Defense Transformation: A Battle The U.S. Cannot Afford To Lose

By David M. Walker

The U.S. armed forces clearly deserve an “A” for effectiveness. At the same time, the Defense Department earns about a “D” for economy, efficiency, transparency and accountability.

The problems are especially severe in basic financial management, information technology, acquisition practices, contract management, inventory control and basic business operations. In fairness, these are long-standing problems and significant efforts have been made recently to address them.

The Pentagon needs to face the fact that many of its basic business processes are outdated and wasteful. Nine of the 25 areas on the Government Accountability Office’s most recent high-risk list are at the Defense Department, where inefficient practices continue to squander billions of dollars that could be used to boost readiness, improve the quality of life for our troops and fund investments in new systems and technologies.

A frugal mindset will be vital as budgets become tighter. It seems like only yesterday that many economists and government officials were projecting budget surpluses for years to come. The underlying conditions for a long-term structural deficit were in place, however, even during the economic expansion of the 1990s. We now face decades of federal deficits largely because of soaring health care costs, an aging population, reduced revenues, mounting bills for the war in Iraq and the fight against terrorism. Difficult choices are inevitable.
But those choices can be eased if we take steps now to make government more economical, efficient and effective. Transforming the way government does business will be crucial to helping federal agencies carry out their missions during a period of budgetary constraints. We have a window of opportunity to ensure that basic government functions, from national defense to social insurance programs, are secure and sustainable over the long term.

A crunch is coming, and eventually all of government will feel its impact. Although national defense and homeland security have received generous funding in recent years, this cannot continue indefinitely. Defense budgets of the future almost certainly will be tighter.

Unfortunately, the government now keeps score in a way that obscures our true financial condition and fiscal outlook. The official U.S. gross debt now stands at about $7 trillion, which works out to about $24,000 for every man, woman and child in this country. But if you factor in the current dollar value of unfunded commitments for programs such as Social Security, Medicare and veterans’ health care, the burden for every American rises to more than $140,000.

The GAO analyses paint a chilling picture. If current tax and spending policies remain unchanged, the federal government would be reduced to doing little more than paying off the interest on the national debt by 2040. At that point, we would have to cut federal spending by more than half or raise taxes to more than two and a half times today’s level to balance the budget. Both of these options are unrealistic and unacceptable.

It is time to recognize that we are in a fiscal hole, and stop digging. We can begin by insisting on truth and transparency in government financial reporting and budget debates. We must deal honestly and openly with the long-term obligations facing taxpayers.
Among other things, GAO has recommended that the government issue an annual report that itemizes the current promises for future government spending. We also need to revise budget scorekeeping practices to emphasize the future implications of current policy choices. For example, our elected representatives should have more explicit information on the long-term costs of pending legislation before they vote. The time has come to consider reinstating budget controls, such as realistic spending caps and “pay-go” rules.

A three-pronged approach based on sound financial information could significantly narrow our fiscal gap. First, we need to undertake a top-to-bottom review of government activities to ensure their relevance for the 21st century and to free up scarce resources. Members of Congress and other key policy makers need to determine which programs and policies remain priorities, which should be overhauled, and which have outlived their usefulness. As the largest federal organization, with about 2.3 million military and civilian employees and a requested budget of more than $400 billion for fiscal year 2005, the Defense Department will be a critical part of these efforts.

Second, entitlement reform is essential and inevitable. We need to put social security and medicare on a sound footing and make these programs solvent and sustainable for future generations. The Defense Department actually has a strong stake in entitlement reform. Unless the financial problems with Social Security and Medicare are fixed, rising entitlement costs will eventually crowd out other discretionary spending, including national defense and homeland security.

Third, we need to revisit existing tax policy, including the hundreds of billions of dollars in annual tax preferences. We also need to reconsider our overall tax enforcement.

The government’s current way of doing business is unacceptable for many reasons. Our growing fiscal imbalance means that federal dollars are becoming scarcer. At the same time, the public has become increasingly intolerant of poor
government services and wants proof that agencies are getting results. Because many government policies, processes and procedures were developed more than 50 years ago, agencies often lack up-to-date management tools, such as effective human capital strategies, needed to function in the modern world. Crafting solutions to these challenges will require partnerships by the federal government with entities in the private and nonprofit sectors, at home and abroad.

To close our widening fiscal gap, policy makers will need to ask tough questions to distinguish wants—an unlimited wish list of programs and projects—from needs. They will also have to consider what the public will support over time. To this end, policy makers must begin to identify excess spending on both the defense and non-defense sides of the budget.

As the government’s fiscal situation becomes more serious in the years ahead, the Defense Department, along with most other federal agencies, will confront tighter budgets. Yet the public’s expectations for a strong national defense are unlikely to diminish.

Policy makers and top Defense Department management will need to address a range of issues, including roles of the individual services in joint war-fighting and the services’ force structures, basing approaches, deployment postures and sourcing strategies.

To maintain our role as the world’s leading military power, the Defense Department will need to not only anticipate future warfare needs, but also streamline and improve existing business processes.

At the same time, several long-term trends will directly affect the Defense Department’s future role and mission. Since the end of the Cold War, we have seen the appearance of new adversaries—terrorist networks and rogue states—some of whom are armed with weapons of mass destruction. Although
technology offers opportunities to boost productivity and cut costs, it can also threaten our personal privacy and national security.

The United States and other industrialized nations have aging populations with longer life spans, which pose a host of economic, fiscal and human capital challenges to private industry and government. Our society also faces a range of serious quality-of-life issues, such as balancing work and family obligations. The Defense Department must be able to anticipate and respond to these changes and challenges.

Changing how the military does business will require a difficult cultural transformation, one focused more on shaping the future than on perfecting the past. Defense transformation involves creating the future of warfare while improving how the department does business to maintain the United States’ position as the world’s leading military power during a period of constrained resources.

Most federal agencies today are too hierarchical, stove-piped, process-oriented and inwardly focused. They must become flatter, more collaborative, results-oriented, flexible and externally aware. Agencies will have to become more open to opportunities for partnering. They will also have to balance attaining results, meeting the needs of customers and addressing the concerns of their employees.

The cultural transformation necessary to achieve these goals does not mean that the military’s chain-of-command structure is obsolete. During times of war, following this chain of command can make the difference between victory and defeat. Cultural transformation does, however, mean tapping into the ideas of rank-and-file service members and civilian employees to learn how to do things better and to shed light on problem areas.
Our military leaders, leading organizations with strong traditions, will be challenged by new ways of thinking. Ideas and practices once innovative can become obsolete over time. Not surprisingly, there is often extreme resistance to changing entrenched ways of doing things—no matter how outdated and inefficient they have become. Areas ripe for cultural change at the Defense Department include the widespread focus on past rather than future threats, the current basis for allocating resources among the military services, the adherence to existing organizational silos, the “use it or lose it” mind-set concerning appropriations and the “plug-and-pray” approach to weapon systems acquisitions.

The military should target several areas for change. For example, the Defense Department needs to revise the current approach to developing national military strategy, taking a longer-range approach to program planning and budget integration. The Pentagon should use a total force management approach to planning and execution that includes military personnel, civil servants and contractors.

Financial management and information technology reform must become top priorities. Tangible results in this area are long overdue. Too much financial information coming out of the Defense Department is incomplete or unreliable, and weak internal controls are a pervasive problem. At the same time, the Pentagon has thousands of outdated and nonintegrated computer systems that are expensive to maintain and often fail to deliver results.

To drive the business transformation process, the Defense Department should hire a chief management officer who will plan and integrate various management transformation efforts within the department. This needs to be a level-two professional with proven track record, a term appointment and a performance-based contract.
The Defense Department must get the design and implementation of the national security personnel system right, including modernizing and integrating the performance and reward systems used for the department, the military services, various units and individual employees. It should also adopt a more targeted and market-based approach to compensation and other key human capital strategies. The department needs to streamline and strengthen current commercial contracts and provide for longer tours of duty when it comes to key acquisitions and operations jobs.

The Pentagon should have to follow best practices used in the commercial sector when designing and developing weapons, unless a clear and compelling national security reason exists for not doing so. Finally, it must remove the stigma associated with “pulling the plug” on weapons systems when the facts and circumstances clearly support such a decision.

Cultural transformation depends on having a compelling mission and vision. Overall goals and objectives must be tied to a strategic plan and linked to an organization’s performance measurement and reward system. It is also helpful to have an underlying set of core values to guide one’s actions.

Successful change depends on effective and ongoing two-way communication. It has to be frequent, and the central message has to be consistent at all organizational levels. Listening and responding to employees’ comments and concerns are particularly important during a time of change. Getting direct opinions from troops, whether uniformed or not, will be essential.

In the final analysis, whether it is government, private industry or the nonprofit sector, the keys to maximizing performance and ensuring accountability are people, process, partnerships, technology and environment. Of these, the most important element by far is people—often referred to as “human capital.” Unless the Defense Department attracts, motivates and retains a qualified workforce,
nothing else matters. Superior equipment and computers by themselves do not provide an edge on the battlefield.

An effective human capital strategy is at the heart of any transformation effort. Human capital efforts, whether at the Defense Department or elsewhere, should have four goals: to make the best use of employee skills and abilities; to clearly link performance and recognition at the institutional, unit and individual level; to provide meaningful incentives for high performance; and to deal with non-performers. Although recent human capital initiatives will provide the military with much-needed personnel flexibilities, adequate safeguards to prevent abuse also are essential.

Ultimately, success also depends on having effective, committed and sustained leadership that emphasizes integrity and innovation. Transforming the Defense Department will require leadership that transcends a single person or a term of office. A broad-based and long-term perspective will be crucial.

*David M. Walker is comptroller general of the United States.*