsourced without competition, or that is being poorly performed by contractors, starts with the obligation to enforce current law. In part in reaction to the over-reliance on contractors and the excesses of outsourcing, Congress has enacted laws that require that inherently governmental functions be performed by civilian employees; that closely associated with inherently governmental functions be performed by civilian federal employees to the maximum extent practicable; and per the inventory law DOD is required to correct any unauthorized personal services contracts through elimination, modification, or insourcing. DOD must also give special consideration to insourcing functions that are closely associated to inherently governmental work, contracted out without competition, and contracted out but poorly performed either in terms of cost or quality. Finally, DOD is required by law to consider shifting work between its civilian contractor and military workforces depending on which one is least costly in a way that is consistent with military requirements. So how can insourcing that is required to be undertaken, or at least be given special consideration, or even mere consideration, actually occur if the civilian workforce is frozen for three years?

The Army's contractor inventory provides us with some keen insights. Of the 95,000 contractor jobs that were reviewed by the beginning of 2010 more than 2,000 were inherently governmental, another 41,000 were closely associated with inherently governmental, and another 1,500 were performed pursuant to unauthorized personal service contracts. This assessment does not include critical jobs performed by contractors that might need to be insourced and it also does not include the contractor jobs that should be insourced because the contracts involved were entered into without competition or are being poorly performed, again either for cost or quality reasons.

There is nothing unique about the Army's excessive reliance on contractors, unfortunately. What is unique is the extent to which the Army has documented the problem through its conscientious compliance with the fiscal year 2008 contractor inventory requirement. If the Army's inventory is typical of the Department, how will DOD rebalance its overall workforce if a three-year freeze has been imposed on its civilian workforce?

This concludes my statement and I will be happy to answer any questions members of the Committee may have.

[The prepared statement of Jacqueline Simon follows:]

PREPARED STATEMENT OF JACQUELINE SIMON, PUBLIC POLICY DIRECTOR, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL–CIO

Thank you, Chairman Spratt, Ranking Member Ryan, and members of the House Budget Committee for this opportunity to present the views of federal employees at today's hearing on the Department of Defense's (DoD) efficiency initiative. The more than 200,000 civilian employees represented by AFGE support efforts to increase the efficiency of the department's operation that are consistent with its mission.

During the previous two Administrations, the civilian workforce experienced earlier efficiency initiatives—which turned out to be code for a massive and indiscriminate privatization that increased costs to taxpayers and caused the outsourcing of many important and sensitive functions that should always be performed by civilian employees.

AFGE members understandably have questions about the department's most recent efficiency initiative, which includes a three-year freeze on the size of the civilian workforce and a severe restriction on the vital effort underway to rebalance the

federal workforce so as to reduce reliance on contractors. Both efforts appear to be contrary to laws that forbid the management of the civilian workforce by arbitrary constraints and require the department to use civilian employees or at least give special consideration to using civilian employees to perform various functions.

Technically, the department's initiative applies to the Office of the Secretary of Defense, the Combatant Commands, and the Defense Agencies—but not to the military departments which employ the bulk of the civilian workforce and which conduct the vast majority of insourcing efforts. However, because of the department's sometimes copycat corporate culture, there are some in the military departments who are using the efficiency initiative to advance proposals to arbitrarily reduce the civilian workforce and to discourage meritorious insourcing efforts.

AFGE members who work in acquisition are also skeptical of how the department can implement cuts in service contractor costs, especially given its inability to implement the contractor inventory requirement (and then integrate the results into the budget process) and the apparent counterproductive obsession on achieving reductions in just two particular categories of service contracting costs, object classes 25.1 and 25.2.i

Ultimately, AFGE members are very concerned that, for the third Administration in a row, the civilian workforce will bear a significantly disproportionate share of the sacrifices necessary to achieve efficiency. As history shows, DoD has repeatedly frozen and shrunk its civilian workforce, resulting in wasteful wholesale privatization as well as widespread losses of critical in-house capacities. At the same time, DoD has consistently been unable to manage its contractors, let alone reduce their costs. Understandably, our members fear that the well-intentioned initiative announced by Secretary Gates last month will not turn out any differently.

1. THREE-YEAR FREEZE ON THE CIVILIAN WORKFORCE

Historically, civilian personnel freezes have led to increased contracting out. Work still needs to be performed; if civilian employees can't be used because of the freeze, then contracts must be undertaken instead. Indeed, in the absence of any consideration of in-house performance, contracting in such circumstances often leads to increased costs and contractor performance of functions that are too important or sensitive to outsource.

Congress, on a bipartisan basis, has always striven to prevent DoD from imposing artificial constraints on its workforce. 10 U.S.C. 129 requires the department to manage its civilian workforce solely on the basis of workload and funding. Under the law, DoD is forbidden to impose any constraint or limitation in terms of man years, end strength, full-time equivalent positions, or maximum number of employees. Moreover, the military department secretaries must certify annually that their workforces are not managed by such constraints or limitations. A streamlined version of this law is also included in every Defense Appropriations Bill. No workload analysis was prepared by the department prior to the Secretary's announcement that would justify a three-year freeze on the civilian workforce—and risk even more outsourcing that increases costs to taxpayers and further undermines performance.

2. A SEVERE REDUCTION IN INSOURCING

Secretary Gates said last August that the department was not "seeing the savings we had hoped from insourcing". Consequently, contractors would not be replaced with federal employees except in extraordinary circumstances; rather, the positions held by contractors would simply be eliminated. Naturally, contractors chose to interpret this remark to mean that insourcing had failed.

However, DoD officials continue to point out that civilian employees are generally cheaper than contractors. In July, Secretary Gates told The Washington Post that "federal workers cost the government 25 percent less than contractors".ii During a Senate Armed Services Committee hearing earlier this week, Deputy Secretary of Defense William Lynn disputed the notion that contractors were cheaper than federal employees: "As a general statement, I don't think that's accurate, no".iii And DoD has clarified the record since the August 9 announcement, calling the effort "highly successful"iv, "a statutorily required workforce-shaping tool/process to appropriately align work between private and public sectors * * * that can generate savings or efficiencies" as well as ensure in-house performance of thousands of inherently governmental and closely associated with inherently governmental functions.v

a. What happens to the contractor work?

Obviously, greater savings are possible by eliminating contractor positions, rather than by replacing contractors with civilian employees. And if the work performed

by contractors need no longer be performed or can be performed without adding in-house staff, then there is no reason to insource. However, it is difficult to believe that service contract dollars can be reduced by almost one-third—Secretary Gates called for 10% cuts during each of the next three years—without having an impact on mission, without it being necessary to hire at least some additional in-house staff to perform work that still needs to be done—unless the indiscriminate privatization perpetrated during the previous two administrations was far more wastefully ruinous than even its worst critics had believed.

AFGE members in the Defense Agencies, who have been doing more and more with less and less for several years, are understandably concerned what a combination of real reductions in contractors and a freeze on the civilian workforce will mean for their ability to perform their missions.

b. How can DoD measure the savings from insourcing?

Most insourcing efforts are less than one year old. It is difficult to understand how any reliable assessments could be made about insourcing in such a short time. It is our understanding that DoD cannot say how much was saved from insourcing efforts. Rather, DoD has looked at two contract object classes, 25.1 (Advisory and Assistance Services) and 25.2 (Other Services), before insourcing efforts began and then again more recently, and determined that contract costs continued to grow. However, DoD is not capable of distinguishing insourcing savings from the usual explosive growth in contract spending in those two object classes.

Moreover, it is not clear why DoD is focusing on those two object classes. [Object classes include, among others, 25.3 (Goods & Services from Government Accounts), 25.4 (Operations and Maintenance-Facilities), 25.5 (Research & Development), 25.6 (Medical Support), and 25.7 (Operations & Maintenance-Equipment).] Insourcing in DoD is not limited to just object classes 25.1 and 25.2. Moreover, contracts are often entered into the wrong object classes or are entered into more than one object class.

c. How will DoD undertake insourcing (or at least consider undertaking) as required by law?

Inherently governmental functions must be performed by civilian employees.

Closely associated with inherently governmental functions, per the FY08 National Defense Authorization Act inventory law (Section 807), must be performed by federal employees "to the maximum extent practicable".

Also per the inventory law, DoD must correct any unauthorized personal services contracts, through elimination, modification, or insourcing.

Per the FY08 National Defense Authorization Act insourcing law (Section 324), DoD must give "special consideration" to insourcing functions that are "closely associated", contracted out without competition, and contracted out but poorly performed.

Finally, 10 U.S.C. 129a requires DoD to consider shifting work between its civilian, contractor, and military workforces, depending on which one is least costly if that is consistent with military requirements.

How can insourcing that's required to be undertaken or at least be given "special consideration" or even mere consideration actually occur if the civilian workforce is frozen for three years?

The Army's contractor inventory provides us with some keen insights. Of the 95,000 contractor jobs that were reviewed by the beginning of 2010, more than 2,000 were inherently governmental, another 41,000 were "closely associated", and another 1,500 were performed pursuant to unauthorized personal services contracts.vi This assessment does not include "critical" jobs performed by contractors that might need to be insourced. And, obviously, it does not include the contractor jobs that should be insourced because the contracts involved were entered into without competition or the contracts are poorly performed. There is nothing unique about the Army's excessive reliance on contractors. What's unique is the extent to which the Army has documented the problem through its conscientious compliance with the FY08 contractor inventory requirement. If the Army's inventory is typical of the department, how will DoD rebalance its overall workforce if a three-year freeze has been imposed on its civilian workforce?

3. CUTTING SERVICE CONTRACTOR DOLLARS BY ONE-THIRD

If further progress had been made on the contractor inventory required by the FY08 NDAA, DoD could comprehensively review its contracts in order to reliably determine, specifically, where efficiencies could be realized—instead of using broad and arbitrary cuts. Unfortunately, contractors, realizing that greater visibility inevitably leads to increased accountability, have resisted the inventory and foiled DoD's attempts to comply with the law.

However, even these broad and arbitrary cuts are unlikely to be realized because of the excessive focus on a pair of contract object classes. Whether or not this initiative is successful will apparently be determined by comparing costs for 25.1 and 25.2, before and after. As noted earlier, there is no rigor as to how contracts are entered into object classes. By entering relevant contracts into different object classes, it would be easy to make it appear as if service contract spending in 25.1 and 25.2 is decreasing even if, overall, service contract spending is actually increasing. (Indeed, some contracts are regularly entered into more than one object class.) Given the limitations in accounting for contracts, why not include the other contract object classes?

Moreover, why not implement Section 803 of the FY10 NDAA (originally enacted as Section 806 in the FY08 NDAA) which would give the department greater visibility and thus greater accountability over its service contract costs?vii As the report language noted, this provision would require DoD to include in its "annual budget submission the total amounts for the procurement of services and the number of full-time equivalents requested by each component, installation, and activity * * * The information in the budget submission, together with the detail provided in the annual inventories, should provide the information needed for improved oversight by both the Department and Congress for the procurement of contractor services". Absent implementation of Section 803, how can DoD ensure that those contracts eliminated or reduced in scope are not subsequently revived or restored? And how can DoD ensure that other contracts are not subsequently undertaken to replace or supplement those contracts that were earlier eliminated or reduced?

AFGE's DoD members thank the House Budget Committee for this opportunity to discuss our views on DoD's efficiency initiative. We look forward to answering your questions.

INSOURCING BRIEF

In response to concerns:

1. that the department's contractor workforce had grown from 732,000 in FY01 to 1,320,000 in FY06 (the last year for which this information was reported to Congress)viii, while, according to budget documents, the numbers of active duty military personnel increased by 2% and 7%, respectively, from FY2000 to FY2010;

2. that DoD's service contractor costs had increased by more than 100% during the Bush Administrationix; and

3. that the Government Accountability Office had reported widespread outsourcing of functions by the department that reasonable people believe should be performed by civilian employees (e.g., developing budgets, preparing regulations, overseeing contractors)x,

The FY08 National Defense Authorization Act included two historic reforms:

1. a requirement that DoD inventory all of its service contracts in order to identify contracts that are being poorly performed or include functions too important or sensitive to outsource and then essentially integrate that information into the budget process; and

2. a requirement that DoD establish a policy by which it could at least consider insourcing functions that are poorly performed, were contracted out without competition (because they might cost more than they should), or include functions too important or sensitive to be performed by contractors.

In response to these requirements, DoD began, slowly, to compile its inventory of service contractors. In 2001, the department announced that it would insource more than 40,000 contractor jobs over five years.xi Despite the obvious necessity and modesty of DoD's insourcing effort, reaction from contractors has been rather disproportionate. This excerpt from a May 27, 2010, letter to the Professional Services Council from the Under Secretary of Defense for Personnel and Readiness is one of the department's many earnest attempts to placate contractors: "While the Department's insourcing plans impact less than 1% of currently contracted services, the net growth in contracted services last year was more than $5 billion."

DoD did itself no favors by embracing insourcing as a five-year panacea for its chronic budget shortfalls. The Congress intended for insourcing to be an on-going effort to rebalance the department's workforce—bringing back in-house functions which are too important or sensitive to outsource as well as commercial functions which might be performed more efficiently by civilian employees. As implemented, however, insourcing became a five-year budget drill with inordinate savings assumptions.

Fortunately, the House Armed Services Committee (HASC) and the House Defense Appropriations Subcommittee, have continued to provide necessary guidance to the department. In the FY10 National Defense Authorization Act, the HASC in-

cluded a bipartisan provision that would prohibit DoD from using quotas or targets to promote insourcing. Quotas and targets were used openly and extensively by the previous Administration to promote outsourcing, which contractors enthusiastically supported. Fortunately, the Congress, on a bipartisan basis, outlawed the use of outsourcing quotas and targets. AFGE opposed the use of outsourcing quotas and targets and worked with the HASC on the provision (Section 325) in the House FY11 National Defense Authorization Act that would ban insourcing quotas and targets.

There are other instances in which contractors have been inconsistent. Contractors regularly recruited senior federal officials to work as contractor executives. Now, when agencies make job offers to rank-and-file contractor employees as part of the overall workforce rebalancing effort, contractors call that "poaching" and insist that the practice be forbidden.

Contractors, without complaint, took tens of thousands of federal employee jobs during the previous two Administrations, without ever having to compete for our work. Now, they complain at the detailed costing methodology used for insourcing.xii

Because of sole-sourcing, contractors infrequently compete with one another for work, and agencies have always been able to terminate contracts for convenience with few restrictions and to not renew contracts without any restrictions. Now, however, contractors want to impose unprecedented restrictions on the ability of agencies to insource.

Contractors used to brag about their flexibility. Now, they insist on retaining contracts merely because they've held the contracts for several years.

When federal employees lost their jobs because the competition process was flawed or wasn't even used, or when they were veterans in work-therapy or even disabled, contractors said, "It's business". Now, when contractors are losing their contracts, it has suddenly become personal.

Contractors have alleged various "insourcing crimes". However, their allegations regularly turn out to be unfounded—the contract doesn't exist, the contract was cancelled rather than insourced, the contract included closely associated with inherently governmental functions, the department's analysis reliably concluded that the work performed under the contract was actually better performed in-house. There will, of course, be mistakes. However, such mistakes are no more grounds to shut down the promising but fledgling insourcing initiative than the seemingly endless waste, fraud, and abuse that is endemic to outsourcing is a justification for stopping all outsourcing. Indeed, if outsourcing had been held to the same standards that contractors would like to apply to insourcing, outsourcing would have been suspended no later than close of business on the first day of the Republic. Fortunately, the Congressional architects of insourcing have striven to make insourcing thoughtful, transparent, and apolitical—a stark contrast to the way the two previous administrations conducted outsourcing.

ENDNOTES

[i] E.g., Army Guidance on Implementing Army Efficiency Initiatives (September 2, 2010). See Task #2: "ASA (FM&C) will develop a 10% reduction in contracts executed in object class 25.1 and 25.2 for consideration for approval by the Secretary of the Army".

[ii] The Washington Post, "National Security Inc." (July 20, 2010).

[iii] Congressional Quarterly, Transcript of September 28, 2010, Hearing of Senate Armed Services Committee.

[iv] Federal Times, "Can Gates get it done? His role key to success of cuts, experts say" (August 16, 2010).

[v] Government Executive, "Defense insourcing to continue at military services" (September 7, 2010).

[vi] Department of the Army, Submission to the House Defense Appropriations Subcommittee (January 28, 2010).

[vii] DoD agrees that the integration of the inventory into the budget process is necessary to actually implement cuts in contractor costs and admits regret at not having complied earlier with the law. Nevertheless, DoD is still unprepared to commit to compliance. Here is an excerpt from the Congressional Quarterly transcript for the September 28, 2010, hearing of the Senate Armed Services Committee hearing with the relevant discussion between Chairman Carl Levin (D-MI) and Deputy Secretary of Defense William Lynn:

LEVIN:

* * * In the past, we've found that proposed cuts to contract services are nearly impossible to enforce because expenditures for service contracting are invisible in the department's budget.

For this reason, Section 806 of the National Defense Authorization Act for Fiscal Year 2008 required that budget justification documents clearly and separately identify the amounts requested in each budget account for procurement of services. The department has not yet complied with that requirement.

Will you—well, when are you going to comply with that requirement, Secretary Lynn?

LYNN:

Well, part of—part of the effort I mentioned would be to comply with that requirement. And I would—would add I think your implication is right.

We are regretting that the department hadn't complied earlier. It would make the task that we're undertaking easier if we had better data, and we're endeavoring to—to develop that.

LEVIN:

So when will the department comply with that statutory requirement? Are you going to comply for the 2012 budget request?

LYNN:

We are trying. I can't commit at that point—at this point that we will have all the data to be able to do it, but we're going to do our very best.

LEVIN:

Well, it's a couple years now overdue, so that's not satisfactory. And I'm just wondering if you can give us a better handle on that, if necessary month by month.

I mean, I don't want to burden you with unnecessary requirements, but this is something in law, and it is essential that there be compliance on this.

So would you let us know by the end of October—let's just try report number one, whether or not the budget for 2012 will be complying with that requirement? Let us know by the end of October?

LYNN:

Yes. Yes, I'll do that, Mr. Chairman.

LEVIN:

And if not, why not.

[viii] DoD Reports: Performance of Commercial Activities (2001 and 2006 submissions).

[ix] Please see Attachment 1.

[x] E.g., Government Accountability Office, DEFENSE ACQUISITIONS: Further Actions Needed to Address Weaknesses in DoD's Management of Professional and Management Support Contracts (GAO-10-39).

[xi] Contractors insist that this attempt to reduce reliance on contractors to pre-Bush Administration levels is arbitrary and wrong. They're right, of course. DoD should have tried to reduce its reliance on contractors to pre-Clinton Administration levels.

[xii] Recent contractor correspondence insists that DoD "is not considering the broad scope of other costs, borne by the taxpayer, and which are ineffably associated with the federal employee infrastructure (overhead, lifetime benefits, personnel support and systems, pay support, and systems, management/oversight, training, etc.)." Professional Services Council Letter to Secretary of Defense Robert Gates of May 3, 2010. AFGE understandably approaches contractor claims of inadequate in-house overhead with a great deal of skepticism. It is not an exaggeration to say that many contractors would like to charge every in-house workforce involved in a sourcing decision with a fraction of the cost of running Air Force One. The DoD IG has pointed out that a significant amount of the overhead contractors have tried to attribute to federal employees in OMB Circular A-76 privatization studies is unjustified. DoD should be prepared to defend the costing methodology generally as well as its use in specific situations. However, let the record show that, contrary to contractor assertions, DoD's costing methodology does indeed take into account "Recruitment, Advertising, Etc.", "Training", "Unfunded Civilian Retirement", "Postretirement Health Benefit", and "Post Retirement Life Insurance". Directive-Type Memorandum (DTM) 09-007, "Estimating and Comparing the Full Costs of Civilian and Military Manpower and Contract Support", page 20.

Mr. SCOTT. Thank you very much. I want to thank all of our witnesses for their testimony, and now we will have a few questions for the panel. General Wood can you explain the significance of not mentioning the closure of JFCOM in the QDR?

LTG WOOD. I think the QDR, which looks broadly at strategic requirements and then the resourcing and programs that back it, probably does not make its way down to the specifics of a command. It looks primarily at functions and priorities. And perhaps I would simply suggest that it was not in the scope of the work or the terms of reference of the particular study to take it to that level of detail.

Mr. SCOTT. But they mentioned in the QDR the significance of jointness.

LTG WOOD. Oh, without question. And I think that jointness is a recognized strength of the Department, it is a recognized strength of our military. And perhaps assumptions were made about, you know, the continuity in progress that we had made, and would continue to make, in that area.

Mr. SCOTT. If such progress has been made, we heard yesterday a suggestion that the decision to disestablish JFCOM was unanimous, that there were no countervailing arguments. Is that credible?

LTG WOOD. As not part of that analysis it is hard to say. But I would suggest that it was likely a course of action, and all courses of action that are considered in this sort of analysis have pros and cons. So whether it was a statement of disapproval, or it was a summation of negative points versus positive points, I would imagine that there was a pro and con described with regard to the decision. So I do think likely they were measuring costs and benefits as they made this decision.

Mr. SCOTT. If you were to ask the individuals services what they thought of it, what would their individuals reaction be to the idea of being able to keep all their funds to themselves and not have to share it with jointness?

LTG WOOD. I think my answer would be hypothetical. I cannot really describe what each position of the services would be.

Mr. SCOTT. Well I mean, how could you, if the explanation was that everyone they talked to supported the closure, could you explain how that could be?

LTG WOOD. I can offer only a personal opinion.

Mr. SCOTT. Okay.

LTG WOOD. I think we have a natural tension, a constructive tension in fact, between what services are required to accomplish under their Title 10 responsibilities. And quite frankly, the responsibilities directed to the Department through Goldwater-Nichols to the combatant commanders. So there is a natural tension between what the services provide as trained and ready forces, and I would say a constructive tension, to what the combatant commanders require on a routine basis. So that tension simply causes people to come down in different positions as it relates to either a zero sum outcome of providing service or capabilities to the joint force, or those who think it is a synergistic outcome, where it is multiplicative in outcome as opposed to additive. And so it just really depends on where you sit, where you stand in that area.

I think there is a broad in general, and I certainly agree with the Department's point, that the appreciation of what joint can provide for our forces and the jointness of our forces has proceeded to a point today where it has daily validated itself in the combat, in the operations that we see. That is today. Tomorrow is another day, and the threat continues to change. And it is important, as I mentioned in my remarks, that we take a look at integrated action as opposed to the idea of simply claiming we are joint.

Mr. SCOTT. Is there a natural inclination to revert to, to avoid jointness by the various services that would recommend that there be some countervailing force towards jointness?

LTG WOOD. Again, they have interests that are described in Title 10, trained and ready forces. But all of them are deeply and seriously and sincerely obligated to provide the best of available capabilities to joint commanders. It is a natural start of analysis in all of these decisions as to what are the impacts on the specific service to execute or provide capabilities as they do and do willingly. In many, many cases there is no problem and no tension. But there is a constructive tension overall that, in JFCOM's case, we constantly helped and worked and tried to integrate solutions that were beneficial to the whole, in this case specifically to the combatant commanders.

Stovepiping does occur. But we are well past that point, I think, of days past. But it is perhaps a natural line of drift, that drifts back to an idea of service-specific solutions.

Mr. SCOTT. And that is, the countervailing force in that natural reversion is JFCOM, is that right?

LTG WOOD. I think it has played a very constructive role in that regard.

Mr. SCOTT. The suggestion has been made that a four-star command is no longer necessary. What would be the problem with reducing the number of stars in the commander?

LTG WOOD. Well I think it has to do a lot with, importantly there will be a commander and I think that point has been recognized and articulated by the Department. It will take someone who is in charge, who can provide focus and unity of effort to this important mission. So first of all it would be a commander. I leave it to the Department to determine the level and grade of that commander. But I would suggest that a four-star commander does have the ability to sit in council with other combatant commanders and understand their requirements, articulate the solutions, and frankly engage in the dialogue. It was, it is helpful to speak at that level and on that level with your peers. But the Department has made the decision, and I happen to think they will arrive at a correct assessment and analysis, where someone is in charge and charged with the authority, responsibility to accomplish the mission assigned.

Mr. SCOTT. What relationship does JFCOM have with the international forces that are located in the same area?

LTG WOOD. A very close relationship with Allied Command Transformation, the NATO Command. Up until I believe October, frankly September, the Joint Forces Commander was also the Commander of Allied Command Transformation. So there was a natural synergy between the NATO and NATO nations, and what we accomplished, and what they could benefit from. It is a constructive daily dialogue between the international presence at Allied Command Transformation and Joint Forces Command. Frankly a function of geography and common interest.

Beyond Allied Command Transformation there are a number of nations who have a direct liaison relationship with Joint Forces Command. I believe we have nineteen nations with a bilateral memorandum of understanding, actually work with JFCOM with its integration, its training, and experimentation functions. And twenty-eight representatives on the ground with JFCOM from allied nations. There are additionally another fourteen nations who are pursuing a formal relationship. So it is a constant mix of multinational relationships that are growing, and have grown for a while, with Joint Forces Command as they recognize the importance of unifying action with our joint forces.

Mr. SCOTT. And what would be the implications of disestablishing JFCOM to all of those relationships?

LTG WOOD. I think those relationships would be continued but with a different arrangement as determined and described probably by General Odierno. I think the relationships are important enough, and multinational relationships in particular for our coali-

tion operations are so critical, that that will likely be an aspect of whatever solution they arrive with.

Mr. SCOTT. Mr. Wittman?

Mr. WITTMAN. Thank you, Mr. Chairman. Again, I would like to thank the panel members for joining us today. General Wood, I would like to focus some more of the discussion concerning strategic planning within our military. You know, recently the House Armed Services Committee received the quadrennial defense review. And there was a review of that by an independent panel that looked at that because there was some concern that our strategic planning should be driven by analysis of the strategic needs of this nation, not necessarily from a budgetary standpoint. And as you know the analysis by the independent panel was somewhat critical of that, in looking at whether it truly was a strategic needs document or whether it was indeed a budget-driven document. And their words, not mine, was that the QDR was a train wreck. So they had some issues about whether or not it was really driven by strategy.

What we are hearing with the decisions being made under these efficiency initiatives is that they are indeed military decisions, that they are not being driven by budget considerations. Which sort of is counterintuitive when you term an exercise an efficiency initiative, it would lead you to believe that it is indeed driven by budgets. And when we ask those questions they say no, no consideration was given to business models or anything such as that in the decision, that it was all driven by military decision making. And my question to you, in looking at how this decision has come about, and of course there is not much information about how the decision came about. But I am going to ask for your assessment as to whether this truly is a military decision? Or does it appear as though this is a decision driven solely based on budgets?

LTG WOOD. It is certainly an understood responsibility and authority within the military that the structuring of your commands is inherently a military task. So I believe they are starting from that line of logic, which says how you organize your forces, how you determine the chain of command and the command of control, is in fact inherently a military decision. So I believe that is where they are starting in terms of that explanation.

It is cast in terms of an efficiency, in the case of Joint Forces Command, where it produces certain economies caused by delayering. And when the idea of savings and economies is presented, even premised on a military decision, I think it is a natural question to ask, "What analysis has been done that shows what savings are in hand, or could potentially be in hand?" And so I think they start at the right place. But in the context of an efficiencies program where the idea is to promote economies and provide savings, ultimately they are going to have to then describe those savings in real terms, and in real dollars, and likely real jobs.

Mr. WITTMAN. Sure. Let me ask this, then. In your experience, can you remember a situation where there was a determination that a recommendation would be made on a major issue like closing a command, and then after that saying, well, we will then do the analysis of the economic impact. We will then afterwards do the analysis of the strategic implications of this. In other words,

what does this mean to how we continue the concept of jointness? And then after the fact we will figure out how we implement that. Do you recall, in your experience do you recall a process that occurs like this with a decision or a recommendation being made up front? And then seemingly the analysis, and seemingly being that we can't get any documentation prior to August 9 about how that analysis might have been performed. And then subsequent to that saying, well, we are going to be doing much of that analysis. Do you recall a decision there being made in that manner? Especially a decision of this magnitude?

LTG WOOD. Well, that is a fair question. If you change the word "recommendation" to "objective." And they said, in fact we have an objective of de-layering headquarters, and in order to do that we are going to take a look at Joint Forces Command as an example and assess and evaluate what savings could occur. It does remind me a bit of what we did in reducing forces in Europe, where we had objectives with regard to the de-layering of headquarters under NATO. And those were stated as objectives, and the analysis determined ultimately which were the wise decisions, and which were the economical decisions, and which in fact were the tough decisions that we just had to make regardless. So perhaps that is as close as I can get to it.

Mr. WITTMAN. Sure. But it seems in this situation that it is actually a level higher than objectives. I could understand if the objective was to look at efficiencies within JFCOM, those kinds of things. But to actually start with the recommendation of the disestablishment of JFCOM, and then move on from there and say, well, now we will figure out the details about how that happens, does seem to be a little bit different.

Let me ask you this. The assertions that we have been given and what little bit of information we can get concerning the conversations, the analysis, or lack thereof in this decision making, is that jointness has become so ingrained in the service branches that JFCOM no longer has a purpose. And my question would be to you, do you believe from your observation and knowledge of the current status of all of our service branches, do you believe that the mission of jointness is complete?

LTG WOOD. If specifically you are asking me, and I think you are, if the mission of jointness is complete, it is not. I would suggest that after seven and a half, eight years of combat, in a joint setting of CENTCOM and areas surrounding that, that we have learned, and our force almost a half generation now with multiple deployments, have learned the value of jointness and understand its execution very typically at the tactical level. At the operational level or the strategic level there remain lessons yet to be learned. And I would also suggest that one very obviously good way to build that expertise and ingrain that knowledge could be combat. There are likely less costly and less serious ways for that to occur. And the continuity of growth in the area of joint, this inflection point we are at in terms of missions as they are either transferring or transitioning, it is about the right time to draw some very necessary conclusions and institutionalize those conclusions so that we grow the next generation with equal knowledge and appreciation

focused now on threats that are in the future by threats that are present.

So jointness will continue to be an important aspect of the training of the force. It will be an important element of the culture. And the work continues. And I do believe that the Department acknowledged and stated the same. They have chosen a different approach as to how to draw those lessons and institutionalize them in the force, in this case by the elimination of JFCOM.

Mr. WITTMAN. Well, let me ask this then. Looking at it from that context, in that the mission of jointness not being complete, but that many aspects of it are indeed operationalized both at the tactical level and somewhat at the strategic level. But still looking at how do you continue to make sure that is put into place as objectives, as missions change? Do you believe then that the role of JFCOM under those conditions is complete? And that those roles could be assumed, as one of the suggestions is, by operations under the Joint Staff?

LTG WOOD. My personal opinion is that staff responsibilities are dramatically different than command responsibilities. And to take functions and assign them to staff elements, as opposed to beneath a commander, dramatically alter the outcome. And as such, I think the point was made yesterday in particular by General Cartwright, where it does take a single commander, charged with the responsibility to produce and execute and provide solutions, in this case joint solutions, is something that will likely be one of the elements of whatever course of action they choose. It does take a commander.

Mr. WITTMAN. And one last question before I yield. Is looking within that context of this whole realm of decision making, and looking at what we have been told. And that is that there were over thirty "meetings," and I use meetings in quotes, there in the Pentagon in discussing this particular recommendation of the disestablishment of JFCOM. In your experience can you envision that with thirty meetings that there would not be a situation where there were notes, or proceedings, or any kind of written capturing of those meetings that would be available to provide to Congress or to others that may ask about that particular documentation about the whole effort of analysis there in the Pentagon, to get to the point where the Secretary has made that recommendation? And again, we were told of those thirty-plus meetings that had happened. I just want to get your thought about whether that is indeed a realistic scenario.

LTG WOOD. I certainly believe that there are notes or briefings that were part of the analysis. I can imagine it only simply as a review of the entire program. This was a very major initiative that was announced, and I could just imagine that there were a number of meetings that dealt with not just JFCOM but a whole range of issues that were announced by the Secretary. So to answer your question directly, I would believe that there would be something that represented briefings or notes from those sessions.

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

Mr. SCOTT. Thank you. Mr. Connolly?

Mr. CONNOLLY. Thank you, Mr. Chairman. I thank you all for your testimony. Mr. Harrison, in your testimony I believe you made

reference to I think a CRS study that showed that bringing it in would lead to fairly significant cost savings, although relative to need not all that big. What was the methodology used to make such an assertion? I have not seen any such analysis?

Mr. HARRISON. I cannot recall the exact methodology they used. I believe what they did is looked at estimates of what Joint Forces Command costs today. That is a little difficult to do because each of the individual services provides personnel and resources to the Joint Forces Command. And so you have to go in and try to dig out of their personnel budgets and other budgets exactly what proportion is going into JFCOM.

Mr. CONNOLLY. I am not only referring to JFCOM.

Mr. HARRISON. In terms of the other savings initiatives, the largest one that I mentioned in terms of reducing the support contractors, it took an estimate of what we spend today on support contractors and then took a cut of that, and that came out to $3.6 billion annually.

Mr. CONNOLLY. But the functions would still have to be undertaken.

Mr. HARRISON. Well I think that, and the report points this out, that that is the difficult question. Is would we actually realize that much in savings?

Mr. CONNOLLY. Or any?

Mr. HARRISON. Or any. Now, the way that Secretary Gates announced it was, you know, he had previously said he had a goal of insourcing, and moving these jobs in house. And it was based on a head count, basically, a percentage of the workforce that was made up of support contractors. He wanted to bring that down to a different target. He said in his August announcement that he was not satisfied with progress doing it in that way so he decided to just cut the budget by a certain amount.

So cutting the budget, you know, if that is your method then you can certainly achieve that. But what are the consequences? What is left undone? And there are certain risks associated with that. I would say that this is not really an ideal approach at all about how to go about doing it. First I think you would want to step back and say, okay, well who are the contractors? What are they doing? And how many are there? And DOD does not right now have a comprehensive answer across the Department to those questions. Once you have done that then you can go in and say, okay, on an individual basis what are they doing? Is that something that should be done by a government person? Is it more cost effective or is it inherently a government function? So then that is something that you would want to insource. You may look at it and find that some contractors are doing things that we want to have done by contractors. In that case, you leave them, let them do their job. And in some cases you may find that contractors are doing things that simply do not need to be done and then you can eliminate them.

That requires a lot of work, though, and I do not think the Department is there at this point. I do not think they can do that.

Mr. CONNOLLY. Right. Well, and again, as both of my colleagues have indicated, this is now my third session this week on this topic. Not once has the Pentagon even pretended that it did the analytics Mr. Soloway referred to to justify this decision. They are actually

going to do it after the fact. And that is a little bit like a corporation saying, you know, we have decided to eliminate a whole division of the company, the marketing division. And as an act of faith we are going to assume it will yield net reductions in cost and it will not appreciably affect our sales, not having a marketing division. And by the way, we expect the board to approve this decision, and we will provide them data on how well it worked after they approve it. So this is all, you know.

No company on the planet would allow management to make such a decision. That is exactly what we are doing here. And it may make sense, but no proof has been provided to Congress, or to the public, or anybody else. And the reluctance of the Pentagon to appear at public hearings, with the one exception here in the House which was yesterday at the Armed Services Committee, I think gives some evidence of that fact.

And the reason I asked about the methodology is, you know, we sometimes are a little too fast and loose with what is cheaper and what is not. And I have seen examples of both, you know? And what we have to make sure is that if we are going to be looking at personnel costs they are fully loaded. The government requires the private sector when it bids on a contract to have fully loaded costs, otherwise you are low balling it, and you may have an unfair competitive advantage over the competition, and it does not really give us an accurate picture of what the real costs are. Well, if we are going to be looking at this kind of question of insourcing/outsourcing, they have to be fully loaded costs. And unfortunately I just, I have not seen any methodology used in this decision and it is a fairly sweeping decision. This is not a marginal savings decision, presumably.

Ms. Simon, thank you for your testimony. You talked about inherently governmental, and I was just wondering if you want to share a few examples of what you think clearly fall under that rubric that ought to be brought back into the Pentagon.

Ms. SIMON. Well there are a number of positions that have been identified as inherently governmental having to do with the preparation of budgets, the writing approval of regulations that implement laws passed by Congress, and some contract oversight work.

But if I may, with regard to insourcing, the procedures that the Defense Department is required by law to adhere to when it considers insourcing, there are rather rigorous analytics involved. It is really quite different from the outsourcing agenda that was pursued in the last two administrations. In fact, the Department is required annually to report to Congress the number of positions that have been insourced, the rationale in each case for the insourcing. And for example, they have to be able to show that it was either inherently governmental work, closely associated with inherently governmental work, or a cost comparison was conducted. You know, it could have been an illegal personal service contract. Or a cost comparison was conducted that demonstrated that it was less costly to perform the work in house.

And I also would be more than happy to provide you with materials we have from the Department of Defense that do demonstrate that the cost comparison process DOD is using when it considers insourcing does not have any kind of quotas, and has what you

refer to as fully loaded costs. For example, it includes the lifetime cost for health insurance benefits provided to federal employees in retirement and retirement costs. They really are completely fully loaded costs. So I would be happy to provide you with those materials that we are in possession of.

Mr. CONNOLLY. I would be glad to get them.

Ms. SIMON. So, yeah.

Mr. CONNOLLY. Let me just say to you, though, Ms. Simon, I am sure you are aware of the fact though, and you just heard my two colleagues complain about the fact, correctly so, the Pentagon heretofore has not provided any analysis, any documentation to justify this decision. Now if that data you refer to is so readily available, why would they not have done that analysis to show compellingly, of course we are going to go this route because look at the savings it generates. And they have not. And they admit they did not do it.

Ms. SIMON. Well, my answer was with respect to insourcing.

Mr. CONNOLLY. Sure.

Ms. SIMON. You know, of course——

Mr. CONNOLLY. Well, but I am referring to insourcing on the, I'm sorry, on the contractual piece here.

Ms. SIMON. One of the things that we are most fearful of is if contracts are cut by 30 percent over three years and none of those positions are insourced. Of course they will save money if they simply eliminate those contracts and do not replace any of the employees doing that work with civilian federal employees. There is probably some of that work that can be absorbed by the current workforce, but certainly not all of it.

Mr. CONNOLLY. Right.

Ms. SIMON. And, you know, with the freeze on civilian employees, you know, we know what has happened historically when there are personnel ceilings and freezes on federal employees. It essentially eventually leads to outsourcing, and outsourcing often without competition. And of course outsourcing of inherently governmental work and work closely associated with inherently governmental work.

Mr. CONNOLLY. Yes. And to underscore your point, what concerns many of us is the magnitude of this. Ten percent a year times three years is billions of billions of dollars and could affect tens of thousands of jobs. And I take your point. If they just, well, it depends on how they dispose of that, what happens to those functions and so forth, and whether it puts an additional burden on the existing workforce that may be already overstretched. And again, no plan has been provided to the public or to this Congress on how you would implement such a cut. And 10 percent is not trivial. It is very serious and very large. So I take your point.

Ms. SIMON. Thank you.

Mr. CONNOLLY. Mr. Soloway, did you want to comment on that?

Mr. SOLOWAY. Yes, I think that we are confusing a few different issues here. Maybe just to provide a little bit of factual context. First of all, the Secretary's insourcing initiative, his 10 percent cut, and the broader efficiency initiative, none of what he has announced or done is inconsistent with statute that has been established by Congress. The Secretary's guidance most recently about

not automatically providing one for one switches in insourcing jobs has nothing to do with whether the Department continues to still have to give consideration to whether, when, and how to insource certain kinds of positions. The Deputy Secretary of Defense guidance from May, 2009 is still in effect, which is merely a reflection of statute, almost a direct word for word reflection of statute.

What the Secretary did last month is acknowledge that they are not achieving the savings expected from insourcing. Contrary to what some have suggested, in fact the data shows that it is just not there in many cases. That is not to say it is never there, it is to say that it is not there on a broad basis that one can just assume across the budgetary line. So the Secretary said they are no longer going to simply offer new positions on a one for one switch for positions, contracted positions, that are eliminated, with the exception of the acquisition community where there will be, where positions are inherently governmental as Ms. Simon said, they will be one for one created within the Department because that is such a critical workforce.

With regard to the closely associated with inherently governmental functions that is covered in the statute and covered in the Deputy Secretary of Defense guidance I think it is important to recognize what the Obama administration has said about closely associated with inherently governmental activities. They have made it explicitly clear that those positions may be contracted if it is more cost effective, if the agency involved has adequate financial management and other controls in place to adequately manage and supervise and oversee its contractors, there is absolutely no reason why one could not actually continue to contract or increasingly contract for those positions. The issue is a matter of workforce balancing at OMB and its guidance that you referenced earlier actually makes very clear that it is that balance it is not a uniform closely associated with inherently governmental functions must come from in house.

The third point I would make is with regard to analyses and cost, and let me share an actual case rather than—let me back up one step, sir. The Department initially announced that they were going to assume a 40 percent savings per position insourced. That was contained in resource management decision 802 which remains a classified document, has never been released, nor have the analytics underpinning it ever been released. That was followed by a directive type memorandum, a DTM, that was issued last January which purported to be a comprehensive methodology for comparing costs. It is neither comprehensive nor is it a methodology and it explicitly, although it is the ruling document, it explicitly excludes any costs that are not the responsibility of the Department of Defense. And by definition that would include many post-retirement and administrative and benefits costs that become the responsibility of the Office of Personnel Management.

Third, it is instructive to look at specific cases for which data is available. And one I will just mention very briefly involved an Air Force insourcing of a contract valued at about $225 million with 400-plus people performing the work at seven locations across the country. The Air Force decided to insource that contract on the basis of an analysis that it would not share. As a result, the union

involved submitted a Freedom of Information Act request to see the data, to see the analysis underpinning this decision, because many of its workers would lose their jobs. They were not coming into the government, they would not necessarily be eligible, and so forth.

The data received from the Air Force through that FOIA request showed that on a $225 million contract the Air Force net savings was expected to be $450,000, .02 percent. Now one of the, Ms. Simon and I have often disagreed on many issues and I think there are two things we can agree on. Number one, arbitrary FTE ceilings are no smarter than arbitrary contract cuts. And number two, some reasonable savings for outsourcing or for insourcing better be shown just to cover the costs and chaos created by the churn of transition.

What is even more constructive about this particular case is that according to Air Force documents that have been widely released, the details of which are in my testimony, the Air Force is only looking, as you said, at totally burdened contract costs versus internal personnel costs. There is a whole set of operation costs not being considered. In this particular case the Air Force is also proposing to do the work with 15 percent fewer people when they bring it in house. By their own estimate, since there is effectively no savings, the per person cost of performing the work in house is actually substantially higher than were they continuing to perform it through contract. Imagine what would be possible if they actually worked with the contractor to bring the contract requirements down to the level they believe the work would be performed and there you would have actual real savings. And finally, as I said, they specifically did not include post-retirement costs, and merely health insurance premiums for a workforce of 350 people would create costs that are in the millions. That in and of itself is not a reason not to insource the work if it was inherently governmental or so sensitive and critical as has to be performed by a federal employee. But in this case no one is even attempting to make that argument. It has been purely made as a "we are going to save money," and the answer is they are not.

Mr. CONNOLLY. And final point, and just briefly, I assume there is actually a third area where you agree, I think, with Ms. Simon. Which would be the example she gave of inherently governmental work?

Mr. SOLOWAY. We have always taken the position that inherently governmental work, no one is going to argue that it should continue to be outsourced. And to the extent a small number of positions that Army has found are inherently governmental that were inappropriately outsourced, they should be brought back in house. Where we depart significantly, where I think our position at PSC is more aligned with the administration view as OMB guidance has articulated over the last several months, is in this area of closely associated, if you will, with inherently governmental, those significant skills. We fully agree with OMB that the government has to have residual core capabilities that may not be by definition inherently governmental, but are nonetheless necessary to adequately and efficiently manage and oversee its missions.

Beyond that, there is a choice to be made. And those choices must focus on cost, availability of skills, life cycle costs, not just to

the individual department but to the taxpayer totally, and competition for talent in the marketplace and so forth. Those are the kinds of considerations that are not currently being conducted at DOD in this particular mission.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Mr. SCOTT. Thank you. I understand Mr. Wittman has an additional question or two?

Mr. WITTMAN. Yes, and I want to direct those to Mr. Harrison. I just want to get you to refine a little bit of your previous testimony. In your written testimony you state that in relation to the elimination of JFCOM you say that while these eliminations appear to be justified the total savings achieved will depend greatly on how they are implemented. Let me ask this. If the focus is really on the implementation, and that is critical to the validity of the decision of eliminating JFCOM, do you believe then that the process that has been pursued now by the Pentagon, and that is making the decision up front and then doing a post-analysis of that decision, do you believe that that is the proper sequence to really look at the utility of the decision itself to disestablish JFCOM?

Mr. HARRISON. Well, I guess I would start by saying that, you know, the implementation of how the elimination of JFCOM comes about, the big savings when you eliminate an organization like that are really going to be in a reduction in head count, both military, civilian, and contractor employees, and the elimination of facilities, so that you no longer have to maintain them. So those are the big areas I would look for in terms of cost savings. And of course, the Department has not yet decided how they will do that.

It is very likely that the military and the DOD civilians will just, those jobs will just be transferred elsewhere. So you will not save any money on reducing those items. The contractors, some of those would presumably go away if functions go away and you no longer need them. As functions get transferred to other areas within DOD, particularly within the Joint Staff, then those contractor jobs might just shift as well. So for that reason I think it is really hard to know up front how much money you will save, if you will save any money.

You know, it was pitched as part of DOD's efficiency initiative. And you could certainly make the argument that you could achieve some efficiencies by doing this. I do not think that they know yet how much they will save by doing this, if they will save anything at all. And they will not know until they have decided on an implementation plan. Now, should they have waited to make the decision until they had an implementation plan? Well, perhaps. But given the urgency that Secretary Gates has put on this initiative I do not think they simply have the time to do that.

Mr. WITTMAN. Again, I will go back to get you to give me your estimation of the process. And I think you got a little bit there, but I want to get you to further define that, looking at truly if there are going to be cost savings. And let us take a step back, too, and look at, looking at a strategic analysis. And that is, one of the overarching issues here, too, is strategically is this the right thing to do in maintaining jointness? So we look at that both strategically and from a business model cost efficiency standpoint. Is this process, and that is doing analysis of implementation, doing analysis of

the strategic implications after this recommendation has been made, do you believe that that is the best way for this decision to have taken place?

Mr. HARRISON. I would say in an ideal world before you announce a decision like this you would want to be able to take the time to go through and figure out the best course of implementing such a change, cost that out, determine what the savings are, and then do your balance, your cost benefit balance. I think, and this is just my own, you know, personal opinion of the way the decision came about, was looking at some overall metrics for Joint Forces Command. And if you look at these they do cause, they are cause for concern.

If you compare the total number of employees in JFCOM, which according to the Defense Business Board their analysis is over 6,000 including DOD and contractor personnel. When you compare that to some of the other combatant commands it does raise a few eyebrows. In particular, if you look at CENTCOM they have less than 4,000 total employees. And we all know what CENTCOM does, they are fighting two major wars for the United States right now, and other DOD activities that are going on in their area of responsibility. And it does bring up the question, then, well, is whatever JFCOM is doing, is it 50 percent more important than what CENTCOM is doing? I think most people would agree, well, probably not. So why do they have 50 percent more people dedicated to those tasks?

Now, that is just a very high level analysis that would just tell you, well, this is worth investigating more. I think when they start to dig in deeper, when General Odierno gets there and starts coming up with an implementation plan then we will be able to see more of what they plan to do and how they plan to implement this recommendation.

Mr. WITTMAN. One last question, Mr. Chairman. I want to lead, then, to this question. In your experience in looking at decisions within the Pentagon, within the Department of Defense, do you recall a decision of this magnitude that is taking place like this? And that is with a post-decision analysis on the implementation, on the strategic impacts, and really on the economic implications or efficiency implications of a decision?

Mr. HARRISON. Off the top of my head I could not name a comparable decision. That does not mean it does not exist. But off the top of my head I do not have one.

Mr. WITTMAN. Thank you, Mr. Chairman.

Mr. SCOTT. Mr. Connolly, do you have any additional questions?

Mr. CONNOLLY. No, sir.

Mr. SCOTT. Thank you. Mr. Harrison, just following up on that, is it possible to cut costs without eliminating the whole command?

Mr. HARRISON. Certainly it would be. You would still, it would still impact jobs because to really achieve any significant cost savings you would have to cut the number of personnel somehow, and so, you know, that would still have an impact on the local community and economy. But you could certainly downsize JFCOM and reduce costs.

Mr. SCOTT. And one of the things you talked about, the costs, if you eliminate the command and move the functions somewhere else, are there costs associated with that?

Mr. HARRISON. Absolutely. There would be one-time upfront costs, you know, from just the movement of people and resources. But then there are the ongoing costs of the personnel wherever you have them. And you also have to consider, and I have not looked at this to know if this is significant, but the different costs of labor given different geographical areas. And so if you are moving them you could actually increase or decrease your costs just because of the costs of labor in the different markets.

Mr. SCOTT. So if you closed JFCOM and moved all the functions somewhere else you might end up spending more money, and not saving anything at all?

Mr. HARRISON. Especially if you continue all of the functions at the current level that they are today. If you really want to save money, as I said before, you cut head count. And when you cut head count you are cutting the amount of work that you are doing. And so that is really the way that you are going to generate savings. And if they do not do that there really will not be savings.

Mr. SCOTT. And you could reduce functions without eliminating the command.

Mr. HARRISON. You could.

Mr. SCOTT. General Wood, could you give us an idea of what kind of functions would be eliminated and not continued at JFCOM?

LTG WOOD. Well, I guess the, they have already described the force management function not to be eliminated but moved, likely to the Joint Staff. I think important to understand is the functions at JFCOM have been assigned either by Office of Secretary of Defense, by the Joint Staff, or collaboratively by services through JROC action. So we would essentially make a proposal that the function of fires integration, for instance, which is one of the elements of the command, or joint personnel recovery, or the lessons learned in operations analysis activity, can be now shifted to a location where it will not lose its essential aspects. You would make a recommendation in the Joint Staff, or the JROC, or the Chairman would approve it. So that is what General Odierno is going to do. I really do not want to presuppose functions that can be eliminated until that type of analysis has been completed.

Let me say one other thing. As a command, if it stayed in place, if it did not go away, it would be subject to the 30 percent directive in terms of reduction of inservice contracts. That is, in this case if you looked at it, that is about 900 people. 900 people less of a JFCOM of whatever date in the future you look at will without question be likely more efficient, more focused on priorities, and it might even be therapeutic. It does not say the command goes away. It simply abides by the directives the Secretary has described. It remains with a commander in charge of Joint and jointness. It is now efficient in terms of decisions made by the commander. And then he will make an idea about likely which functions will go away.

I would imagine that functions will realign inside the command and remain in place. Functions will reduce in terms of size and likely remain in place or be renamed. And then you will end up

with a smaller element to accomplish what has been directed, typically by the Department. So I do not want to presuppose——

Mr. SCOTT. Well it seemed to me when this thing started the criticism of JFCOM said it had too many generals and too many contractors and therefore they said you needed to eliminate the command. It seemed to me another response could have been to reduce the number of generals and reduce the number of contractors, and keep everything else in place. If you dismantle it altogether and then reassemble some but not all you end up with what Mr. Harrison has suggested, you may end up by the time the dust settles spending as much or more where everybody lands than where you started off. You lost all the synergy that you have with the international force and all of the good parts of JFCOM. And it seems to me that if you are going to eliminate the functions, you can eliminate the function. You do not have to eliminate the command.

LTG WOOD. Yes.

Mr. SCOTT. And so one of the questions we had was, and we cannot know because we have not seen the analysis, we have not seen the arguments pro and con, we have not seen any document with any numbers on it. And so we are just unable to make any assessment. But there seem to be many other credible options other than just eliminating the command and regrouping somewhere else.

LTG WOOD. General Odierno will be charged with that task, will look function by function, and the size of that function and where it needs to be positioned. And likely maintain the focus of a commander over whatever result he comes up with.

Mr. SCOTT. Well if you have a commander, does that not suggest a command?

LTG WOOD. It does.

Mr. SCOTT. Thank you. I ask unanimous consent that members who did not have the opportunity to ask questions of witnesses be given seven days to submit questions for the record and to submit opening statements for the record. Mr. Wittman, do you have further comment?

Mr. WITTMAN. No.

Mr. SCOTT. I want to thank all of our witnesses for being with us today. This has been extremely helpful. And we have a lot of work to do and information to get. Without more, the Committee now stands adjourned.

[Whereupon, at 3:34 p.m., the Committee was adjourned.]

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