

National Defense Challenges for the 21st Century

In the past 15 years, the world has experienced dramatic changes in the overall security environment, with the focus shifting from conventional threats posed during the Cold War era to more unconventional and asymmetric threats evidenced in the events of September 11, 2001. To respond to these events and the ensuing global war on terrorism, the Department of Defense (DOD) has been given a significant infusion of funds, with an annual appropriation totaling over \$400 billion for fiscal year 2005 and supplemental funding for homeland defense and overseas military operations approximating \$190 billion over the past 3 fiscal years. In addition to providing additional resources to enhance war-fighting capabilities, the Congress has also taken steps to fund enhanced compensation and benefit programs for active duty and reserve personnel.

As DOD seeks to meet the demands of the new security environment, it continues to bear the costs of the past by implicitly maintaining or continuing to pursue many programs and practices from the Cold War era. In this context, the magnitude of funding and potential for current investments and operations to turn into long-term financial commitments are prompting real questions about the affordability and sustainability of the rate of growth in defense spending. For example, in September 2004, the Congressional Budget Office reported that carrying out current defense plans would require annual funding to be sustained over the longer term at higher real (inflation-adjusted) levels than have occurred since 1980, excluding supplemental appropriations. Many factors should be considered, including reassessing the base and rate of growth in defense and related spending. Failure to do so will result in significant waste today and opportunity costs over time. Moreover, the recent 9/11 Commission Report suggests that changes are needed across the government to strengthen national security institutions and move beyond the legacy of the Cold War, including reforming the nation's intelligence organizations and capabilities. As such, meeting the nation's defense needs in the 21st century may prompt decision makers to reexamine fundamental aspects of the nation's national security programs such as how DOD plans and budgets, organizes its forces, manages the total force, acquires new capabilities, positions our forces, and considers alternatives to past approaches.

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In addition to maintaining readiness and sustaining the current force, DOD is faced with identifying capabilities, including critical technologies, needed to meet the demands of the new security environment, as well as determining the best way to provide those capabilities and retain the U.S. military's technological superiority. Striking an affordable balance between current and future needs will be an ongoing challenge, particularly with the federal government's current and projected fiscal imbalance. The upcoming quadrennial defense review will provide an opportunity for DOD to move beyond the legacy of the past, assess the capabilities required to meet current, emerging and future threats, establish near-term and long-term priorities, and adopt realistic funding plans.

To adapt to the new security environment, DOD is currently embarked on an effort to transform its war-fighting capabilities and how it does business to support the war fighter. DOD's civilian and military leaders appear committed to reform; however, the department faces significant challenges in accomplishing its transformation goals.

The following challenges and illustrative questions provide a framework for thinking about these issues in the future.

To successfully transform itself, DOD must overcome cultural resistance to change and the inertia of various organizations, policies, and practices that became well rooted in the Cold War era. Longstanding organizational and budgetary problems need to be addressed, such as the existence of stove-piped or siloed organizations, the involvement of many layers and players involved in decision-making, the allocation of budget allocations on a proportional rather than strategic basis among the military services, and the use of traditional approaches to basing forces and replacing or enhancing capabilities (typically on a platform by platform rather than a joint basis). DOD's current approach to planning and budgeting often results in a mismatch between programs and budgets. And it does not always fully consider long-term resource implications and the opportunity cost of selecting one alternative over another.

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- ▶ *How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?*
- ▶ *Can DOD afford to invest in transformational systems such as the Future Combat System and national missile defense at the same time it continues to pursue large investments in legacy systems such as the EA-22 and new systems like the Joint Strike Fighter, especially if cost growth and schedule delays continue at historical rates?*
- ▶ *Are sufficient investments being made in capabilities that cross service lines, such as joint communications and interoperable systems? For example, is the Global Information Grid well enough defined and understood to enable sound investments to be made in its key components such as the Transformational Satellite?*
- ▶ *Given the global availability of rapidly advancing technology, does DOD need to reconsider its approach for identifying critical technologies and protecting those technologies from being exploited in order to maintain its military superiority?*

The global war on terrorism has required the military forces to operate differently from the ways it was organized, equipped, staffed and deployed to operate under post-Cold War planning assumptions based on regional threats. Current operations have required significant numbers of ready forces, both active and reserve, to be mobilized for long periods and created demand for certain skills, such as military police, that exceeds the available supply. While DOD has taken steps to meet short term operational needs, it has not yet determined how it will meet the longer term challenges of reorganizing its forces and identifying the capabilities it will need to protect the country from current, emerging, and future conventional and unconventional security threats.

- ▶ *Do the role, size, and structure of forces and capabilities comprising the strategic triad need to be adjusted to meet the challenges of providing strategic deterrence in the new security and fiscal environment?*

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- ▶ *Are the active and reserve components appropriately sized, structured, and used to meet the current and future national security demands? Is the current business model sustainable for the reserve component?*
- ▶ *What is the appropriate role for contractors, especially in forward deployment and conflict areas, to maximize the capabilities of military and contract personnel and to ensure effective integration of contractors into military operations and support cost-effectively?*
- ▶ *Does DOD's plan for realigning forces at overseas locations and redeploying some forces from overseas to stateside locations provide a significantly improved capability to respond to global threats in the new security environment considering diplomatic, operational, and cost considerations?*

DOD's military personnel outlays are large and growing, increasing from about \$76 billion to an estimated \$109 billion between fiscal years 2000 and 2005. In fact, personnel costs comprise the second largest component of DOD's total fiscal year 2005 budget. The growth in military personnel costs has been fueled in part by increases in basic pay, housing allowances, recruitment and retention bonuses, incentive pays and allowances, and other special pays. Furthermore, DOD's costs to provide benefits, such as health care, have continued to spiral upward. Expanded health care to reservists and their families and retirees has been the primary cost driver in growing benefits costs. Also, a large portion of DOD's compensation-related costs is in the form of benefits and deferred compensations. In some cases, such benefits exceeded those offered by private sector organizations. As the total and per capita cost to DOD for military pay and benefits grows, questions arise as to whether DOD has the right pay and compensation strategies to cost-effectively sustain the total force in the future. Regarding its civilian workforce, DOD is preparing to implement a congressionally authorized personnel system, which will change the way civilian employees are hired, assigned, compensated, promoted, disciplined, and, if necessary, fired.

- ▶ *Given the growing encumbrance of pay and benefit costs, especially health care, within DOD's budget, how might DOD's recruitment, retention, and compensation strategies (including benefit programs) be reexamined and revised*

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to ensure that DOD maintains a total military and civilian workforce with the mix of skills needed to execute the national security strategy while using resources in a more targeted, evidence-based, and cost-effective manner?

▶ *Is DOD pursuing the design and implementation of its new national security personnel system initiatives in a manner that maximizes the chance of success?*

Given its size and mission, DOD is one of the largest and most complex organizations to manage in the world. While the unparalleled combat effectiveness of U.S. forces has been well evidenced in the Persian Gulf and elsewhere, DOD has not been effective in managing its ongoing business operations. Complicating DOD's efforts are numerous systems problems and a range of other longstanding weaknesses in the key business areas of strategic planning and budgeting, human capital management, infrastructure, supply chain management, financial management, information technology, weapons systems acquisition, and contracting. For example, 8 individual items on GAO's list of high-risk government operations and several of the governmentwide high-risk areas apply to key DOD business operations. These problems that continue to result in substantial waste and inefficiency adversely affect mission performance and result in a lack of transparency and accountability.

▶ *Does DOD need to create a senior management position responsible and accountable for taking a strategic, integrated, and sustained approach to managing the day-to-day business operations of the department, including ongoing efforts to transform DOD's business operations and address the many related and longstanding high-risk areas? Should specific qualifications requirements and periods of tenure or terms be established for selected DOD positions related to key business operations?*

▶ *Are current organizations aligned and empowered to meet the demands of the new security environment as efficiently as possible? What kinds of economies of scale and improvements in delivery of support services would result from combining, realigning, or otherwise changing selected support functions (e.g., combat support, training, logistics, procurement, infrastructure, or health care delivery)?*