

Every time we sit down to write about the Pentagon’s latest “efficiency” initiative, more content comes in and we have to start over again. Well, no more. We’re drawing the line *here* and anything that happens after today is fodder for a future article.

To level-set, between “affordability” and “efficiency” this is becoming a cornucopia of news-worthy content. If SECDEF Gates has his way (and early indications are that he will), then these initiatives are going to shape the Defense acquisition environment for years to come ... or at least until the next Administration charts a different course. If you need to get up to speed, we recommend [this article](#) as a good starting place.

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Written by Administrator

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Now that you're ready to go, let's get started, shall we?

### McAleese Points

Early on, Jim McAleese published some very cogent points in his mid-July 2010 presentation to NCMA's World Congress, based on his analysis of SECDEF's Eisenhower Library [speech](#) and initial DOD discussions. He said—

- Secretary Gates' Eisenhower Speech primarily targeted both excess Flag Officer & Headquarters costs within 'Military Personnel' Account, plus excessive

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recent growth within separate ‘Operations & Maintenance’ Accounts, to generate 2%-3% real growth per year for COIN-intensive Force Structure, plus Modernization Accounts.

- Secretary Gates did not formally-target large cost savings within RDT&E and Procurement Accounts. To the contrary, those Modernization Accounts were intended to be the beneficiary from cuts to manpower-intensive Headquarters, plus O&M.

Nearly a month later, Sandra Erwin (writing in National Defense magazine) echoed Jim’s prescient points as she discussed the Pentagon’s “[winners and losers](#)”. She wrote—

Winners: Troops in uniform, ship programs, weapons systems that are needed to fight current and future wars.

Losers: Bloated defense and intelligence agencies, redundant bureaucracies, four-star generals and admirals guilty of ‘brass creep,’ report writers, white-collar contractors.

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After SECDEF Gates’ August 9, 2010 press conference (more on that in a bit), Jim “was fortunate enough” to have been invited to participate in a “small group meeting” with the Secretary of Defense. Following are some of the discussion points, pulled from Jim’s personal notes (and thus cannot be officially attributed to SECDEF Gates). Astute readers may notice certain points that echo what we’ve been saying and/or forecasting on this blog for the past two years.

Throughout the meeting, the Secretary’s relentless focus on high Headquarter costs; excessive O&M Growth; and excess Program Requirements, genuinely-resonated. There is strong probability that Secretary’s personal outreach will result in: (1) increased White House reluctance to target immediate DoD Funding; (2) increased public support; and (3) increased Investment Community support.

Secretary Gates is personally-targeting ‘Fat’; ‘Underperformance’; ‘Poor Business Practices’; and is particularly-sensitive to Congressional & White House perception of poor Acquisition Program Management.

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OSD will propose significant Defense Health Program modifications in 2012 Budget, given doubling, and expected tripling, of DoD's Health Care costs. (Paraphrase: 'The good news is there is increasing recognition within Congress, that Defense Health Care costs are eating us alive.')

... the Secretary was adamant, given the COIN strain on current Force Structure, plus need for continued Modernization. (Paraphrase: 'I strongly believe that today's world of terrorist threats, cyber threats, failing states and militarizing peer competitors, is just as dangerous, if not more dangerous, than traditional conventional scenarios. I must make my best case to the President. I am not currently prepared to concede any reduction in current topline DoD Base Funding.')

As a practical matter, Secretary Gates' targeting of JFCOM; Business Transformation Agency; and Network & Information Integration (NII) will establish a de facto mandate for each Service to eliminate 1-3 Headquarters or lower-value Commands.

Secretary Gates refused to be drawn into discussion of potential changes to

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specific Modernization Programs, ranging from Army Requirements in GCV, to USMC EFV. However, Secretary Gates made several positive references to specific actions being taken by USD(AT&L) Carter , and specifically-authorized USD(AT&L) to continue growth of Defense Acquisition Workforce.

Previously, Secretary Gates withheld public announcement of 2010 & 2011 Budget decisions until formal release of Budget in February. This preemptive targeting of excess Headquarters Overhead; lower-value O&M; and excess Program Requirements, on the eve of FY2011, is clearly anticipated to achieve two purposes. First

it, is to generate immediate savings in 2011, presumably with or without 2011 Defense Authorization Act, and under Continuing Resolution in absence of 2011 Defense Appropriations Act.

Second, Secretary Gates has clearly undertaken a genuine ‘earnest negotiations’ approach with the Services, to provide incentives for them to make their own internal cuts, to redirect Savings from ‘Generating Forces’ into Combat Operating Forces.

This increased Service discretion, plus immediate public transparency, is likely to significantly-increase probability of success of Secretary's ‘Efficiency’ Initiative.

That’s quite a bit of “inside scoop” that most readers won’t see in the mainstream media. Why don’t you read those points again? In fact, you should Google McAleese & Associates and go check out Jim’s consultancy—because he is clearly an insider. (Our thanks to Jim for keeping us “in the loop”.)

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Jim was interviewed in early August by Federal News Radio – and here’s a [link](#) to his interview.

### Lexington Institute Points

Even before the Pentagon undertook its “efficiency” and “affordability” initiatives, Dr. Loren Thompson [was concerned](#) about budgetary pressures on the

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Pentagon, including “insourcing” efforts and the costs of government personnel. Here’s [a link](#) to his article on “the perils of insourcing” and here’s a link to another, similar article where [he posits](#) that “Pentagon insourcing undercuts search for savings.” In the latter article, published in mid-June, Dr. Thompson wrote—

Against this backdrop, it seems obvious that the Obama Administration will have to revisit plans announced last year to ‘insource’ tens of thousands of defense jobs previously contracted out to the private sector. The administration argued that civil servants could carry out many of the contracted tasks more cost-effectively and that the capabilities of the civil service needed to be bolstered, especially for roles deemed to be ‘inherently governmental.’ However, undertaking such conversions requires the government to make long-term financial commitments to federal workers in place of short-term contracts with companies -- commitments that may extend several decades into the future.

A case in point is the plan to expand the Pentagon acquisition corps by adding 10,000 new government workers and converting an additional 10,000 contractor positions to civil-service jobs. It is hard to see why such a move is necessary when policymakers are cutting weapons programs left and right, and the joint force is preparing to reduce the pace of overseas contingency operations. This plan will greatly increase the fixed overhead costs of the defense department at a time when Secretary Gates says those costs need to come down. Relying on contractors has advantages and disadvantages, but at least when their services are no longer needed it is easy to get rid of them and save some money.



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Dr. Thompson has written several other relevant articles, which can be found at [this link](#)

Defense-Aerospace.com [reprinted](#) one of the Lexington Institute’s commentaries with the headline, “Defense Business Board Warns DoD is Heading for Chapter 11.” The commentary made some good points, as follows—

The DBB’s characterization of the situation all but likens DoD to Greece. Military retirement requires that the government pay veterans and their families for sixty years based on only twenty years of service. Not only do veterans receive generous, indexed pensions but also lifetime medical care. Almost 25 percent of active duty military personnel serve in commercial activities. Despite fighting two wars, some 40 percent of those in uniform have never deployed anywhere overseas.

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The size of headquarters and staffs is increasing relative to the number of warfighters as are their salaries. Like Greece, modern business practices have not been applied to major overhead areas so as to improve efficiencies and reduce costs. Congress has made the problem even worse by increasing the generosity of benefits packages and expanding eligibility.

The DBB proposes a set of modest corrections to what is a massive problem. ... Much more is needed. ... We could not only cut the number of overseas bases -- like the automobile companies canceling dealer franchises -- but even eliminate low payoff territories. Finally, we could seek a partial merger of capabilities or functions with allied nations. Ultimately, we could even agree to a new division of geographic responsibilities in the world. For example, the EU takes over all responsibilities for Europe short of major war and we assume the burden in East Asia.

Boards and panels with ties to the organizations they are assessing often have a difficult time telling their ‘employers’ the unvarnished truth. The DBB has done an excellent job of telling DoD it must reform or go out of business.

As we previously told readers, the entire DBB “pre-decisional” briefing is available on our website under “knowledge resources”—but only for our members.

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### Obama Announces Support

On August 9, 2010, as SECDEF Gates was holding his press conference (we’re getting to it), the Pentagon issued a [press release](#) touting President Obama’s support for SECDEF Gates’ efficiency initiative. President Obama’s statement said—

Today’s announcement by Secretary Gates is another step forward in the reform efforts he has undertaken to reduce excess overhead costs, cut waste, and reform the way the Pentagon does business. The funds saved will help us sustain the current force structure and make needed investments in modernization in a fiscally responsible way. Change is never easy, and I applaud Secretary Gates and his team for undertaking this critical effort to support our men and women in uniform and strengthen our national security. These reforms

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will ensure that our nation is safer, stronger, and more fiscally responsible.

### SECDEF Gate's 8/09/2010 Press Conference (Finally)

The press conference seemed designed to announce that this was not just another in a long line of failed reform efforts, that this time the change was for real.

In [this article](#), Gates discussed the need for a cultural change. The article announced—

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‘My hope and expectation is that the efforts we have launched will lead to the kind of cultural changes that over time become a part of the department's DNA and institutional memory.’ ... The only way the department can make such a persuasive case is if it tackles poor acquisition practices, poor business practices, excessive reliance on contractors, waste and abuse, Gates said. ‘We need to be able to show that we are actually doing something about these programs in a systematic way that affects every part of the department,’ he said. ‘I think under those circumstances, we have a pretty good opportunity to make our case.’

Another Pentagon [press release](#) “article” discussed the actual cuts Gates had already made, and would continue to make, to DOD expenditures. Here’s some verbiage from the announcement—

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Today, Secretary of Defense Robert M. Gates announced a series of initiatives designed to reduce overhead, duplication, and excess in the Department of Defense, and, over time, instill a culture of savings and restraint in America's defense institutions.

These initiatives represent the latest of the secretary's efforts to re-balance the priorities of the department and reform the way the Pentagon does business.

As part of the fiscal 2010 budget, the department curtailed or cancelled nearly 20 troubled or excess programs - programs that if pursued to completion would have cost more than \$300 billion. Additional program savings have been recommended in the defense budget request submitted this year.

In May, the secretary called on the department to take a hard, unsparing look at how it is staffed, organized, and operated. The purpose was not to reduce the department's top line budget - which he considers the minimum needed to sustain a military at war and prepare for future threats - but to significantly reduce its excess overhead costs and apply the savings to force structure and modernization. ...

Earlier this summer, the department began a comprehensive effort along several tracks to gain efficiencies, reduce costs, and improve the effectiveness of the DoD enterprise, the results of which will be rolled out as part of the fiscal 2012 budget request. The secretary believes the department can take the following

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actions immediately rather than waiting for the normal budgeting and programming cycle.

-- The secretary directed a reduction of funding for support contractors by 10 percent a year for each of the next three years. The goal is to reduce the number of contractors that are performing functions that are inherently governmental.

-- To address the personnel growth in the Office of the Secretary of Defense (OSD), the defense agencies, and Combatant Command (COCOM) staffs, the secretary of defense has directed a freeze in the number of OSD, defense agencies and COMCOM billets at the fiscal 2010 levels for next three years.

\* With regard to in-sourcing, no more full-time OSD positions will be created after fiscal 2010 to replace contractors except for critical needs.

\* These measures are part of a comprehensive re-base lining of OSD, defense agency and COCOM staffing and organization. Starting essentially from scratch, we will conduct a clean sheet review to determine what our people should be doing, where, and at what level of rank in light of this department's most urgent priorities by Nov. 1.

\* As a result of the re-base lining, there will be a minimum reduction of 50 percent of total growth in billets since 2000. This reduction in civilian senior executive and general and flag officer billets shall be achieved over two years.

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-- The secretary directed a freeze at fiscal 2010 levels on the number of civilian senior executives, general and flag officer, and PAS positions. By Nov. 1, we will also assess the number and locations of senior positions as well as the overhead and accoutrements that go with them.

-- To achieve greater benefits in cost and efficiency through "economies of scale," the secretary of defense directed the consolidation of our information technology infrastructure facilities. This action will allow the increased use by the department of common functions and improve our ability to defend defense networks against growing cyber threats.

-- To combat the enormous amounts of taskings for reports and studies both from Congress and from OSD, the secretary of defense directed starting now:

- \* Freeze in the number of all DoD-required oversight reports;
- \* Immediate cut in the dollars allocated to advisory studies by 25 percent;
- \* Track and publish the actual cost of preparation of each reports and studies prepared by DoD in the front of each document; and
- \* A comprehensive review of all oversight reports and use the results to reduce the volume generated internally while engaging the Congress on ways to meet their needs while working together to reduce the number of reports by Oct. 1.

-- The Office of the Secretary of Defense funds 65 boards and commissions at an annual cost of \$75 million. Therefore, the secretary of defense directed a review of all outside boards and commissions, for the purpose of:



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- \* Eliminating those no longer needed;
- \* Focusing the efforts of those that continue to be relevant;
- \* Cutting overall funding available for studies tasked by remaining boards and commissions by 25 percent in fiscal 2011.

-- The secretary directed a zero-based review of all of the department's intelligence missions, organizations, relationships, and contracts with the goal to eliminate needless duplication to be completed by Nov. 1. In addition, the secretary of defense directed an immediate 10 percent reduction in funding for advisory and assistance contractors in this area and a freeze of the number of senior executive positions in defense intelligence organizations.

-- In addition to flattening and trimming structures, the secretary of defense over the next six to 12 months will eliminate two organizations and recommend the closure of another that perform duplicative functions and/or outlived their original purpose.

- \* Elimination of the assistant secretary of defense networks integration and information, and J6 function, which deal with enterprise information technology and hardware issues. Their essential missions will be performed by other organizations. A re-fashioned Defense Information Systems Agency will perform the department's CIO function.

- \* Elimination of the Business Transformation Agency (BTA), which performs day-to-day oversight of individual acquisition programs, a function largely performed by a number of other organizations. BTA's essential responsibilities will be shifted to the deputy chief management officer.

- \* Recommend the closure of Joint Forces Command (JFCOM) which was established to infuse jointness into everything the military does, especially the training and providing of forces for operations. Over time, it has created an unneeded extra layer and step in the force management process. JFCOM's force

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management and sourcing functions will be assigned to the Joint Staff while the remaining responsibilities will be evaluated and those determined to be essential will be re-assigned to other entities.

\* As a result of closing or consolidating these three organizations, a number of civilian employees and contractors will no longer work in the department.

-- To see these initiatives through from announcement to action to measurable results over the next 90 to 120 days, the secretary has appointed a task force chaired by his chief of staff. This task force will develop action plans and oversee their implementation and eventual transition to the appropriate department leadership.

The initiatives announced today represent the last of a four-track effort begun earlier this summer:

-- In June, the military services were assigned the task of finding more than \$100 billion in overhead savings over the next five years. The services will be able to keep any of the savings they generate to invest in higher priority warfighting needs.

-- At the same time the department began seeking ideas, suggestions and proposals from other than official channels, including outside experts, think tanks and DoD employees who are being asked to solicit ideas directly via the Internet.

-- The secretary directed a comprehensive assessment of every aspect of how this department is organized and operated to inform the fiscal 2012 budget

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request.

“Instilling habits of restraint, of subtracting as well as adding, of elevating affordability on a par with desirability, is a project of years in the making,” the secretary concluded in his statement today. “This will reflect itself in ways large and small, substantive and symbolic. My hope and expectation is that the efforts we have launched will lead to the kind of cultural changes that over time become part of this department’s DNA and institutional memory.”

(Apologies for the formatting of the foregoing cut’n’paste. The “emdash” indicates a high-level bullet point, while the asterisk indicates a lower-level point.) [Here](#) is a link to the transcript of his press conference.

Another DOD press release described the press conference as “putting meat on the bones of his initiative to reform the way the Pentagon does business and to eliminate duplicative, unnecessary overhead costs.”

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### Reactions

Predictably, critics were quick to attack the initiative. Our friends at the Lexington Institute [said](#) —

Using the Secretary’s own figures, cutting reports, boards and defense organizations will save, at best, \$1 billion. This piddling amount will only be realized if everyone in the named organizations were fired and the gates of the facilities padlocked. But this will not be the case, as the Secretary admitted. Many of the functions of those star-crossed organizations will be transferred to other parts of DoD, requiring people to perform them. So, at best the savings will only be a small fraction of their total budgets.

The only way to save real money is to close offices, stop performing their functions and show the people employed there the door. One of the problems with past efforts to save money through base closure and realignment is that the functions performed on the facilities being closed were moved to other facilities along with the personnel slots to perform them. People either moved to the new facility and organization or new people were hired. Because of the increase in people and workload, the bases receiving these functions built additional facilities. Just look at all the building going on in places like Fort Belvoir, Virginia, and Huntsville, Alabama, both of which are experiencing major influxes of people from facilities being closed as a result of the last round of base closures. So, in the end, very little will be saved.

We note that Gates’ decision to curtail “insourcing” should lead to some real savings. Why? Check out [this article](#).

In another piece, the Lexington Institute [wrote](#) that the efficiency initiative faced “insurmountable obstacles” because of lack of Congressional support.

Indeed, almost immediately members of Congress [sought](#) to keep Gates from cutting any part of the DOD bureaucracy—at least in their districts. This

### [Washington Post](#)

article reports that at least one Virginia Senator (who’s a former Secretary of the Navy) thinks that Gates cannot actually reduce his headcount without going through the arduous base realignment and closure (BRAC) process. The Post article quotes Senator Webb as saying, "a strong legal case can be made that the base-closure statutes are applicable because this involves a reduction of more than 1,000 civilian personnel." That same article quotes Virginia Congressman Robert Scott (D) as saying, “Even if it’s not technically the letter of the law, the spirit of the law is clearly implicated” by the secretary’s action. According to the article—

Scott, Webb and other members of the Virginia congressional delegation -- Sen. Mark Warner (D) and Reps. Glenn Nye (D), J. Randy Forbes (R) and Rob Wittman (R) -- sent a letter to Gates on Friday expressing their ‘deep disappointment and concern’ over his plan, saying it would result in ‘the dismissal of thousands of highly skilled civilians and defense contractors.’

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The dance is only beginning. Stay tuned for the rest of the show.

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