

**COMMISSION ON
THE NATIONAL GUARD AND RESERVES**

**HEARING ON MANAGING
AN INTEGRATED ACTIVE AND RESERVE FORCE**

**WITNESS:
THE HONORABLE DAVID M. WALKER
COMPTROLLER GENERAL OF THE UNITED STATES**

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ARNOLD PUNARO: The Commission will come to order. Welcome to the 11th set of public hearings of the independent Commission on the National Guard and Reserves. The commission is chartered by Congress to identify and recommend changes in law and policy and ensure that the National Guard and Reserves are tasked, organized, trained and equipped, compensated and supported to best meet the national security requirements for our nation now and in the future.

One theme has emerged repeatedly during the course of the commission's deliberations now, which have been going on over a year. DOD has declared the reserve components to be an operational force and is using them accordingly. The commission concluded in our March 1 report to the Congress and the Department of Defense that, quote, "the current posture and utilization of the National Guard and Reserve as an operational reserve is not sustainable over time. If not corrected with significant changes to law and policy, the reserve component's ability to serve our nation will diminish."

Many of these outdated laws and policies deal with people and how we are using this valuable resource. Much of our military human capital strategy was forged in the late 40's, as well, you know, in the early days of the Cold War for a post-World War II force fulfilling roles and missions very different from today. For example, the Defense Ops and Personnel Management Act, the bedrock act that governs the total management of our active duty military, was passed in the late 70's. During this hearing we hope to sharpen our focus on updates to law and policy required to create a 21st century human capital strategy for the National Guard and Reserves, and to explore in greater detail the primary components of that new strategy and the costs, ranging from force management to career paths to compensation and benefits.

We're honored to have as our witness today David Walker, the seventh Comptroller General of the United States. I won't recount the impressive details of his career, but he's had a long and distinguished career in both the public and private sector. The Government Accountability Office serves as Congress' auditor, watchdog and truth squad for multiple government agencies. I know we relied heavily on GAO's work during the days that I worked here on the Senate Armed Services Committee staff with Will and Les and Patty and many of the others here. As we've said many times, it's essential in government to have institutions like the GAO that are known for objectivity and analysis and bringing those things to bear so that decisionmakers in both the executive and legislative branch can operate with the objective set of facts in terms of making the important decisions. And certainly under David Walker GAO has developed even greater expertise and credibility as an arbiter of good public policy.

He has also taken on the personal responsibility to frame public policy issues within the broader context of the daunting fiscal challenges that both DOD and the nation as a whole face in the years ahead. And he's published a number of landmark reports in that area that are well known, at least to this commission, and I would encourage

anybody in the public and anybody attending this hearing that hasn't read it to read that work because I think his contributions in this area will mark him as one of the nation's truly outstanding leaders of the 21st century.

The commission recognized early on that we needed an up-to-date, unbiased analysis of the relative costs of active duty and reserve component personnel as a critical underpinning for any review of roles and missions. So we asked David Walker whether the GAO would be willing to take this project on, and it says here he readily agreed. He agreed, recognizing that they had a tremendous amount of other work going on, but I think GAO saw this as well within their statutory responsibilities and as a good companion piece to the really brilliant piece of work that GAO did in terms of active duty compensation and all the additional costs that go into that.

So we're – he's releasing results of that work at this morning's hearing. In addition to the Costs of Reserve report, we welcome your broader perspective on the fiscal challenges facing both DOD and the nation in the years ahead and within that context your recommendations for forging a human capital strategy to meet the national security needs in the 21st century.

Before your testimony I want to thank you again for the outstanding support that the commission has received from the GAO staff, primarily from Janet St. Lauren, Derek Stuart and Butch Hinton, many of them here in the audience today. They have certainly gone the extra mile to help us with information and documents. Janet did an outstanding job as a witness at our September hearing in San Diego on equipment issues, and has made a valuable contribution to the work of the commission. I'll tell you, Mr. Comptroller General, as we visited with the Senate and House Armed Services Committee staff and also with the members – I mean, Chairman Skelton personally told me how valuable the help he was getting from the GAO. We were kind of comparing notes a little bit, so I know that their work and your work is tremendously appreciated by the two authorizing committees as well. So thank you again for being here this morning, for your service to the nation.

Without objection, your comprehensive written testimony will be made a part of the hearing record and we look forward to any further verbal comments you'd like to make.

DAVID WALKER: Thank you, Mr. Chairman, commissioners. It's a pleasure to be before you here today to talk about the challenges facing the National Guard and Reserves as the nation moves into the 21st century, given our mounting fiscal imbalances, and given new national security concerns and homeland security needs. Over the last several years, GAO has taken a body of work dealing with a range of issues, dealing with the Department of Defense, including issues dealing with the National Guard and reserve's changing roles and missions. Also focusing on issues like recruiting, training, equipping challenges, and now most recently the report that's been released today. I understand you've all been given a copy dealing with compensation policies.

I'd like to focus my summary remarks this morning on three basic issues. First, the nation's fiscal and security challenges and their implications for the Department of Defense and its reserve components. Secondly, the need for the Department of Defense to better align its business model with reserve forces' current and future needs, and thirdly, the extent to which DOD's current compensation system for Reservists is helping the Department to meet its human capital goals of recruiting and retaining a high quality force. My understanding is that all of you have been given some graphics that also appear in the report but separately. I think those speak loudly. Let me just say that the nation's growing fiscal imbalance and changing security environment requires a fundamental reexamination of defense activities, including the role and structure of reserve components.

Today we're seeing the calm before the storm from a fiscal standpoint. Our deficits are larger than advertised because we're still spending every dime of the Social Security surplus for the government operating expenses, but we face a tsunami of spending that will reach our shores within the next several years, and we are not well prepared. You can see in these graphics that in the last 40 years discretionary spending has declined from 67 percent of the budget to 38. The ultimate irony in that is, if you define what is in discretionary spending, you will find that all of the key components of the United States federal government in 1789 are in discretionary spending. The executive office of the president, the Congress, the judicial branch of government, the Department of War, now the Department of Defense, Department of State, Department of the Treasury, and the Justice Department. So all of the original functions of the federal government are now in discretionary spending, and yet discretionary spending represents 38 percent of the federal budget, and it is under pressure and it will come under increasing pressure as time moves forward.

You can see in the second pie chart that defense spending has gone from 43 percent down to 20 percent in the last 40 years. That includes supplementals for the global war on terrorism. At the same point in time you can see in the next graphic where, adjusted for constant dollars, defense outlays today are higher than the Vietnam era. Defense outlays today, adjusted for inflation, are higher than during Vietnam. And one has to ask, what are we getting for the money?

The other thing I've asked my staff to do is to take a look at how much of the Vietnam war was funded through baseline budgets versus supplementals because this graphic excludes supplementals, and my recollection is that over time more the Vietnam war was put into the base. And so therefore the difference could even be greater than this graphic shows. You can see other charts in here that I'll come to in a few minutes, but the nation faces large and growing structural deficits, primarily due to known demographic trends, the retirement of my generation, the baby boom generation, and rising health care costs.

If left unchecked, these fiscal imbalances will ultimately impede our economic growth, which ultimately could have an adverse impact on our national security, our homeland security, and our standard of living.

A fundamental re-examination of major policies and priorities is needed across all major federal programs and policies in order to respond to changing social, economic and security changes and challenges in the 21st century. To facilitate this re-examination, we published in February of 2005 a document entitled “21st Century Challenges: Re-examining the base of the federal government.” I believe you’ve all been provided a copy of that. If not, I can make that available. It divides government into 12 areas. It raises over 200 illustrative questions that need to be asked and answered, to re-engineer government to make it more relevant, more results-oriented, and more sustainable in the 21st century. One of those 12 areas includes national defense.

As the commission completes its work, it will be important to examine reserve component practices and policies and to evaluate future funding requirements of the Guard and Reserves in the context of our nation’s broader fiscal challenge, and DOD’s own affordability and sustainability challenges.

Health care is eating up the budget. If there’s one thing that could bankrupt America, it’s health care. It’s not just eating up the federal budget. It’s eating up state budgets, it’s eating up the budgets of private sector enterprises, and it’s eating up the Defense Department budget as well. So ultimately we’re going to have to engage in comprehensive health care reform in installments over time because the current system is unsustainable.

DOD’s heavy reliance on reserve components in recent years to support operations in Iraq, Afghanistan and at home has highlighted the need to better align the reserve component’s business model to support their 21st century roles. All of you know that the Guard and Reserve were designed for certain purposes, and they’re being used for supplemental purposes today. At one point in time the reserve was in fact the reserve. Today in large part it is not the reserve. It is operational, and if you look at the percentage of our troops overseas that are represented by Guard and Reserve units, and some of which are facing recurring deployments, not only does that have stresses with regard to members of the Guard and Reserve, but also on employers who, when they signed up, may or may not have thought that they were going to have to have people going as frequently as otherwise would be the case.

I think many people thought that the reserves would be there if we had a major, you know, a major event that affected the future of this country. And one could argue that this global war on terrorism may well do that, but I think most people were thinking of conventional, a major conventional threat rather than this asymmetrical, non-state threat that we now face.

Although each of the services’ reserve components face challenges in adapting to the new security environment, our work has shown that the current business model of the Army National Guard and the Army Reserve is not sustainable in the long term, given their changing roles and high pace of operations. In addition, our past work has shown that all of the reserve components face human capital challenges that need to be

addressed as part of a systemic and systematic effort to reassess and revise the reserve component business model. These challenges include addressing inefficiencies in recruiting and retaining personnel and high demand career demand fields and occupations, and developing policies, procedures and business processes to facilitate a smooth transition of personnel between reserve and active duty status.

An appropriate compensation strategy that supports human capital goals is another key component in our view of a sustainable business model. However, DOD does not know the extent to which its current compensation system for reserve and Guard service members is helping to meet its human capital goals of recruiting and retaining personnel. In fairness, they don't know it for active duty either.

We published I think two years ago, no more than three years ago, the first ever document that summarized total compensation for active duty personnel. It never had been published before. We had to take DOD data, VA data, OPM data, and pull it all together. And it was a surprising picture, just as I imagine the report that we're issuing today will provide a surprising picture, if you will. One must keep in mind that our Guard and Reserve members as well as our active duty place their life on the line. At least some do. Not all. Some do. And that must be recognized and rewarded. But one also must keep in mind that we need to have a more strategic and more effective compensation strategy that will help us to attract and retain people, that is affordable and sustainable over time, and that differentiates between key skills and knowledge that we need versus general recruiting and retention requirements, which all too frequently we pass around incentives across the board rather than targeting them with regard to key skills and knowledge.

An appropriate compensation strategy is needed here. There are two primary reasons, we think. The department really hasn't gone about trying to define a compensation strategy. Like most aspects of government you take the base, layer on, layer on, layer on, and quite frankly Congress is part of the problem because in many cases Congress has decided to layer on, even in opposition from the Defense Department. Such is clearly the case with regard to recent expansion of health care benefits for retirees, where the taxpayers will end up exercising a huge put option of huge proportions because of those actions. Unfortunately Congress did not consider the long-term affordability and sustainability of those actions, as it didn't in the case of Medicare Part D before it acted.

There's also a need to look at the compensation approach in order to provide decisionmakers in Congress as well as the executive branch with adequate transparency over the total cost of Reservists. Using fiscal 2006 constant dollars, the federal government's total cost to compensate full-time and part-time reserve members, including cash, non-cash, and deferred benefits, has increased about 47 percent since fiscal year 2000. This is adjusted for inflation. Total compensation costs have increased 47 percent after inflation since 2000, rising from about \$13.9 billion in 2000, to \$20.5 billion in constant dollars in 2006. Much of this total growth and compensation is driven by the cost of deferred compensation, which is only received by certain members, not all

members, such as retirement pay and health care. The cost for deferred compensation has tripled over time, the most out of control costs.

This allocation is questionable from efficiency perspectives, since fewer than one in four of those who join the reserves will ultimately earn retirement benefits. The shift in the mix of compensation can be attributed to the fact that the Department and Congress have added pay and benefits to Reservists and Guard members in recent years using a piecemeal approach that has not been based on established strategy and does not adequately consider the appropriateness, affordability and sustainability of increased compensation costs.

Moreover, the Department does not know the efficiency and effectiveness of these changes in meeting its recruiting and retention goals because it has not established any performance metrics in order to assess whether or not they are working and to what extent. Furthermore, because costs to compensate service members are found in multiple budgets, both within and outside the Department of Defense, and because they are not compiled in a single source to provide a total cost, DOD's approach to reserve compensation does not provide the Congress, the Department or the American people with adequate transparency over compensation, including the total cost of cash, non-cash and deferred compensation as well as the cost of mobilizing Reservists.

Until total compensation reserve costs are compiled in a transparent manner and decisions are made within an established compensation strategy, decisionmakers will be unable to determine the affordability, cost-effectiveness, and the ultimate sustainability of reserve compensation. We make a couple of recommendations in our report that we issued today, specifically (that) the DOD establish an overall compensation strategy and performance metrics to understand whether or not it's working or not, and that it compile aggregate costs in a transparent manner of total compensation. And in fairness, this isn't just for the Guard and Reserve. This has got to be done for active duty as well. So there's no real difference here. It's a systemic problem.

In summary, a general re-assessment of Guard and Reserves' business model and human capital strategies is in our view critical in order to enable the Department of Defense to continue to achieve its goal of having a sustainable all-volunteer force. The current business model that was developed under Cold War assumptions is not well aligned with the Guard and Reserves' new operational role. The commission has the opportunity to take recommendations from us and others and to undertake a comprehensive look at how the Department of Defense and the Congress should work together in order to craft a new business model for the 21st century for the Guard and Reserves. A revised business model for the Guard and Reserve components should include integrated policies, procedures and business systems for recruiting, retaining and compensating these vital members of our force and also to help facilitate greater movement between the reserve and active duty status.

It's important that we not under-estimate the need to be able to properly compensate these people to attract and retain top-quality talent, given the risks that they

assume and the value they add to our country. At the same point in time, we need to have a strategy that makes sense, that's affordable and sustainable, and that we can measure whether or not it is working. Thank you, Mr. Chairman. I'm happy to answer any questions you may have.

MR. PUNARO: Thank you, and again, very helpful. Let me ask you a little bit of a broader picture question before getting into little details of your current report. You talk about the calm before the storm and we in this nation, we've got hurricane warning systems to warn our citizens that there may be an impending natural disaster. We've got tsunami warning systems that are run by our government and NOAA that warn of tsunami disasters around the world. We've got all other kind of warning systems. Best I can tell, you're the only fiscal warning system that we have in this country right now and we've got to make our considerations within this broader picture that you've described.

This one chart here, you say in constant dollars outlays, we're spending more than the peak of Vietnam, and it included the peak of the Reagan build-up, correct?

MR. WALKER: That's correct.

MR. PUNARO: And that did not include supplementals. Right. Some of these – well, this chart does not include supplementals and as I mentioned before, some of these build-ups were not funded through supplementals, so it's actually more of a difference. So let's say just for discussion purposes we'll take Vietnam out because it was draft, and so the costs of personnel. But let's talk about the volunteer force was certainly in full flower in the early to mid-80's when we had the large defense build-up. As I recall, roughly we had at least 2 million people on active duty in that time frame. Does that sound about right?

MR. WALKER: As I recall.

MR. PUNARO: And now we have 1.3. Actually I think it was about 2.4 million active duty personnel. We now have about 1.2. And were we not buying not hundreds of thousands of fighter aircraft and tanks and ships if you add all the procurement up, correct?

MR. WALKER: Correct.

MR. PUNARO: So as best I can tell, we're going into fiscal '08, the total request is \$719 billion when you add in the supplementals and you add in the baseline budget, and yet it appears to me, and I'd get your thoughts on this, you said what are we buying for the money we're spending. We're struggling to field the force on the ground in Iraq of 150,000 people. So what has happened to the Department of Defense budget from the Reagan build-up, which is a volunteer force era, of 2.4 million people, thousands of ships, tanks and planes being bought, and here we are with budgets in constant dollars dramatically larger than the Reagan build-up years and yet we're struggling to field a force on the ground and sustain it of 150,000 people. What's happened?

MR. WALKER: Well, several things have happened. I'll mention two. One, real compensation costs that increased dramatically. I gave you the example of the 46 percent increase between I think it was 2000 and 2006. That's after inflation, for Reservists in total compensation. There's been a significant increase in non-cash benefits and in deferred compensation through a layering on and layering on. Health care in particular has been a big driver of that.

Furthermore, the other thing that's changed, if you look at the acquisitions area. We're all too frequently looking for the state of the art high-tech solution, the dream. Somebody has a dream. Gee, wouldn't it be nice if. And the result is because of the many systemic problems that we've identified at GAO with regard to acquisition and contracting activities. All too frequently people tend to over-promise, under-deliver, keep on changing requirements, such that you have a moving target, do not end up assuring the maturity of technologies before we move to different stages of development and production, et cetera, such that we end up spending a lot more money, taking a lot longer, and getting a lot fewer things coming out of the pipeline than we hoped to get.

We've got a real serious problem there. As an example, with regard to tactical aircraft. It's not a matter of, you know, for example, are we going to build the F-22A. The question is, how many should we build and what's the opportunity cost, you know, with regard to the Joint Strike Fighter and other issues like that.

So I think the two biggest areas I would say would be the compensation area and the acquisitions and contracting area, but I'm sure there are others.

MR. PUNARO: And then I think you also said the course we're on is not sustainable from the fiscal picture, and I think you also were including probably the way that the Defense Department is headed right now. You certainly said it in terms of the operational Guard and Reserve. I'm not trying to put words in your mouth. I certainly know we couldn't do that. But if you remember Norm Augustine's legendary book, Augustine's Laws, one of Augustine's laws was, and Norm was a tremendous defense industry leader but a great servant in government and, you know, a brilliant analyst, and he had – when he looked at the acquisition system, and this was back in the late 70's, early 80's, this wasn't like the last couple of years. And he took the acquisition and the support costs of complex weapons systems and he said at that point they were growing at such an exponential rate, and he plotted them all and he took every weapons system and he just showed this line. He says, you know, 30 years from now we're going to be able to buy one fighter airplane.

And I mean frankly, if you look at what's been happening since he wrote his book, we are spending more and more money and buying fewer and fewer end items, you know, based on – and with a cost, et cetera, the O&S cost. Are we not possibly headed in that same direction in terms of the cost of personnel and our military, where we're going to be – I mean, the costs are growing exponentially both for the Guard and Reserve and for the active, and we're either going to be faced with the active duty military becoming

smaller and smaller or we're going to be able to buy one soldier, one sailor, one airman, one Marine. Now that's – we're not going to get to that point of just one, but I mean, aren't we on the cost curve right now that if something is not done, that we're going to be going to a smaller and smaller military, or either we're going to have no procurement, no modernization, and no O&M?

MR. WALKER: I think both our current compensation policies and our current acquisition and contracting policies are unsustainable in their present form. And the current compensation policies threaten the viability of our all-volunteer force. And I think one can even debate the viability of the all-voluntary force over the long term, irrespective of the compensation policy. By that I mean I'm not talking about the draft. I'm talking about national – mandatory national service of which the military might be an option.

MR. PUNARO: Right. And I mean, we all, as you said at the outset, you can never – the kids that go in harm's way, you could never pay them enough, but on the other hand, you've got this human capital and you've got fiscal reality that you have to deal with. What about in terms of the Guard and Reserve, let me see if I can ask you some specific factors on that. Again, your report fills a great void in our understanding in military compensation. I want to find out, you know, make sure I understand what appropriation accounts are in these estimates. What you've done is a landmark service to kind of – equivalent of what you did on the total compensation for the active. You now have it for the reserves.

Were there any appropriation elements that were included for one category and not the others? In other words, is this an apples to apples with the active duty total compensating study?

MR. WALKER: That's my understanding, Mr. Chairman. That's what we endeavored to do.

MR. PUNARO: For example, was military construction included in any of the calculations for the Guard and Reserve?

MR. WALKER: Because it's not compensation. The biggest difference, by the way, Mr. Chairman, if you can see for active duty Reservists and active duty personnel, you can see the active duty full-time Reservist, the average comp's a little bit less. The primary difference for that is base-related benefits, things like child care and PX and things of that nature which typically they don't get as much benefit –

MR. PUNARO: So DOD schools were not in the Guard and Reserve calculation, nor should they be. How about NWR costs? Were they – they were not?

MR. WALKER: No.

MR. PUNARO: And they shouldn't be. And on-base family housing would not be in the Guard and Reserve cost.

MR. WALKER: No.

MR. PUNARO: Because they don't use on-base housing. Okay, so that gives us a real good apples to apples. And you point out quite correctly that it has increased significantly about 47 percent since 2000 and had some comparisons, the per capita costs to the government for part-time drilling Reservists has almost doubled from 10,100 in fiscal 2000 to about 19,100 in fiscal 2006. For the active duty members, the per capita cost has increased from 95,000 to 126,200 during that same time frame. That corroborates very nicely with the testimony we got from Dave Patterson, the deputy comptroller, although he did not have the specifics as well – as much as you did on the Guard and Reserve costs.

But in terms of looking at the percentage that –

MR. BROWN: Would you repeat that? Did you say the cost for an individual went from 90,000 per annum to 126,000?

MR. PUNARO: Right. For –

MR. BROWN: From 2000 to 2006?

MR. PUNARO: That's correct.

MR. BROWN: What has it been in industry?

MR. WALKER: Not that, I can assure you. Real wage growth has not been significant in industry, in part because of globalization and, you know, competitive pressures with regard to wages and things of that nature. And it varies, as you know, Commissioner, depending on what type of occupations and what type of skills and knowledge. But on average, real wage growth has been modest in recent years in large part because of the effects of globalization.

MR. PUNARO: And I think the time frame for the active duty, the 95K would have already included the big increase for TriCare for life on the active duty side, would it not? No?

MR. WALKER: No. There have been enhancements since then, and that's one of the primary reasons it drives—

MR. PUNARO: That it's jumped. One of the big jumps.

MR. WALKER: Correct.

MR. PUNARO: Commissioner Brownlee, this really is kind of the typical budget figure DOD uses for their calculating of per capita costs, a nominal per capita cost when they budget an active duty military member. Actually the figures I saw from Dr. Chu's office that date back to the beginning of the administration, it was about 60,000. But –

MR. WALKER: But these are coming from different budgets. Keep in mind, we're pulling – what we're doing here, keep in mind what we're doing here, and this is part of the problem with government. You have a lot of silos, a lot of layers, a lot of players. What we've done is we've pulled together all the key components of compensation, no matter who funds it, no matter which department and agency is responsible for it, in order to come up with total compensation.

Mr. Chairman, my numbers are a little different than yours, which I think – for example, part-time reserve per capita, 10,800 in 2000, 20,500, but the trend is clearly the same.

MR. PUNARO: Well, it's going up. So reserve compensation is going up, it appears to me that the Reservists still cost the government, even if you go to the total compensation with everything, all the fringe loaded in and all the VA costs and other things like that loaded in, it still – and I use the word fraction but maybe that's an exaggeration, but it's still a much lower percentage of the expenditure for active duty service members, correct?

MR. WALKER: It's cost effective. Bottom line.

MR. PUNARO: We like to use the term bargain for the taxpayer. I'm not going to ask the Comptroller General of the United States to get in that position.

MR. WALKER: That's a different value judgment.

MR. PUNARO: Different value judgment, but it's cost effective.

MR. WALKER: It's cost effective compared to active duty. Then you're asking me whether or not compensation is reasonable. That's a very different question.

MR. PUNARO: Exactly. What implication does this differential have for the best mix of active and reserve forces, particularly as we're looking at this calm before the storm situation? Should we be taking that into account as we look to balance the active and reserve component mix?

MR. WALKER: Well, sure you should. At the same point in time I think we also have to consider other factors as well, including what are the roles and functions of the different, you know, portions of our military establishment are expected to perform because as you mentioned in your opening remarks and as I touched on in my opening statement, what we're asking of the Guard and Reserve today is fundamentally different than what some people thought they were getting into when they signed up. My son was

active duty Marine Corps. He fought in Iraq, as you know. He thought very seriously about signing up for, you know, for the reserves and decided not to do it, in large part because of, you know, his family's influence on him, his wife and his kids from the standpoint of, you know, what we're asking today is very different than what we were asking just a few years ago.

MR. PUNARO: One last, and I've overstayed my time obviously, but one last broader question in the generic sense. Are you seeing, you know, Department of Defense has been putting out recruiting and retention statistics, you know, going back to 1970's and, you know, the Department, under every administration and every Secretary of Defense, has an incentive to always make sure the numbers look better than perhaps they really are. It's our instinct, at least it's my instinct, that we're seeing a lot of real fraying at the edges on recruiting and retention. And we can argue about, you know – and I don't know whether the GAO's looked at this, but a lot of us have personal experience with the quality issues, particularly in the Army and the Marine Corps, in the late 70's and when we started lowering our recruiting standards and our retention standards, you know, in our military and the problems it caused, I think we're seeing some of that today.

I can understand the reason they're doing it, and by the way, the standards are going this way, meaning they're going down while the costs of recruiting and retention are going this way. So the gap is quite large. Are you seeing in your work, are you getting the same impression we are that there's some real behind-the-scenes fraying at the edges in the recruiting and retention area that's maybe the statistics aren't showing us yet?

MR. WALKER: Without giving you specific numbers, what I've seen in conversations with our people as well as my interaction at the Department through the Defense Business Board and otherwise, is a couple of things. One, as you know, the Defense Department has a major reliability problem with regard to its financial and other management information. There's a major reliability problem. The only – they're the largest major department that can't withstand an audit. So there are major systems problems and reliability issues, no matter whether financial or other non-financial.

Secondly, it's not just a matter of quantity. It's a matter of quality. And clearly because of the pressures to be able to recruit enough in order to hit goals and because to meet real legitimate needs there has been some lessening of the requirements. That's well known. There's been some lessening of the requirements, you know, for being able to become a member of our military.

MR. PUNARO: From a fiscal standpoint, is that the right trend for the quality to go down and the cost to go up?

MR. WALKER: From a cost benefit, it obviously doesn't make a lot of sense. But again, I come back to something that I said before. We really don't have an overall compensation strategy. You know, we're flying by the seat of our pants. We're flying without instruments here. We need to step back, what are the roles and responsibilities,

what do we need, and what relative quantities? What's reasonable compensation, and how much ought to be base pay, how much ought to be cash, you know, cash pay. How much of it ought to be other benefits. How much ought to be deferred benefits, all right.

How should we target the incentives that we have to make sure that from a recruiting and retention standpoint we're really focusing on critical skills and knowledge? And there's a tendency to kind of pass the money around, okay. I mean, there is some differentiation but there's not enough differentiation with regard to use of some of these things. And it's important to do, not just because it makes sense and because it's in the taxpayer interest, but because we're going to be compelled to start doing these things because the fiscal pressures that we talked about earlier.

MR. PUNARO: Thank you, and I'm pleased to turn the microphone over to Commissioner Patty Lewis, who chairs our personnel and compensation subcommittee. I saw her taking extensive notes and she's going to solve all these problems for us. Commissioner Lewis.

PATRICIA LEWIS: Thank you for that vote of confidence, Mr. Chairman. I appreciate you coming today and the work of all your staff on these critical issues. They are significant and your forecasts of what portends in the future is challenging and a bit frightening, quite frankly. Your graphics on the growth in the last six years are significant, and I know they represent a number of legislative changes that have contributed to the human capital costs for the Department of Defense. Do you see on the horizon in the future any other strikes or increases based on any current legislative requirements or any force changes or events that would – or do you see this stabilizing over time, that this was a growth period to accommodate some significant changes?

Does it continue to go up at that rate? Are there peaks anywhere, or do we see some stabilization over time?

MR. WALKER: Well, one of the biggest, probably the single largest contributing factor in recent years is the growth of health care costs. That's clearly had a dramatic impact on the increases in recent years. As you know, Commissioner Lewis, there's a stated intention to increase force levels somewhat, you know, with regard to the Army and Marine Corps, and whether or not the numbers that are being talked about now will ultimately be the numbers that are, you know, that are funded, only time will tell.

I don't see any indications that there is a lessening of pressure, and history being any guide, if anything you could say that people are saying that we need a larger force now, so that would be a pressure to go up on total dollars, but not necessarily average comp. And secondly, history being any guide, there's a tendency for people to still add additional benefits based upon lobbying and other efforts. And so we'll see.

MS. LEWIS: Would you please share with us your views on the value of cash compensation versus deferred benefits.

MR. WALKER: Well, if you look at a mix of deferred benefits versus cash for both active duty and the Reserve components and you compare it to the private sector, there's a much heavier weighting on non-cash benefits as well as a much heavier weighting on deferred benefits than you would typically see. And frankly, it's a heavier weighting than you see for the civil service, all right.

One of the real questions is, what has the Department of Defense done in order to try to assess, you know, what do new recruits and what do existing personnel, what are they looking for and what do they care the most about? Looking on a benchmarking basis, you'd see that they are much heavier in non-cash benefits and deferred benefits than normally would be the case. And obviously with regard to deferred benefits, only those that retire are going to get those deferred benefits.

Obviously depending upon what level you are in the service, what rank you have, there might be differences there too. For example, in lower rank enlisted personnel, they need cash. In most surveys, when you end up doing, you know, a study, people would rather have cash in hand today than deferred benefits tomorrow. And the real key is that not enough work has been done in order to effectively determine what the appropriate strategy ought to be. I would say based on the information we have, it appears to be more heavily weighted towards benefits, in particular more heavily weighted toward deferred benefits than may be appropriate.

MS. LEWIS: How can we begin to address the health care crisis? Are there any models anywhere else in the federal government or private sector, or are there any principles that we could examine to try to – we all recognize how bad the problem is, but what can we start to do about it to get our arms around it, some guiding –

MR. WALKER: Well, the first thing I would say is the federal government is the largest employer in the United States, and the federal government has an opportunity to lead by example and to try to do some things that might serve as potential model for the balance of government. The federal government also can end up trying to do some things to improve the efficiency, consistency and effectiveness of how it's delivering health care right now.

For example, let's take within the Department of Defense. Should each service have its own medical service? Shall we have a unified medical command? What can and should be done with regard to better integration and coordination between the Department of Defense and the Veterans Administration? What type of cost-sharing arrangements make sense with regard to existing benefit programs? I mean, right now the extension of health care for retirees. There's such a modest cost-sharing arrangement associated with these TriCare benefits that I know the Department wants to end up increasing some of the cost-sharing arrangements. But what we found is that there's such a heavy subsidy with regard to these TriCare benefits by the taxpayers as compared to what the typical subsidy is for an employer, that unless you end up really significantly changing the cost sharing arrangements, people are still going to stick with TriCare because it's such a good deal, all right.

I think we need to differentiate more in how we're allocating our dollars than we are today. I can also provide for you, Commissioner, if you would like. I spent a lot of time on health care because it's the biggest fiscal challenge for the federal government, for the state governments, and it's the biggest competitiveness challenge for American business. I can send you something, some ideas that we have about what needs to be thought about with regard to short-term and longer-term health care reforms. Some of those may be relevant to you.

MS. LEWIS: I would very much appreciate that.

MR. WALKER: We'll do that.

MS. LEWIS: Thank you. Thank you, Mr. Chairman.

MR. PUNARO: Thank you. Commissioner Brownlee.

LES BROWNLEE: Thanks for being here. You've said a lot of interesting things. We had some discussions earlier before you came in with Admiral Pillings (ph). Some of this came up. You know, I agree with both you and the chairman that we're heading toward fiscal disaster if we don't do something. But if you look at what we're paying for right now, people ask what are we getting for this money, we're buying a volunteer force which is engaged in an extended war, a very unpleasant one for the troops that have to go. It's not a nice place to be.

And it seems to me that when you say less than one half of one percent of the American people have indicated a willingness to sign up and go engage in that kind of war, you know, you make a good point. We don't know if this is what it costs, but it does cost more. There aren't huge lines down there to recruiting stations to take advantage of these big bonuses that are being paid which people express shock about. And then you look at the benefits. And the non-commissioned officers and the middle grade officers and others who are bearing the brunt of these repetitive tours, and their families as well.

My personal view is, we can't do enough for them. And they are interested in their retirement benefits and their medical care benefits, and yet I worked over here same as other people on this committee and we had to make hard choices. On the TriCare benefit for retirees, and I explained this morning that's not what we went to conference with, it's what we came out with, but I recall that we put in there that the beneficiary had to – the person receiving the benefit had to sign up for Medicare part A and B.

So are these TriCare costs you're talking about, does that include the cost that Social Security pays? Because they pay first. Social Security –

MR. WALKER: No. These are just the costs that are being borne. They don't include the costs that would otherwise be borne by CMS, you know, or DHS, or Social Security.

MR. BROWNLEE: These are just Department of Defense –

MR. WALKER: That's my understanding. And I will confirm it for the record, but that's my understanding.

MR. BROWNLEE: Because that was the law that we passed, that they had to sign up for Medicare –

MR. WALKER: If they were eligible, right. If they were eligible.

MR. BROWNLEE: You're eligible if you're 65. And TriCare for retirees is only for age 65 and above, if it's the benefit you're talking about.

MR. WALKER: As of today, right.

MR. BROWNLEE: So I'm a little confused about what costs you're talking about.

MR. WALKER: Well, okay.

MR. BROWNLEE: But this is one of the costs of a volunteer force. We have young men and women who are going in and volunteering to serve today, knowing full well they're going to be deployed into combat situations. That's a different situation than we had in 2000. The fact that it's costing more to get them to do it I don't think should surprise people. Again, they're barely making their numbers, so I think we're going to have to keep finding other incentives, and most of them are financial or benefits. I think we do have to take good care of these families, both reserve components and other, and the active components when these people are deployed. And we have to take care of them in any way we can, medical benefits and others. And the reserve components are more difficult because they're not all in one place.

So I think it's – I think these are difficult issues. We're fighting a very difficult war. It's lasted longer than anybody thought it reasonably would, and we're doing it with a volunteer force, and we never did that before.

MR. WALKER: Well, I would suggest several things, Commissioner Brownlee. Number one, you're correct, there's a very small percentage of the American population that's serving in harm's way. But I think you also have to ask, what percentage of uniformed military are serving in harm's way. Not everybody that wears a uniform is going to Iraq or Afghanistan, or is going to put themselves in harm's way. And to what extent are we considering that, and to what extent should we consider that in differentials with regard to how we're compensating people? We're really not, to the extent that we should, in my opinion. There are differentials, war zone pay and tax benefits and things of that nature, but not that significant, all right.

Secondly, I think we also have to benchmark against how do these numbers compare to other benchmarks. Median household income in America is less than \$50,000 a year. Median household income in America is less than \$50,000 a year, okay. We also have to keep in mind critical skills and knowledge, and are we differentiating based upon that. So I understand, and in an all-volunteer force you're going to have to pay more, by definition you're going to have to pay more. But we ought to be more targeted, and I think we ought to be more intelligent with regard to how we're paying than we are right now.

And I do believe, quite frankly, that our current path, it threatens the all-volunteer force concept.

MR. BROWNLEE: Well, I think it does too. We may decide – although if you look at your pie charts, the cost of defense from '66 to 2006 went from 43 percent to 20 percent. So I would assume the total cost to the GDP went down as well.

MR. WALKER: Well, what's happened is, as you know, look at what went up, okay. I mean, Medicare went up from 1 percent to 19 percent. Health care costs are growing at 2.6 percent faster than the economy, okay. So what's happening is there's been a huge shift of national resources as well as federal government resources away from the core functions of government in 1789 into other types of activities that aren't sustainable either.

MR. BROWNLEE: Well, and if you listen to some of the candidates for president, it's going to increase even more.

MR. WALKER: Some of them haven't done the math yet. (Laughter.)

MR. BROWNLEE: Would you want to name any?

MR. WALKER: Many aren't very proficient at math. Hopefully they'll improve.

MR. BROWNLEE: Not many of them are proposing to cut those benefits.

MR. WALKER: No. There are not many people that are doing that. My personal opinion is that I do not expect the fiscal sustainability and intergenerational equity issue, which is a major issue – this is about stewardship. What we're talking about here is stewardship for our country, for our resources, for, you know, et cetera. I don't expect that to be a major issue in the primary campaigns. I'm hoping it will be a major issue in the general election campaign because my personal view is, if the next president of the United States, no matter what party, no matter, you know, male, female, forget it, if they don't make fiscal sustainability and intergenerational equity one of their top three priorities, we're in trouble.

MR. BROWNLEE: I don't think any of them are going to do that.

MR. WALKER: Well, then we may be in trouble. But we've got time. We've got a little time.

MR. BROWNLEE: Let me just make one assertion here, and that is that we're finding out that – and I don't disagree with what you said about targeting this, the ones who are on the ground doing the job. I don't have a problem with that. But Chairman Punaro said that the cost for a typical military member now went from 90,000 to 126,000 annual pay, I guess. And that includes all his benefits and everything. So what does it cost to get someone to sign a contract as a civilian and go function as a civilian contractor in Iraq? More than 126,000? I would suggest that it --

MR. WALKER: Well, I have little doubt, Commissioner Brownlee, that there is an incremental cost associated with hiring an outside contractor with regard to certain security type of operations. And in fact, we've seen evidence of that. I don't know that we've done a specific study on that. I'll check and provide it for the record if we have. But we've seen situations where private contractors are recruiting in our military personnel to be able to do very similar if not the same things for a lot more money and ultimately the taxpayers pay for. And frankly, what's going on now, Commissioner, it's actually not the taxpayers. It's the future taxpayers, our kids and grandkids are going to pay for it because we're running deficits.

MR. BROWNLEE: But if you ask the American people, would you rather pay the cost of this volunteer force or go back to the draft and pre-volunteer force pay levels for the military, but everybody's subject to the draft, it's pretty clear what the answer is.

MR. WALKER: Yes, pretty clear, but I think there's another thing that ultimately the country may have to consider. I don't think you would get public support for a draft, for a lot of reasons. I don't think you'd probably get support within the military for a draft, okay. I don't think you'd get support within the Congress for it, and I know you're not. I know you're not.

But I do think we may need to think about something else which other countries have done. We need to think about whether or not we ought to consider mandatory national public service, and by that I mean – let me clarify what I mean by that. The military could be an option, and maybe you don't have as long a service if you do the military. You still have to pay them reasonably. You know, it could be government, federal, state, local. It could be certain not-for-profit entities. It could be certain occupations where we have supply and demand imbalances, like teachers, like nurses, where you're serving the greater good.

Because frankly, one of the concerns I have right now is if we have too much of a me-society rather than a we-society, and everybody's focused on their narrow interests rather than our broader interest, and that's a problem.

MR. BROWNLEE: I don't have a problem – I support that concept myself.

MR. WALKER: Thank you.

MR. BROWNLEE: Thank you.

MR. PUNARO: Thank you. And I'm glad you really – I mean, this is just the kind of exchange that we need, not only the commission but the dialogue we need in the country. And one of the other things David Walker has done is he's taken this message out to the country because he – it's correctly – I don't know that he observed, but we can observe, as you observed, I agree with you, I don't see any of our leading political figures in either party talking about these tough issues and tough tradeoffs.

Commissioner Eckles.

LARRY ECKLES: Yes, good morning. In your written testimony you point out that DOD initiated the Defense Integrated Military Human Resources System, DIMHRS, in the fiscal year 1998, and its purpose was to consolidate the pay and personnel systems across the military components. And you also pointed out that DOD has yet to deploy DIMHRS, and the concerns it was intended to address persist.

Based on briefings to our commission staff by the DIMHRS program office, DIMHRS is currently scheduled for initial deployment by the Army and Air Force in 2008. At this point only Marine Corps has integrated pay and personnel system, and the Navy has expressed an interest in adopting the Marine Corps' system in lieu of DIMHRS.

Since your 2005 report on DIMHRS, has GAO tracked the DIMHRS program office's deployment plans, currently scheduled for 2008 for the Army and Air Force, and if so, what is your assessment of that?

MR. WALKER: Well, I know – I'll be happy to provide for the record anything that we've issued since then. But I know that we have concerns with regard to whether or not they're going to be able to hit the schedule that they are now advertising. So we have concerns as to both cost, timing, and implementation.

MR. ECKLES: The Center for Strategic and International Studies in its July 2006 report entitled "The Future of the National Guard and Reserves" recommended that each service implement its own service-wide integrated pay and personnel system by 2008, in lieu of trying to implement a DOD-wide system. What is your view of that recommendation?

MR. WALKER: Well, I think what's most important is that we keep in mind that right now the Defense Department has thousands of legacy non-integrated financial and management information systems, and that is the primary reason why you have a reliability problem with regard to financial and non-financial systems. That's a primary reason why we're wasting a lot of money maintaining legacy systems rather than trying to create a new future.

Now, what we need is a modern enterprise architecture that lays out the framework or the standards, if you will, that need to be complied with by all systems within the department such that they can effectively communicate with each other. That doesn't necessarily mean one system, all right. And so, you know, I think that's what they're endeavoring to try and do now. They're trying to define that enterprise architecture. So I think the key is that you don't want everybody doing their own thing. It's not consistent with the standards of an enterprise architecture. You don't want people duplicating efforts, trying to independently design different systems when they have the same need.

I'll give you an example of what's going on right now that doesn't relate to COP (ph) but it's relevant to this topic. The VA probably has the best electronic medical records system in the United States, bar none. The Department of Defense wants to go to electronic medical records. Why don't you use the VA system? Why do you got to hire a contractor to go out and create something else?

MR. ECKLES: Thank you.

MR. PUNARO: Thank you. Commissioner McKinnon.

DAN McKINNON: Mr. Comptroller General, I think you're providing some of the best testimony we've had since the commission was established, and I just hope we're able to share some of it with the Congress to help you get your points across.

MR. WALKER: Thank you.

MR. McKINNON: The idea of a tsunami down the road here, it can just be devastating to the country. Along that line, the DOD budget projects out various equipment and other benefits for the Guard and Reserves on up to 2013. If this economic tsunami comes before then, in your view does that mean that they will not be getting the kind of equipment and supplies that the Guard and Reserve needs?

MR. WALKER: I think that's a risk. I mean, let's talk about some of the key dates, okay. In 2009 the Social Security surplus starts to decline. We're already running a negative cash flow in Medicare. We're going to start running a negative cash flow in Social Security by 2017. You know, we've got the issue of what's going to happen with regard to the tax provisions that expire in 2010. I mean, there are a number of events that come together in the first term of the next presidency and a little bit beyond that.

And the real challenge we have is, as you know, a tsunami is something that is temporary. It hits and recedes. The challenge with this tsunami is it never recedes. It's a permanent change in the demographic landscape. It's a permanent change in the fiscal pressures and the demographic societal pressures.

MR. McKINNON: Along that line, we're talking about the increase in costs with DOD in every aspect. But that's true throughout the economy. The percentage of GDP

the last I saw, the military was about 3.8 percent, the lowest probably in history. Would we be better having a stronger military and having a – regardless of our costs, because our costs are sort of relative to what they were in 15, 20, 30 years ago, but in costs relative to what the economy could produce, shouldn't we have a higher percentage of GDP to ensure we have a strong defense?

MR. WALKER: I think we need a number of metrics. I think we need metrics on what are we spending as a percentage of the economy. I think we need metrics as to what are we spending as a percentage of the federal budget. I think we need a number of metrics, not just one. But no matter what ultimately is decided by the Congress, which allocates resources, we need to spend it wisely. We are not spending it wisely today.

MR. MCKINNON: Along that line, then, what would you do, because I hear stories about the Department of Defense and some of the contracts they let to various contractors where the contractors actually inflate the prices over what their real costs are. We've got a lot of waste that way. How would you go about solving that problem?

MR. WALKER: Well, defense contractors are in business to make a profit. Let's face it. So there's going to be some incremental cost that's going to exist, you know, to cover their costs and also to generate a profit. What I'll be happy to provide for this group, which I think you might be interested in is, we've identified 15 systemic acquisition and contracting problems that exist within the Department of Defense that cost billions a year, and I'd be happy to provide that for you if you want. It may or may not be beyond your scope, but I think you'd be interested in it even if it is.

MR. MCKINNON: No, we'd appreciate that very much. But along that line, everybody's entitled to a profit but along the line you can have a lot of waste in the process of making the profit too. Efficiency I'm talking about, in the way you do business.

MR. WALKER: Sure. And Commissioner, I think one of the things we've got to think about is, I think the government is way out of line, misaligned right now with regard to the use of contractors. I think we have to step back and define what type of roles and responsibilities should be done by the military, what types of roles and responsibilities should be done by civil servants, what type of roles and responsibilities ought to be done by contractors. In many cases we're using contractors because that's the quickest way to get things done. In some cases we're using contractors because it takes too long to hire somebody. In some cases, you know, we use contractors because we have more flexibility with regard to contractors. You know, in some cases we use contractors because somebody's got a limit on the number of FTE's or the end-strength that they can have.

So we – today, if I go to the Department of Defense and many other departments, I can go into a meeting and a lot of people in the meeting are contractors, and you don't know it, all right. So I think we're way misaligned right now and we need to kind of get

back to basics and start figuring out who ought to be doing what. Because by definition, in most circumstances you're going to pay more if you have a contractor.

Now sometimes you have to contract because it's a just-in-time need, or because of the compensation strategies of the federal government you can't attract and retain people with the kind of skills and knowledge you need for what the federal government pays. That's okay. It's a just-in-time need, or it's a surge, or you've got to do it because of compensation policies, fine. But you shouldn't be doing it as a first resort.

MR. MCKINNON: Well, along that line, what happens when you go over to DOD and you start talking to them about how to run a set of books, or you say they can't even stand an audit. Do you get answers from them?

MR. WALKER: Look, there are a lot of very bright, dedicated public servants over at DOD. They have 14 –

MR. MCKINNON: I'm not attacking anybody at DOD. I'm trying to say, what do we do to get a better, more businesslike system working?

MR. WALKER: There are many things that we need to do, but there's one that is absolutely essential. We need a chief management official at the Department of Defense, a level 2 official who's a pro with a track record of success, who has full-time responsibility and accountability for business transformation, for focusing on the 14 high-risk areas that are on our high-risk list, preferably with a term appointment with a performance contract. We have not made significant progress and we will never make significant progress until, among other things, we do that.

MR. MCKINNON: Would you like that job?

MR. WALKER: I have a good job, thank you. (Laughter.)

MR. MCKINNON: What about DIMHRS? We've mentioned that for a moment, but do you think we ought to jump that program? We've put \$100 million into it and nothing to show for it yet.

MR. WALKER: Commissioner, what I'd like to do, in all candor, is I'd like to get back to my information technology people and to, you know, provide something for the record on that because I'm not as close to that as I'd like to be to give you an answer.

MR. MCKINNON: Just a couple of other things to follow up. One, we talk about the cost of health care, and I'm just wondering of cost versus benefits. We're spending a lot on health care and one of the benefits we're getting for that, are we getting longer life or are we just making up for people that maybe aren't doing the right things to maintain good health, diet or whatever, exercise or whatever. Are we wasting a lot of money because people aren't disciplining themselves to maintain good health?

MR. WALKER: Let me give you four benchmarks on health care. This has to do with health care macro as well as micro. We spend 50 percent more of our economy on health care than any other country on earth. We have the highest uninsured population as a percent of the population of any major industrialized nation on earth. We have below average outcomes on health care, life expectancy, infant mortality, medical error rates, than any other – for a major industrialized nation. And we have totally inadequate incentives for people to be able to take care of themselves with regard to health and wellness.

In the longer term we're going to have to focus on four things, I believe, macro on health care. Number one, we're going to have to focus on how you can assure universal access to basic and essential health care services. Basic and essential. I choose those words carefully. Secondly, we're going to need to think about having a budget, a cap on how much of the federal budget will be allocated to health care because that's the only sector of the economy that has no discipline. Has the ability to print money and pass on obligations to our kids and our grandkids.

Thirdly, we're going to have to end up doing something on quality, which includes national practice standards, electronic medical records, a number of other things. And fourthly, we're going to have to provide more incentives for people to take care of their own health and wellness than we do today. And by the way, one of the things we're going to have to do is to deal with the issue of heroic measures, where because of our current design – and keep in mind, we have a fee-for-service system by and large. That means, the more you do, the more you get paid and potentially the less litigation risk you have because the more you did. That creates very perverse incentives. In some cases we're throwing technology and things at a problem because we can and because there's an economic incentive to do it. We're going to have to, as part of developing national practice standards, be – the physicians and others are going to have to make judgments on when does it make sense to do things based upon whether or not it's going to meaningfully improve or extend life. No matter what age. Because there's a lot of money being spent in circumstances where it does not meaningfully improve or extend life.

MR. MCKINNON: We talked about DOD a moment ago, we talked about business practices. You offered one idea of having a super comptroller or whatever you want to call it.

MR. WALKER: Chief operating officer. Chief management official.

MR. MCKINNON: That runs the economic side of the house. What other things would you do for best business practices over there?

MR. WALKER: Well, I mean, I'd look at – I'd look at GAO's high risk list. There's 14 items from the Defense Department on GAO's high risk list, and one of the primary responsibilities of this official would be to have game plans and to be moving toward dealing with those 14 items. Now by the way, let me clarify what I mean here.

This is not a new layer. This is somebody who's focused full-time on the business transformation challenges. Not the day-to-day activities that go on. Those are going to get handled by the current players. But what doesn't get handled is the transformational challenges, that end up taking quite a bit of time and that, frankly, people can't do within their current day-to-day responsibilities. I mean, they just can't.

Performance management systems. I mean, you need to have a plan, you need to have people understand what their responsibilities are. You need to align performance metrics in compensation to make sure that people are focusing on achieving the intended objectives. You need to come up with a modern, effective and integrated information system. You need to think about how can we reduce the number of layers levels, silos within the Defense Department.

I think – let me give an example. Several years ago I participated in Capstone, which is for new flag officers. Several years back. And one of the things I found out as part of that, and this is not attribution, so I won't say who said it, is that at that time in order to activate and deploy I think it was 20 Reservists or more, over 20 entities in the Department had to sign off. Approve it. Not FYI. Now how much inefficiency is there in that? The Defense Department needs two words – tough love.

MR. MCKINNON: I appreciate your words. I hope when you leave here you'll probably think of something and say, doggone it, I wish I'd said something about that, that you'll write that down and send it over to us as well.

MR. WALKER: Thank you, Commissioner.

MR. PUNARO: Commissioner Stump.

E. GORDON STUMP: We had a very interesting conversation with Admiral Pillings on the Defense Advisory Committee on Military Compensation, and his report on the retirement compensation, the thing that we hear from the reserve components they would like to get retirement from 60 down to 55, et cetera. But this approach on the active duty, having a – being able to qualify toward retirement after 10 years but not getting the retirement, full retirement until age 60, or at some other age into the future. It seems like one of the huge costs of the active duty is that 20-year retirement when they get out and they have practically benefits and retirement for the rest of their life.

I'm sure that you've seen their report. Has anybody put a pencil to what the recommendations in that report are on compensation, what the overall effect on the budget would be for that?

MR. WALKER: So they didn't do that, I assume?

MR. STUMP: We didn't get any numbers.

MR. WALKER: We have not. And maybe we can make some inquiries as to whether or not anybody else has.

MR. STUMP: It seems the one way that any time you talk about reducing the retirement age of the Guard and Reserves, they say, well, it's going to cost this many dollars, and no, we can't afford that. It's just another impediment. But for instance, if you were to revise the total retirement systems to make them exactly the same between the Guard and Reserve, nobody gets it until, say, age 55 so you offer something to reserve too, maybe it would be a push or even a positive.

MR. WALKER: Well, there are several moving parts. First, what's the accrual rate? Secondly, when do you fully vest? Thirdly, at what point in time can you start drawing benefits? Those are the three major moving parts, that you can move some of those, and they all have an effect on cost obviously. But I think one of the things that needs to be done to a greater extent than has been in the past is you need to run the numbers, all right, and you need to run the numbers more than one year, three years, five years and 10 years because the country's going to be here longer than 10 years. And so we need – and frankly, our biggest challenge is from an affordability and sustainability standpoint is after 10 years. And yet we're acting like it's a flat earth here and we don't have to worry about beyond 10 years, when in reality that's when our problems really manifest themselves and yet we've backloaded a lot of these costs.

I'll give you an example. The Postal Service. One of the things that was done for the Postal Service, we put them on our high risk list because they had an unsustainable business model for the 21st century, and there were a lot of things going on there and a lot of analogies here with the Defense Department. This is a competitor of the Postal Service, all right. I mean, electronic exchange of information, rather than sending things through the mail or whatever. Fed Ex, UPS, DHL. They're competitors with the Postal Service.

The Postal Service had huge unfunded pension and retiree health obligations, and they were funding them on a cash basis in order to keep postal rates down. But then when you look at the demographics of their workforce and the cash flows, because free cash flow is what all matters, as we know, no matter what business you're in, okay, what they were doing is they were setting up for the future where you were going to have dramatic increases with increasing frequency such that business couldn't end up planning effectively, which was going to encourage people to move away from the Postal Service, which was going to exacerbate the problem.

We've got some of those same issues here and other areas of government.

MR. STUMP: The report was very interesting because now we're not just talking about the reserve component but the active component, and there were some other up-front costs that were in their study. But again, they didn't come back with a cost analysis. So if there were something, say, okay, that they could get it at 55, the reserves as well as the active duty, just what effect would this have.

MR. WALKER: Sure. And doing that, I think it's important that we not just do it on a cash flow basis over one year, three years, five years, 10 years. We need to consider discounted present value dollars, okay, because sometimes you spend more money up front but you save a lot of money down on the end. And sometimes it's the opposite. So we need to have better metrics to make more informed decisions.

MR. STUMP: If we had some numbers to look at, just some ballpark numbers, I think it would be very helpful to us in our recommendation.

MR. WALKER: I'll see what if anything we or others might have on that. I'm not familiar with anything off the top of my head.

MR. STUMP: Now the Chambliss amendment pretty much is – looks to me like just another entitlement that's going to be out there. I'm not sure that it's going to do much for retention, whatever, because you're involuntarily activated for the 90 days you get to reduce your retirement for 90 days. It's kind of an entitlement. But talking to the adjutant generals, and once the war goes away you don't have that any more and so forth.

But what's happening now is that at the 20-year point almost all of the Guard people are exiting stage left. They say, eh, I'm through with this. If I stay in, I'm going to be deployed again. So we're losing a lot of talent, a lot of skilled people that might otherwise stay if there's some sort of an incentive out there. In the meantime we're spending hundreds of thousands of dollars on recruiting and bonuses to get people in, to get them to the 20-year point.

Now an alternative to the Chambliss amendment could be the two years for a year. You stay in for 22 years, you get your retirement reduced from age 59. Up to 30 years, you can come down finally to age 60 to 55. In this case you could look at, couldn't you, the cost effectiveness of keeping these skilled people between the 20 and 30-year point that you're going to have to pay to train and recruit people that have to replace those that are leaving after 20 years, and then maybe look at this as not as much of a cost entitlement program but one that maybe even be cost neutral because you're going to keep the numbers of people.

I talked to every TAG, and every one said it's happening across the board. At 20 years they're getting out.

MR. WALKER: Sure. Well, that's because it's a different deal now. I mean, what we're asking of them is fundamentally different than what they thought they were signing up for. The answer is, you could and you should, you know, look at it from a broader perspective, not just look at the cost of one particular issue but what the implications might end up being with regard to other costs so that you're looking at a full economic analysis. And you should look at the cost not just with regard to the short term but also over the longer term, including in discounted present value dollar terms, in my view.

MR. STUMP: So there might be an opening there. The one thing that's been brought up, back in the 60's there was a proposal made to merge the reserves and the Guard. Part of the proposal was that they would eliminate some units in the reserves and when it got to Congress a firestorm went up –

MR. WALKER: Change is tough in government.

MR. STUMP: That's right. However, we are looking at this again, you know. How – it appears there is a cost benefit to merging the reserves into the National Guard. It resolves a couple of problems, one being the homeland security mission. Right now there's difficulty in getting the reserve components involved in the homeland security mission because there is no way of getting to them except the insurrection act gave the mechanism to do that but they did not exclude the National Guard, so there's talk on the Hill about eliminating that, so now we're back to the same problem, title 10, title 32. And also the infrastructure that goes on top of having the separate components.

Has anybody done a study, or could we do a study to determine the cost effectiveness of merging the reserve components?

MR. WALKER: We haven't done it. I will tell you this, that one of the things that we need to be thinking about is, you know, how many different types of silos should we have because every additional silo that you have means you have more overhead to maintain that silo. It means you have less flexibility with regard to the use of those resources, okay, which means you have more of a cultural potential systems and other barriers to crossing silos. And you know, so I think you ought to consider whether and under what extent they ought to be merged, and I think cost benefit obviously is important issue there.

Just as I said before with regard to how many – how many medical services do we need. And the difference between a unified medical service and how you deploy those capabilities that might differ by service.

MR. STUMP: I see the Air Force didn't go along with it but the Navy and Marines thought it was a good idea, so there's some controversy on the medical.

MR. WALKER: One of the things that I find in the Defense Department, in all candor, is there are so many layers, so many players, so many hardened silos. It's, you know – last time I checked there's only one person under the Constitution that has a veto, and that's the president of the United States. But in the Defense Department there are hundreds of vetoes. Hundreds of vetoes. And there's no basis to override. That's why you need tough love.

MR. STUMP: Do you have any suggestions on how we could go about to get some cost numbers on merging the different components and see what the cost –

MR. WALKER: Well, let me see what if anything's been done by others. I mean, you've got a lot of work to do and so do we. So I can't promise you anything, but we'll look and see what if anything's being done.

MR. STUMP: Okay, thank you.

MR. PUNARO: Thank you, Mr. Stump. I want to see if any other commissioners have any questions before we see if we have anybody for the second round of questions. Do any of the commissioners that didn't have – okay.

I have really sort of two broader questions and we're closing out on our time here. One is, and I'm not going to ask you about your work with DHS, but one of the things we look at is, of course, the Guard and Reserve is a community-based force. They're out in 3,000 communities. Many of them are in the first responder community and if you look at DHS's 15 planning scenarios from natural disasters to manmade disasters, and the exercise that they just ran up at Indiana, Abel Century, I believe it was called, showed a significant, not surprising any of us here in this room, lack of capability to deal with some of the higher end scenarios, particularly the WMD.

I guess my question would be, because it required, you know, special equipment, special training, mass decontamination, radiological hazards. Only the US military has the gear and the ability to operate and deal with those environments. Is it realistic to expect that our state and local governments are ever going to be able to provide the capacity needed to deal with these higher end WMD type scenarios? And if not, is that not something the federal government should be looking at in terms of our Guard and Reserve?

MR. WALKER: No, I think it's something the federal government ought to be looking at, not just with the Guard and Reserve. The Coast Guard does work here too. The Coast Guard has got several special units dealing with WMD and things of that nature. So I think we have to, you know, come back to a principle that we talked about before. What are the needs? What are the roles and responsibilities? To what extent are they broad-based, recurring, decentralized needs, to what extent are they high end, you know, potential needs that are not necessarily going to occur everywhere on a recurring basis but need to be there to be projected to where they're needed, when they're needed.

I think the more that you have on that level, the more from an economic standpoint, or macro-economic standpoint it makes sense to think about at what level should that be performed so you've got the capability and you've got the critical mass but you're not replicating efforts in creating, you know, capabilities that exist that you may not ever use, and therefore aren't cost effective.

MR. PUNARO: And that's one of our recommendations was that DHS and DOD, particularly Northern Command, they need to get together and get with the state and local governments and figure out what are the requirements, what are the gaps, who is the most logical person to deal with it, Centers for Disease Control, somebody else.

Not everything rolls over to the Department of Defense, but those that are appropriate for the Department of Defense ought to be identified. They ought to develop requirements, they ought to put them through their requirements process. Then they ought to put them through the programming budgeting process. Not every requirement's going to get validated, and not every requirement's going to get funded. But we have the worst of all possible worlds right now and we don't even know what the gaps are.

MR. WALKER: Well, first you need a plan. Then you need a gap analysis. Then you need to figure out where you go from there.

MR. PUNARO: Yes. So you would support an approach like that.

MR. WALKER: I think it has intellectual merit, and I think it ought to be seriously considered.

MR. PUNARO: The second area, again it gets to the nature of the Guard and Reserve and them being community-based. I've seen a lot of Op Ed pieces. Some articles, nothing of a serious nature but there seems to be a growing concern in certain circles that, you know, our active duty military, if you look at the way we basically recruit our active duty military now, we recruit them from all over the country. And we've talked already about the costs, et cetera, et cetera. And then we base them at an ever-increasing fewer number of bases. I'm going to call them enclaves because essentially what we've set up now, and that's why your landmark study on both the cash and non-cash compensation, you know, we run a school system for our military, the DOD dependent school system. It's runs about \$2 billion-plus a year. We run a child care system for our military. We run a family housing system for our military. We run a recreation system for our military. You know, we run a health care system for our military. We run MWR recreation. We build golf courses. So they have hospitals on the bases so the kids are born on the base. You could stay on that base your entire life. You'd never have to go out into local community because we provide everything for them. And of course under the VA the government buries you. So we do have sort of cradle to grave support for our military if we wanted.

And the problem is, it's no longer tied to the community. As some of these were pointing out, when the Guard and Reserve go off to war, the community knows about it when the people come and go. Not that the folks in Jacksonville, North Carolina don't love the Marines at Camp Lejeune because of the economic, but they're not tied to a unit-based system.

Is that something we ought to be concerned about? And again, it was Les correctly points out, you couldn't pay these kids enough to go in harm's way. But on the other hand we're paying 1.3 million active duty personnel and we only have 150,000 on the ground. When you start talking about, well, what does a contractor cost and what does the military cost, you're getting more and more of the mercenary side of the house as opposed to the patriotism side of the house.

So I just – as you look at the calm before the storm kind of situation, is this one that would worry you as well, this potential increasing disconnect between – and I mean, some people will say the only people that are at war are the people, the kids in our active duty military, Guard and Reserve and the families that are going over and fighting the war. The rest of America doesn't know we're in a war.

MR. WALKER: Well, clearly there's greater association with the local community in connection with the Guard and Reserve. Obviously whether one's active duty military, which is what my son was, or whether somebody's Guard and Reserve. I mean, your service is still valued, you know. But I think that when you deal in the Guard and Reserve, you're dealing with a unit that by definition is based in that community. And so therefore, the unit gets activated, and therefore there's more of a direct connection to that community, whereas for the active duty military you've got a circumstance where your people are coming from all over, associated with a unit that is dispersed, if you will.

I think it's something that I would have to think more about. I think we also have a situation today that because we try to end up doing more and more high tech, and there's less and less tolerance for casualties, and we don't want casualties obviously. One of the other concerns that I think is that sometimes we opt for the military option maybe quicker than we ought to opt for the military option. And we expect to have little to no casualties. And therefore the consequence of that is are we engaging more than we should, you know. I mean, there's a cost financially and in human lives to warfare, no matter what kind of warfare it is. And I think we're in a very different paradigm today. I'm concerned about that too.

As you said, Commissioner, less than one-half of 1 percent, you know, serving. That's a big disconnect. And the other thing is, since it's an all-volunteer force people don't necessarily get as concerned about it because, oh, you know, they decided to do it, they didn't have to do it. I think that in and of itself disconnects. That's why I come back to potentially this concept of mandatory national public service. I think you'd get more connection that way, but also potentially end up, you know, giving people an option for the military but less requirement. If you go to the military, you've got less of a requirement. Some countries do that, by the way.

MR. PUNARO: Well, thank you for your tremendous testimony and your continuing leadership and hopefully more and more people will pick up on some of these fiscal challenges that you and the GAO have so compellingly articulated. And we look forward to staying in close touch. And again, can't tell you how much we appreciate your cooperation and that of your expert staff in terms of carrying out our statutory duties.

MR. WALKER: Well, first I want to thank you for the opportunity to testify. And second, I want to thank my very capable staff. We have incredible staff at GAO. They're exceptional. And I want to thank you for your service as well.

MR. PUNARO: Thanks again.

(End of panel.)