

A New Budgeting Approach for the Defense Department

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by David Grantham

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Zero-based budgeting is an alternative budgeting system proven to decrease expenditures and improve efficiency within private sector companies and public institutions. The process requires organizations to conduct an internal review of all expenditures each year and obligates each department to justify its proposed spending. This budget strategy does not allow costs to simply carryover from one fiscal cycle to the next without examination. Instead, zero-based budgeting helps identify wasteful spending, whether redundant programs or obsolete positions, and helps purge unnecessary expenses.



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Executive Summary

Evidence shows that the yearly review process, while initially time-consuming, can save organizations substantial sums. According to independent studies, a well-implemented zero-based budget could save large corporations 10 percent to 25 percent, sometimes within six months of implementation. And those savings are more sustainable over a longer period than traditional cost reduction methods, such as lower level workforce reduction, offshoring and outsourcing. If the Department of Defense achieved just a 10 percent savings over the entire organization, those savings would amount to \$53 billion.

The DOD is the ideal organization within the federal government to test zero-based budgeting. The current baseline budgeting system requires the government to set the previous year's spending as the starting point for the next year's budget. Preparers assume all of the same programs and operating procedures, and only adjust the following year's expenditures to account for actual spending in the current year, inflation and population growth. Since inflation and population growth are almost always positive, the budget almost always rises.

Senator John McCain (R-Az.) has pointed out that America's defense spending, "in constant dollars, is nearly the same as it was 30 years ago." Yet it consists of "35 percent fewer combat brigades, 53 percent fewer ships, and 63 percent fewer combat air squadrons." Chairman of the House Armed Services Committee Mac Thornberry (R-Texas) more recently questioned the rise in

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Overseas Contingency Operations funds despite the decline in troops. The increased spending alongside the decline in readiness exposes a problem with the overall budget process.

The automatic carryover of expenditures under baseline budgeting actually encourages spending. Toward the end of each fiscal year, defense officials regularly exhaust their funds so that they do not lose money in the upcoming budget. This period is known as “use it or lose it.” Researchers found that federal procurement spending was five times higher in the last week of the fiscal year than the weekly average for the rest of the year, and the quality of the projects was scored well below average. A zero-based budgeting model would automatically eliminate this practice and likely save the DOD millions.

The zero-based budgeting model could be tested within the DOD by applying it first to the bloated levels of defense leadership, their staffs and civilian employees. The number of general and flag officers positions has increased disproportionately to the personnel they oversee, while the growth in civilian and staff numbers continues to exceed what is necessary.

According to former Secretary of the Navy John Lehman, *over half of U.S. active-duty personnel serve on staffs*. Indeed, the number of various Joint Task Force staffs has grown from seven to more than 250 over the last 30 years — a significant and largely unsubstantiated growth in defense bureaucracy.

The zero-based budgeting model could examine and adjust the overall ratio of GFOs to troops, a number that has become severely lopsided:

- Roughly 2,000 GFOs oversaw 12 million military personnel in 1945.
- Now, nearly 900 GFOs oversee 1.3 million active duty personnel.
- In fact, over the past 30 years, the military’s end-strength — deployable/fieldable forces — has decreased 38 percent, but the ratio of four-star officers to the overall force has increased by 65 percent.

A 10 percent cut among GFOs and their staffs could save nearly \$11.5 billion over 5 years.

These cuts would not harm the combat readiness of the U.S. armed forces since the reduction would target support and nondeployable positions. Moreover, the closure of some overseas bases and the lowering of rank requirements for certain positions would ensure those savings are maintained. Identifying savings within the DOD will require more than indiscriminate cuts to active duty numbers, military platforms or pentagon programs. Thoughtful, long-term spending will be achieved by overhauling the budget process.

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Introduction

The U.S. military continues to cut troop levels at an alarming rate while allowing bloated levels of Pentagon leadership and their staffs to go virtually untouched. This trend is a stark reminder that the decline in our defense readiness is not only due to decreased funding. Indeed, the defense spending problem has more to do with the budget system, which actually rewards spending, rather than with a lack of financial resources. With one of the largest accounts in government, the Department of Defense (DOD) could be the first place to test a sensible process reform called zero-based budgeting. And the swollen ranks of upper-echelon military positions and headquarters staff is a good place to test its feasibility.

Defense Spending Increases during the Budget Crisis

Military officials have warned that the armed forces are ill-prepared for conflict because of spending reductions. However, real defense spending has held steady for years.

Spending from the Cold War to the Present. The end of the Cold War brought changes to U.S. military spending commonly known as peace dividends — the use of defense savings from demobilization for domestic spending priorities. During the 10 years following the 1989 collapse of the Soviet Union, subsequent U.S. administrations shrank the active duty population by roughly 60 percent and closed or turned over to other governments approximately 60 percent of U.S. overseas military installations.¹ Despite the drawdown, Cato Institute research fellow Benjamin H. Friedman argues that Americans spend (in real dollars) more on the armed forces today than at any time during the Cold War, save peak moments during the Korean War and the 1980s Reagan rearmament.²

A more startling statistic comes from Senator John McCain (R-Az.), who pointed out during a November 2015 Senate hearing that America’s defense spending, “in constant dollars, is nearly the same as it was 30 years ago.” Yet it consists of “35 percent fewer combat brigades, 53 percent fewer ships, and 63 percent fewer combat air squadrons.”³ Indeed, baseline spending — the costs of routine, day-to-day activities not including war or contingency funds — accounts for nearly two-thirds of the growth in overall military spending since 2000.⁴ In other words, the majority of increased spending has gone toward maintaining and growing infrastructure at the expense of fielding combat-related capabilities.

Interestingly, the number of countries with U.S. bases has doubled since the peace dividend trimmed the total number

of installations.⁵ The need to maintain nearly 800 overseas bases of varying sizes at a cost of \$100 billion to \$200 billion per year may have something to do with so much money dedicated to baseline budget expenditures. By comparison, Britain, France and Russia combined have approximately 30 bases outside their respective borders.⁶

Improper Use of Overseas Contingency Operations Funds. To make matters worse, nonbase expenditures, or contingency funding, has also increased. The Overseas Contingency Operations (OCO) fund epitomizes this exorbitant spending. The Global War on Terrorism fund, intended as emergency expenditures for wars in Afghanistan and Iraq, morphed into the OCO after the Obama administration scaled back war operations. Now, this nondiscretionary, “emergency” account has essentially become a slush fund for the executive branch and Pentagon to circumvent spending caps established by the 2011 Budget Control Act. The sequestration provisions in the legislation required Congress to provide a deficit reduction bill or face spending cuts to mandatory and discretionary spending by January 2013. No agreement could be reached and cuts to Medicare and the Department of Defense ensued.⁷

As a result, the administration and Pentagon officials slowly began shuttling both war and non-war money alike into the OCO fund, which was excluded from sequestration. In fact, a Stimson Center report found that OCO funding has increased significantly, despite the declining number of U.S. troops overseas, from \$1 million per troop to \$4.9 million. The rather inexpensive fight against ISIS cannot account for the eye-popping jump in expenditures.⁸

Now the Pentagon estimates that \$30 billion of its OCO funds, half its current OCO budget of \$58.8 billion, are used for nonwar expenditures. It had originally claimed only \$5 billion was used for base budget expenses. Chairman of the House Armed Services Committee Mac Thornberry (R-Texas) said the Pentagon, following Obama administration policy, has “intentionally misled Congress about the fact it would require half the funds...even in the absence of U.S. military operations in the Middle East.”⁹

Potential Savings in the Defense Department. The Army’s ongoing reduction in force of 40,000 employees (23,000 of whom are deployable troops), for instance, will save approximately \$7 billion over four years — or a paltry \$1.75 billion a year.¹⁰ But, according to Chief of Staff of the Army General Mark Milley, the U.S. government would need at least 50,000 more active duty Army troops to operate effectively under current national security strategies and meet imminent threats across the world. And at roughly \$1 billion for every 10,000 soldiers, Congress would need to authorize a

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\$5 billion increase in personnel spending to keep pace with the executive branch's defense strategy.¹¹ Those demands presumably include new ventures, such as redeployment of forces to Iraq to battle ISIS, Special Forces in Honduras to help stop gang activity and military units spread throughout North Africa to battle Islamic extremism.¹² In other words, the government needs the very troops it plans to cut to fulfill the missions it assigns.

Theories on Achieving Strategic Personnel Savings

Two camps of thought generally emerge when discussing DOD financial reform within personnel: force optimization and comprehensive force reduction.

Cut Nonmilitary Personnel or Redefine the Mission? Heritage Foundation scholar James Jay Carafano, for example, focuses on the first, arguing that the DOD could "launch an initiative" that would determine "true personnel needs" so that excess employees could be reduced in a systematic manner.¹³ Alongside right-sizing military staff and cutting nonessential personnel, he recommends a reduction in the civilian workforce since it competes directly with the costs of fielding military personnel. Such a move could yield almost \$29 billion in savings over 10 years.¹⁴

Similarly, the Rebalance for an Effective Defense Uniform and Civilian Employees (REDUCE) Act recommended a 15 percent cut in the defense civilian workforce, including a cap of 1,000 the Senior Executive Service civil servants in the Defense Department. The REDUCE Act could have saved \$82.5 billion over five years.¹⁵ That legislation subsequently died in the 113th Congress in 2015.

Cato Institute scholar Benjamin Friedman proposes a more comprehensive approach called the "strategy of restraint," narrowing the scope of what "U.S. security requires [in order to] establish a true 'defense' budget."¹⁶ Friedman's wide-ranging solution would require the government to decrease the number of ground forces, cut the number of Air Force aircraft and restructure the nuclear triad from three delivery systems — bombers, land-based intercontinental ballistic missiles (ICBM) and submarine-launched ballistic missiles (SLBMs) — to a monad-only ballistic missile submarine operation. This last point aligns with his broader theme of restraint, which calls for the Navy to have a larger portion of the defense budget since it technically requires no basing rights and can respond to threats with precision-guided missiles and open sea interdiction.¹⁷

In short, the United States would be restrained by its own self-imposed limitations, forcing policymakers to optimize the use of the armed forces. Theoretically, the military would only be employed where absolutely necessary for national security.

The Weaknesses of Mainstream Ideas. Most theories fall into the broad categories of defense spending solutions above. Yet, each lacks clear-cut and sustainable parameters for implementation. The Heritage approach that asks the Pentagon to identify personnel needs by combat standards leaves the decision to those who currently make the determinations, thereby perpetuating the existing system. And trimming civilians will achieve short-term fiscal benefits without long-term results. More broadly, the plan makes no mention of saving the money and, instead, argues that "these savings could be put toward modernization programs," which were cut in recent years, including the cancelled CG(X) future large aircraft carrier, the F-22 Raptor fighter aircraft and the Navy's EP-X future intelligence aircraft.¹⁸ Therefore, the projected savings under this plan would likely be rerouted to active duty needs, thereby negating savings altogether.

Friedman's recommendations on defense growth would likely offer savings over a longer period compared to Carafano's approach. Indeed, redeploying overseas forces and contracting the size of the military would discourage decision-makers from overextending the armed forces. The weakness here, however, remains the absence of a mechanism to maintain that restraint. History shows that, without preset parameters, the administrative and regulatory mindset of the federal government prevents it from curbing excessive growth. Although the savings could be maintained for a longer period, a reduction in force will likely be temporary.

The real problem comes down to the budgeting system. The current baseline budgeting model actually encourages spending. Therefore, the cost and allocation process should be the primary target for reform.

The Current Budget System Is the Problem

Experts continue to offer budget solutions under the current system, but evidence suggests it is that very system or framework that needs to change.

Bureaucracy and Baseline Budgeting. Economist William Niskanen concluded that managers within a bureaucracy, whether public or private, prefer ever-expanding budgets since their prime objective is to grow the organization. More money means increased activity and the luxury to expand a list of desirable goals. Lower ranked

managers also prefer larger budgets since it equates to more staff positions, increasing the size of the organization and, thus, opportunities for promotion.¹⁹ The current system of the DOD, known as “baseline budgeting,” allows this predictable process to go largely unchecked.

Baseline budgeting requires the government to set the previous year’s spending as the starting point for future expenditures. Budget preparers assume all of the same programs and operating procedures, and only adjust the next year’s fiscal outlook upward to account for actual spending in the current year, inflation and population growth. Since inflation and population growth are almost always positive, the budget almost always rises.

The U.S. government prefers this method because it avoids having to reinvent the wheel each year. It also costs very little and, for the most part, prevents officials from rigging budget documents or reports.

Incentives under Baseline Budgeting. One of the most powerful criticisms of baseline or incremental budgeting is the incentives it generates. Specifically, the system goes beyond favoring the status quo — it actually encourages spending growth. By starting the conversation at the previous year’s spending level, which in the DOD’s case does not account for new conflicts or unanticipated flare-ups, baseline budgeting tilts the scales in favor of more spending. Further, it allows politicians to have their cake and eat it too: They can appear to cut the budget when all they are doing is changing the rate of spending growth.

The system also encourages budget officers to spend all of their funds before the end of the year. Why? If an official fails to use all of his/her allocation, the government reduces that unit’s starting baseline for the following year. And because an official cannot be sure of surplus funds until the last few months of the budget year, he or she will likely be forced to spend the money quickly and inefficiently. A National Bureau of Economic Research (NBER) study actually documented this occurring: Researchers found that federal procurement spending was five times higher in the last week of the fiscal year than the weekly average for the rest of the year, and the quality of the projects was scored well below average.²⁰

This end of year spending is known in military circles as the “use it or lose it” period. Every year, around the same time, offices submit a list of new “needs” for procurement to ensure all available money is spent. Otherwise, units may lose money in the coming year’s budget. This practice is even more costly than traditional budgeting methods wherein an organization simply builds in a certain percentage increase each year.

The baseline budgeting method has proven untenable. And with history as our guide, we can reasonably assume that future reductions in spending will likely come from areas critical to military readiness rather than those most in need of reform.

Another Approach to Defense Spending: Zero-based Budgeting. The zero-based budgeting model offers a clinical, objective means of curbing unnecessary spending while maximizing the force required to provide for the common defense. When the budget is set, the annual justification and allocation process provides the foundation for fielding a cost-effective and capable military.

Zero-based budgeting requires departments and budget officials to start with the assumption that their unit will receive zero funds. Budgets are then constructed with every dollar requiring justification from each function or office within the organization, regardless of the previous year’s funding totals. Costs are then grouped between the results of a given function and its future expectations.

The process requires justification of expenses, creating savings where its most beneficial — rather than blanket increases or decreases that trim a department or function to achieve a predetermined and arbitrary amount of “savings.” Indeed, a justification analysis would likely avoid the kind of broad, unspecified budget reductions that resulted in 40,000 troops being cut from the U.S. Army at a time when operational tasks have increased and expensive civilian and headquarters staffs actually grew.²¹

Difficulty of Implementing Zero-based Budgeting. The zero-based approach to budgeting can pose problems, though. Initial implementation is costly and time-consuming, and it does not necessarily take into account the long-term goals of the organization.

Moreover, there is a knowledge gap between the central leadership and the lowest autonomous units in large organizations. The transmission of information from the departments to the center determines leadership’s ability to interpret the given information and to judge whether the proposals are useful. In large organizations, such as the DOD, departments can exploit the knowledge deficit of the center to promote inflated expense requests or inaccurate evaluations.²² For this reason, zero-based budgeting is primarily used in smaller organizations, such as cities and companies.

However, zero-based budgeting can still work for large bureaucracies. Implementation within a specific function — in this case, military leadership and staff — provides a precise area to examine and closes any knowledge gap between management levels. Costs can then be relocated within a

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department to increase efficiency and create long-term savings. The simple act of evaluating line items and programs from a zero baseline encourages department heads to be more cost conscious.

Because nothing is assumed, every budget cycle is a competition, and the burden of proof is on those who wish to maintain or raise spending. This could drive DOD officials to prove they are the most efficient. They would be forced to justify redundant positions and additional staff. This simple act would likely encourage officers to trim excess and focus on mission-critical military personnel who directly contribute to vital areas like readiness and training.

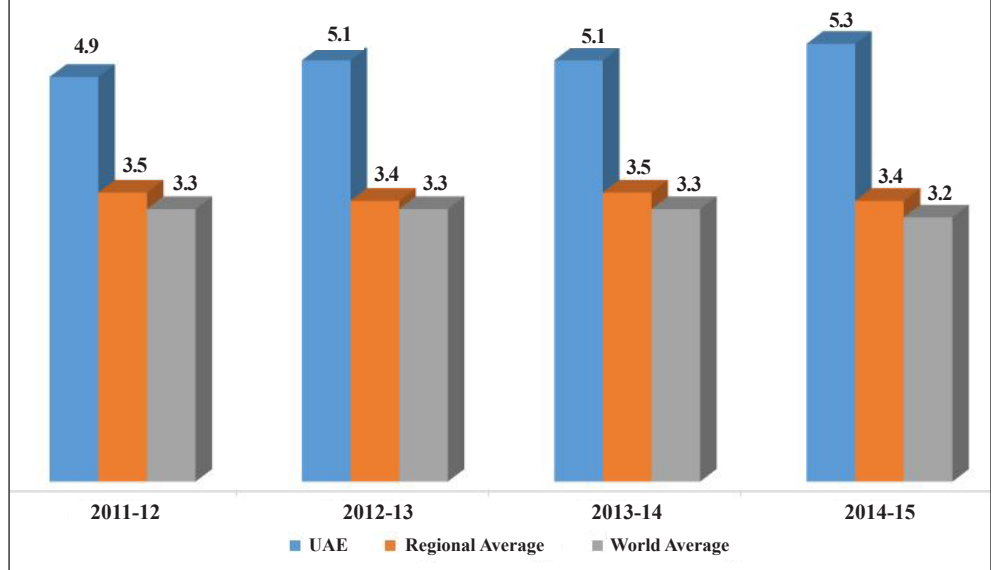
Case Studies. Zero-based budgeting is not a new, untried concept. There is evidence that it can be effectively implemented, in both the private and public sectors.

Private-sector Corporations. A study from global management consulting firm McKinsey & Company found that a well-implemented zero-based budget could save large corporations 10 percent to 25 percent, often within as little as six months. The analysis also found that this type of budgeting provided bigger, sustainable savings over a longer period than traditional cost reduction methods, such as lower level workforce reduction, offshoring and outsourcing.²³ If the DOD achieved results similar to corporations, just a 10 percent savings over the entire DOD budget would amount to \$53 billion.

New Zealand. New Zealand has used a system similar to zero-based budgeting since 1994. They call it the rigorous performance-based system. Every year, baselines are neither assumed to be zero nor assumed to be the same as the previous year. Departments are required to justify their suggestions for the baseline, and the government as a whole issues a statement of policy priorities for the next financial cycle.²⁴

In terms of results, after 1994 New Zealand had 14 years of budget surpluses after nearly 15 consecutive years of budget deficits.²⁵ The system's longevity is likely due to its lower administrative costs. By starting at a baseline other than zero the budget process is likely slightly less contentious and less redundant. It could be a cost-minimizing compromise between zero-based budgeting and incremental/baseline budgeting.

Global Competitiveness Score
(1 to 7 scale; least to most competitive)



The United Arab Emirates. The UAE system is probably the purest example of zero-based budgeting in practice. The emirates' national government implemented zero-based reforms with their three-year budget for 2011-2013.²⁶ It required departments to build budgets from the ground up every three years. In the first year, budgeted spending was reduced by about 6 percent from the year before. The UAE jumped to 5th rank globally in efficiency of government spending, as measured by the World Economic Forum's Global Competitiveness Index. The UAE also moved three places to 24th place in its overall global competitiveness ranking, in part due to the budgeting reform.²⁷ [See the figure.] These gains came during a period in which governments in the Middle East region, at large, seemed to become more wasteful.

Justifying a New Process

The inability of the Pentagon and those in Congress to implement budget reductions in a smart and efficient manner demands a new budget process.

Start in the Bloated Ranks of the Military Leadership. Zero-based budgeting is best implemented, at least initially, within specific departments or sections. Headquarters-level general and flag officers (GFO) — active duty officers of general or admiral rank — and their staffs, along with the civilian Senior Executive Service (SES) personnel in DOD, would be a good place to start, since those areas have grown disproportionately compared to more critical areas within the Defense Department.

The Pentagon committed to a 20 percent cut of its headquarters budget in 2014 National Defense Authorization Act (NDAA). But a report from the Government Accountability Office (GAO) the following year showed that officials had failed to provide Congress a plan to make those cuts. Moreover, researchers discovered the Pentagon had applied old regulations that exempted personnel performing “headquarters-related functions” from the required cuts.²⁸

The Pentagon then agreed again to reduce its headquarters staff budget in the 2016 NDAA. Coincidentally, the president’s 1.3 percent pay increase across government that went into effect January 1, 2016, might very well have offset the estimated \$453 million in budget savings (if they were made). In fact, the DOD might actually spend \$600 million more on civilians than it did in 2015, according to Federal News Radio.²⁹

The latest iteration of this strategy involves proposed language in the Senate version of the 2017 NDAA aimed at trimming the number general officers and flag officers by 25 percent. “The reduction in four-star billets,” the proposed bill reads, “would be accompanied by a 25 percent roll down of the overall number of the remaining general and flag officers for each of the services.”³⁰ The administration and the DOD are hesitant to accept such statutory levels, hoping instead to determine cuts based on internal deliberations.

Since the Pentagon has a poor track record of self-identifying cuts and Congress continues to float arbitrary cuts, zero-based budgeting could be a way to satisfy both Congress’ demands for savings and the Pentagon’s desire to internally determine the adequate number of GFOs needed to complete its current missions.

Zero-Based Budgeting Is a Force Enabler. The logistical and manpower costs for yearly evaluation would be time-consuming initially, as stated earlier. But the anticipated annual review process provides the flexibility to respond to current developments, as well. The zero-based budgeting model requires only justification based on a newly established, annual budget, providing the Pentagon leeway to justify the retention, reallocation or acquisition of new positions based on the current operations tempo and mission requirements pushed down from the executive branch.

The justification and determination process would require officials to match GFO slots with its discretionary spending, which generally includes 1) wartime expenditures, 2) foreign military assistance and 3) nuclear spending, and nondiscretionary or baseline spending. The three-pronged analysis adopted by each service branch would provide the flexibility to fulfill their respective missions and would

favor the law of proportionality. In other words, zero-based budgeting demands an allocation of resources without regard to career field, branch or time in rank. A yearly evaluation of the mission would determine the budget. And neither Congress nor the Pentagon should expect personnel reductions and realized savings will be spread evenly across the U.S. armed forces.

A constrained budget would not only weed out redundant specialties, such as the different, overlapping camouflage and uniform initiatives identified by the Government Accountability Office (GAO), but also those positions among GFOs, noncombat service members and civilian employees no longer necessary to meet current missions.³¹

The zero-based budgeting model could examine and adjust the overall ratio of GFOs to troops, a number that has become severely lopsided:

- Roughly 2,000 GFOs oversaw 12 million military personnel in 1945.
- Now, nearly 900 GFOs oversee 1.3 million active duty personnel.
- In fact, over the past 30 years, the military’s end-strength — deployable/fieldable forces — has decreased 38 percent, but the ratio of four-star officers to the overall force has increased 65 percent.³²

Historically, there is no gold standard ratio of general/flag officer to troops. The lack of a standard ratio makes it difficult to engineer a useful number of GFOs for active duty military. Moreover, the fact that many GFOs command units with civilian workers who are not included in the total number of active duty troops creates additional challenges. Nevertheless, the current cap on the number of officers should reflect the gradual shift from combat or functional officer positions, or those that required specialized training, such as pilots, medical and combat, to support officer positions, which require generalized training, such as logistics, education and personnel.

As it stands, sections 525 and 526 of United States Code (U.S.C.) 10 caps the authorized number of GFOs across the Army, Navy, Air Force and Marine Corps at 962.³³

- As of June 2016, the total number of GFOs in the U.S. military was 906.³⁴
- The total number of active duty members was 1,304,183.³⁵
- Thus, the ratio of active duty military to GFO is 1:1,438. As a reference point, a GFO command at the division level in the Army, and there are 10 divisions with 10,000 to 18,000 troops per division.

That ratio should change since the number of combat

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troops has shrunk compared to support troops. In other words, fewer GFOs are needed in a support-heavy military. In *The Other End of the Spear*, military historian John McGrath retraces the gradual shift in U.S. defense force structure in military campaigns reaching back to World War I.³⁶ He shows that a significant change in the Army's modern expeditionary model has occurred as support functions — generally considered transportation, medical, supply, finance and maintenance — have increased alongside a decrease in combat positions, or attack and assault aviation, special operational forces, military police and combat ground units.

According to McGrath:

- In 2005, in the midst of the Iraq War, the ratio of combat troops to support functions was 28 percent combat and 72 percent logistics, administration and support personnel.³⁷
- By comparison, the split in World War II was 39 percent to 61 percent and, during the Vietnam War, 35 percent to 65 percent.³⁸

Although not comprehensive, McGrath's work provides a reasonable basis for understanding the evolution in military personnel needs from *functional* management to *general* management. In other words, the current expeditionary model of mostly support troops suggests less need to maintain the current number of GFOs.

As in other bureaucracies, there are certain military units that require leadership to have a precise understanding of the skill set they manage. Other units rely on general management of the organization and its processes. For instance, a commissioned Air Force officer in the logistics field would be expected to immediately manage a large office even though the newly appointed officer has little or no experience within that field. In contrast, a newly commissioned officer in the Air Force Office of Special Investigations (AFOSI) — the federal investigative arm of the U.S. Air Force — works side-by-side with civilians and enlisted alike for at least one year before leadership will consider that officer for a management position. In AFOSI, an officer cannot be approved for management in such a specialized field without having prior experience.

The growth in areas like maintenance, logistics and education, alongside the decrease in direct combat units, suggests the need for a winnowing of GFOs. The change from World War II to Operation Iraqi Freedom saw a roughly 10 percent shift from combat to support personnel, according to McGrath, which offers a reasonable starting point for a reduction percentage. Adjusting the current number of GFOs downward by 10 percent to reflect the shift would eliminate at least 90 GFO positions.

GFOs are categorized into four different pay grades according to rank and time in service. For instance, a three-star general equates to a 0-8 on the military pay scale. It costs on average \$218,000 per year for each GFO.³⁹

0-7 = \$194,000 per year

0-8 = \$217,000 per year

0-9 = \$230,000 per year

0-10 = \$231,000 per year

With the average cost for a GFO of \$218,000 per year, the immediate savings would amount to over \$98 million over the next five years. Those savings will likely increase significantly by eliminating overhead related to GFO medical expenditures, costs of travel and training.

Eliminating Headquarters Staffs. Active duty and civilians make up the staffs that handle administrative operational and logistical support for their respective units or offices. Staffs can be found throughout the defense structure, and the bloated GFO ranks have contributed to a massive surge in staff numbers.

Former Secretary of the Navy John Lehman said in 2013 that *over half of U.S. active-duty personnel serve on staffs*. Indeed, the number of various Joint Task Force staffs has grown from seven to more than 250 over the last 30 years — a significant and largely unsubstantiated growth in defense bureaucracy.⁴⁰

- The Joint Staff — an organization of active duty personnel serving as advisers to the Chairman of the Joint Chiefs — grew from 1,286 people to 4,244 people from 2010 to 2012 — a jump of 230 percent.
- The civilian staff for the Office of the Secretary of Defense grew nearly 18 percent to more than 2,000 people, from roughly 2008 to 2013.⁴¹
- That number reached about 5,000 employees in 2015.⁴²

And this growth is not limited to the Pentagon proper. Michele Flournoy, a former DOD undersecretary for policy, told the Senate Armed Services Committee that the staffs of geographic combatant commands have grown to more than 38,000.⁴³ These nine commands were given the responsibility for executing policy and interservice personnel management within their respective regions under the military reforms of the Goldwater-Nichols Act of 1986.⁴⁴ For example, the headquarters staff of the U.S. Africa Command grew by 285 percent between 2010 and 2012. Similar growth occurred at U.S. Central Command and U.S. Pacific Command during the same period.⁴⁵

In 2015, retired Marine Corps Major General Arnold

Punaro told the Senate Armed Services Committee that staffs spread across the Pentagon and combatant commands now account for some 240,000 people (excluding contractors) and \$113 billion — or nearly 20 percent of the DOD budget.⁴⁶ A decrease of 90 GFO positions would likely put a dent in this area. A reduction in GFOs could lead to an equal percentage reduction in staff, but even if staffs fell by only half the percentage decrease in GFOs, or 5 percent, it would save \$5.6 billion immediately.

Similar Cuts to the Senior Executive Service and Civilian Workforce. The zero-based budgeting model would require similar cuts to unnecessary positions within the Senior Executive Service. The Civil Service Reform Act of 1978 created the SES as a civilian equivalent to the GFOs to act as a conduit between presidential political appointees and the career civil service.⁴⁷ Since fewer GFOs are needed for combat operations, even fewer SES are needed for the Pentagon. SES basic pay averages roughly \$151,000 per year.⁴⁸ Adding performance raises and extensive benefit packages, the costs of an average senior executive per year can exceed \$200,000. [See Table I.] With approximately 1,000 career senior executives assigned to the Pentagon, a 15 percent decrease, or 150 positions cut, would save \$150 million over the first five years.⁴⁹

The zero-based budgeting model proves most useful in the case of the SES because there is no statutory limit on the total number of senior executive positions. The annual

review after the initial 15 percent reduction in the SES would be subject to a rigorous justification process and thus highly unlikely to expand without good reason. Zero-based budgeting would maintain reductions over the long term far better than the current budget system.

Broader still, a reduction in GFO and support sections would naturally suggest similar cuts to the civilian workforce. Civilians are almost exclusively a noncombat, nondeployable sector of the Pentagon and represent a facet of the “support” units that have grown since World War II. The civilian sector grew over the past 10 years, even as the uniformed military peaked and then began to draw down.

Former Navy Secretary Lehman said in 2013 that each reduction of 7,000 civilian personnel saves \$5 billion a year over five years. That equates to roughly \$714,000 per position for each individual reduction. With a current civilian workforce of approximately 770,000 as of 2014, a 10 percent reduction would save nearly \$55 billion over five years. Here again, the zero-based budgeting model would ensure those reductions remain in place once executed. [See Table II.]

General and Flag Officers	\$98 million
Staff	\$11.2 billion
Senior Executive Service	\$150 million
Civilian	\$55 billion
Source: Author’s calculations.	

Maintaining the Savings. The cost reductions through thinning out the GFO, SES and civilians can only be maintained if the money is not simply funneled to other areas. A two-step process of lowering the rank requirements for GFO positions overseeing support units and decreasing overseas positions alongside the zero-based budgeting model could help ensure savings are maintained.

To do this, Pentagon officials need to reduce rank requirements from general officer to field-grade officer for positions within certain support fields. For instance, all lieutenant colonels and colonels, or O-5 and O-6 pay grades, could be expected to oversee larger units or those once managed by GFOs. The process of reducing the rank criteria would help to maintain the decrease in the number of GFOs by limiting promotion opportunities within the DOD.

An overseas Defense Base Closure and Realignment targeting smaller bases in Africa and Asia might have a similar effect, as well as generating additional savings. Closing a set

Grade	Average Base Salary
General/Admiral	\$181,501.00
SES Level 1	\$205,700.00
Lieutenant General/ Vice Admiral	\$181,470.00
SES Level 2	\$185,100.00
Major General/ Rear Admiral	\$168,344.00
SES Level 3	\$170,400.00
Brigadier General/ Rear Admiral (Lower Half)	\$146,318.00
SES Level 4	\$160,300.00
SES Level 5	\$150,200.00
Source: Federal Pay, “Senior Executive Service Pay Scale,” 2016; and Lawrence Knapp, “General and Flag Officers in the U.S. Armed Forces: Background and Considerations for Congress,” Congressional Research Service, February 18, 2016, page 10.	

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number of locations would reduce the number of officer positions necessary and limit promotional opportunities going forward.⁵²

Other Savings and Other Techniques. Defense officials could modify the zero-based approach to account for the structure of the DOD by implementing the following steps:

1. The Secretary of Defense could initiate a zero-based budgeting review on a two-year basis or in the middle of each presidential term. This approach could potentially avoid political problems and provide time for the Pentagon to grow accustomed to zero-based budgeting.
2. Certain departments within DOD could be required to adopt zero-based budgeting as a way to identify wasteful and redundant programs. For example, ineffective and costly foreign security assistance programs have yielded few positive results leading the Congressional Research Service (CRS) to conclude that “it remains unclear whether building the capacity of foreign security forces is an effective way to accomplish U.S. strategic objectives.” The Government Accountability Office (GAO) report, *Budgeting Alternatives for the Department of Defense*, also identified different, overlapping camouflage and uniform initiatives as a cause of waste.
3. Departments within the DOD could be allowed to rollover unspent funds at the end of the fiscal year. Economic researchers Jeffery B. Liebman and Neale Mahoney estimated that rollover reform of budgets could allow a department or agency to maintain the same level of procurement for 13 percent less money. In other words, departments within the DOD would likely spend less money more wisely if they did not feel compelled to exhaust their “use it or lose it” money before the end of the fiscal year. Similar savings across the DOD would free up more than \$68 billion in funds, based on the 2016 DOD budget.

Conclusion

The traditional government budgeting system is simply not working. Zero-based budgeting could specifically help refocus defense priorities by ensuring money is spent in areas that promote readiness. And successful implementation in the bloated GFO, SES and civilian sectors would encourage Congress to take similar steps in other areas of government.

Notes

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