

Chapter 1

Introduction

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The American way of war relies heavily on technology. Media coverage of recent wars has focused national attention on the machines of modern combat: precision-guided weapons, stealth airplanes, unmanned aerial vehicles, satellites, computers, and other high-tech systems. But focusing attention on the tools of war makes it easy to lose sight of the fact that the key to military success is the nation's men and women in uniform. Without dedicated, motivated, able, and well-trained troops, U.S. investments in military hardware are wasted.

Since the elimination of the draft in 1973, every person who serves in the U.S. military is a volunteer. Military pay and benefits and the personnel policies that underpin them are crucial to the Defense Department's ability to fill the ranks with the qualified volunteers it needs; they lie at the heart of America's combat power. Yet the nation inherited most of today's policies from an earlier era: before conscription ended, before the vast social changes of the past three decades, before the fundamental restructuring of American business of the past two decades, and before the information age, the end of the Cold War, and the war on terrorism ushered in a new set of challenges and technological opportunities for the U.S. military.

Especially since the terrorist attacks of September 11, 2001, the future the U.S. military faces has become more complicated and uncertain. Fundamental changes in the national security environment have profoundly altered the landscape of military operations. The way the nation thinks about and uses its Guard and Reserve has changed dramatically. But the military's pay and personnel policies are still geared largely toward a force to fight a repetition of World War II.

Policies inherited from the past are also out of step with the modern marketplace and society in which the military must seek its volunteer members. Inflexible pay scales blunt the services' capacity to compete for people who have attractive alternatives in the private sector. Increasing numbers of young people choose to go to college or technical school after graduating from high school, yet current pay policies make it hard to attract and reward recruits who already have a two-year technical degree or other valuable training and experience. More than half the spouses of military members are employed in the labor force, yet crucial systems for supporting military families still take their volunteer efforts as a given.

On the surface, it may appear that all is well: the U.S. military is by far the strongest in the world. Its achievements in wars abroad and emergencies at home reveal a capable, disciplined, well-trained, motivated force ready to take on the duties the country asks of it. Recent successes, however, belie problems that brew under the surface, as the armed services try to stretch twentieth-century compensation systems to cope with twenty-first century realities. If not corrected, these problems will multiply in the future, as today's young recruits and officers become tomorrow's leaders and as the military takes up new challenges and opportunities. For the military as an institution, for the members who serve, and for the taxpayers who foot the bill, it is critical that they be corrected.

For example, although the military currently has all the active-duty people it is allowed, its mix of skills is badly out of kilter. On average between 1999 and 2002, the services had shortages in about 30 percent of their occupations, while they were overstaffed in 40 percent.¹ There are also big problems in some ranks. Retention of captains in the Army is so poor that the service has resorted to hiring extra lieutenants and rushing them to promotion a year early, whether or not they are qualified.²

1. Congressional Budget Office (CBO), *Budget Options* (Washington, D.C.: CBO, March 2003), p. 36.

2. A compelling analysis by a former Army captain, now at the Institute for Defense Analyses, is Mark R. Lewis, "Army Transformation, The Exodus, and the Cycle of Decay," unpublished article (copyright Mark R. Lewis), December

The problems caused by the military's outmoded personnel systems rose to the surface in 1998, when a booming economy, coupled with the end of the military's post-Cold War downsizing, led to overall personnel shortages and staffing imbalances across occupations within the armed services. As the downsizing ended, military recruiters, newly tasked with stepping up the flow of enlistments after several years of limited requirements, missed their targets by thousands.³ At the same time, serving members—unhappy with their careers, wary of the military's post-Cold War missions, dissatisfied with their leadership, and finding better economic opportunities in the booming private sector—left the military in numbers greater than usual. Those with the best opportunities on the outside, such as information specialists, highly skilled technicians, pilots, engineers, and scientists, exited in the greatest numbers, leaving the services with wide gaps in the very skills that their high-technology future depends upon.⁴ The result was personnel shortages, especially in critical occupations across the force, overwork for those who remained, and a widely reported downward cycle of frustration and exodus. We are fortunate that the nation was not involved in a significant war at the time.

The principal response of the service chiefs was to call for more money, but not money targeted at specific shortages; instead it called for large, across-the-board pay raises and enriched retirement benefits.⁵ In what seemed like a race to take the issue off the political table, Congress

31, 2002; interview with Lt. General Richard G. Trefry, U.S. Army (ret.), Army Force Management School, Ft. Belvoir, Virginia, May 15, 2003.

3. General Accounting Office (GAO), *Military Personnel: Services Need to Assess Efforts to Meet Recruiting Goals and Cut Attrition* (GAO/NSIAD-00-146, June 2000), p. 5.

4. Enlisted retention problems were most severe in communications and intelligence and electrical and mechanical equipment repair. General Accounting Office, *Military Personnel: Systematic Analyses Needed to Monitor Retention in Key Careers and Occupations* (GAO/NSIAD-00-60, March 8, 2000). For officers, they were worst among pilots, scientists, engineers, and communication and computer system officers. See Beth Asch, James R. Hosek, et al., *Military Recruiting and Retention After the Fiscal Year 2000 Military Pay Legislation* (Santa Monica, Calif.: RAND, 2002), p. xix.

5. Testimony of General Henry Shelton, Chairman of the Joint Chiefs of Staff, before the Senate Armed Services Committee, September 29, 1998.

and the Clinton administration complied. Within the space of a few years, they awarded pay raises substantially higher than those in the private sector, granted an expensive new health care entitlement for Medicare-age military retirees, increased the pensions of future military retirees who joined up after 1986 (thereby reversing the only military pay reform of the previous two decades), and poured money into military housing and housing allowances.⁶

In just five years, annual Defense Department spending for military pay and benefits jumped by 32 percent, even though the services dropped some 17,000 people from active duty and 16,000 from the reserves.⁷ (The consumer price index advanced only 13 percent over that period.) The nation's total annual cost of military personnel is now about \$140 billion—roughly \$100,000 per active-duty member.

The significance of that expense to taxpayers is obvious. Perhaps less obvious is the magnitude of the problem it poses for the military itself as the nation makes increasing demands upon its people in uniform. For example, in October 2003—with nearly half of the Army's active-duty combat brigades still serving in Iraq, 170,000 reservists called to active duty, and facing mounting evidence of overstretch and deteriorating morale, Congress tried to add 10,000 soldiers to the active-duty Army, but Secretary of Defense Donald Rumsfeld opposed the modest expansion, citing the enormous cost.⁸ In other words, whatever the consequences of the current overstretch, soldiers have become too expensive to hire.

6. Some money was added to selective reenlistment bonuses, traditionally meant to reduce staffing imbalances. However, by expanding bonus coverage to more occupations and individuals rather than targeting specific problems, the services watered down the potential for alleviating imbalances. By 2001, the Air Force gave reenlistment bonuses in 80 percent of its specialties. The program looked more like an across-the-board windfall than a selective bonus. See General Accounting Office, *Military Personnel: Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement*, November 2002, pp. 6, 11.

7. Such an increase amounts to a permanent hike in military spending. Unlike spending for equipment, it cannot be reversed by a decision a few years from now to cancel a shipbuilding program or do with fewer airplanes.

8. U.S. Department of Defense News Release, "National Guard and Reserve Mobilized as of September 24, 2003," September 24, 2003; David Josar, "Voices on the ground: Stars and Stripes surveys troops on morale in Iraq," *Stars and*

To avoid the high costs, the nation is turning increasingly to contractors to fill military roles. For many activities, outsourcing is a healthy choice.⁹ In fact, by relying more on contractors, the Defense Department could reduce the number of specialists in uniform whose opportunities in the outside labor market strain the military pay system. Such reductions could lead to a rebalancing of the force in favor of personnel whose main jobs are combat or closely related to combat, as Secretary Rumsfeld suggested in his legislative proposal to Congress in the spring of 2003.¹⁰

On the other hand, turning key jobs over to contractors can raise serious concerns on the battlefield. By some counts, the ratio of private-sector personnel to soldiers in the theater rose from one in one hundred, in the Gulf War of 1991, to one in ten in the Iraq War of 2003.¹¹ The failure of contractors to deliver as promised posed serious problems for U.S. troops in Iraq.¹² Moreover, having so many civilians on the battlefield raises issues such as who gives them orders, whether they can carry arms, whether they may leave at will when the fighting gets tough, whether they should be treated as prisoners of war if they are

Stripes European edition, Wednesday, October 15, 2003; Amy Svitak, "Rumsfeld Wades Into Senate Fray over Army Troop Strength," *National Journal's Congress Daily/AM*, October 17, 2003.

9. The private sector offers a competitive marketplace for facilities upkeep, accounting, jet engine repair, and pediatric medical care, among other things. During the 1990s, the Defense Department outsourced some of those activities, and more could still be done. Cindy Williams, "Holding the Line on Infrastructure Spending," in Cindy Williams ed., *Holding the Line: U.S. Defense Alternatives for the Early 21st Century* (Cambridge, Mass.: The MIT Press, 2001), pp. 55–77.

10. Under the proposal, up to 320,000 military jobs would be turned over to civilians, leaving an equivalent number of extra military slots for combat or national security jobs. See Christopher Lee, "Rumsfeld Urges Overhaul of Pentagon Civil Service," *Washington Post*, April 22, 2003.

11. Peter W. Singer, "Corporate Warriors: The Rise of the Privatized Military Industry and Its Ramifications," *International Security*, Vol. 26, No. 3 (Winter 2001/02); Nelson D. Schwartz, "The War Business," *Fortune*, March 3, 2003.

12. David Wood, "Some of Army's Civilian Contractors Are No-Shows in Iraq," *Newhouse News Service*, July 31, 2003.

captured, and who provides medical care if they are injured.¹³ Such problems cannot be solved by adding money; in fact, increasing military pay and benefits can complicate the situation by making troops even more expensive relative to contractors.

In the context of a deteriorating economy (which always favors military recruiting and retention, because opportunities outside the military are less plentiful and attractive than in boom times), the large infusions of cash between 1998 and 2003 helped to boost the military out of its broadest problems. By 2003, overall recruiting and retention bounced back.¹⁴ Yet much of the new spending has little chance of solving the underlying problems that caused the crisis in the first place. More troubling, some of it creates incentives that are likely to exacerbate those problems now and in the future.

Among other things, improving things based upon the theory that “a rising tide lifts all boats” failed to address the crucial problem of staffing imbalances. As a result, problems persisted in keeping those who had the greatest opportunities on the outside—those whose retention was the most problematic to begin with. Rather than fix the problems of skill imbalances across the force, the one-size-fits-all remedies may have exacerbated them by raising the incentives for people with the least valuable skills to stay in the military well past the period when their low-tech contributions are most useful and their physical contributions at their peak, while falling well short of expectations for those who have the most outside possibilities.

Problems brewing beneath the surface of an all-volunteer force may seem acceptable during peacetime. When lives and military outcomes are not immediately at stake, it may seem as if the nation can buy its way out of problems as they materialize, tweaking things here and there to accommodate the challenges of raising and maintaining a strong

13. Deborah Avant, “Privatizing Military Training: A Challenge to U.S. Army Professionalism?” in Don M. Snider and Gayle L. Watkins, eds., *The Future of the Army Profession* (Boston: McGraw Hill, 2002); Schwartz, “The War Business.”

14. While extra pay and benefits played a part in the turnaround, their contributions were not large compared with other factors, such as the economic downturn, a rise in private-sector unemployment, and possibly the boost in patriotism following September 11, 2001. See Asch, Hosek, et al., *Military Recruiting and Retention After the Fiscal Year 2000 Military Pay Legislation*, pp. 10, 31–34.

force, and adapting as best it can as things change. But in wartime, even modest setbacks in filling the ranks with the right people can ripple rapidly through the force and its leadership, increasing the risks to fielded troops and making it more difficult for them to achieve their military aims.

As of autumn 2003, 180,000 U.S. servicemembers were deployed in Iraq or supporting the Iraqi occupation from neighboring countries. Retaining a stabilization force of that size beyond March 2004 would require a sizeable expansion of the Army; knowledgeable experts argue that achieving stability in Iraq will require an even larger force.¹⁵ A slow economy, high unemployment, and patriotic spirit have kept recruiting and retention at the levels needed for today's force. But what will happen if the economy heats up, offering young people greater opportunities in the private sector? What if the information sector of the economy, or another area key to military outcomes, heats up rapidly, drawing critical specialists away from the military when it most needs them? If at the same time the Defense Department must expand the size of the force, the trouble in filling the ranks could dwarf the problems of the late 1990s. One thing is certain: clinging to archaic personnel policies will make it more difficult to maintain an effective and responsive all-volunteer force in the face of the wars and occupations and the expanded role in domestic security that may be the future of the U.S. military.

The personnel crisis of the 1990s stretched the web of personnel policies and systems to its limits. Dealing with it squandered the time and attention of the nation's senior military and civilian leaders, cost taxpayers substantial sums, and took a toll on the morale of many front-line troops. It will continue to take a toll in the future as the services try to capitalize on emerging technologies and transform the way they operate, to rebalance their distributions of skills and experience levels and cope with the lack of people who might otherwise have been their future leaders.

To develop the modern and flexible systems and policies that the nation needs, it must undertake an integrated reassessment of the tangible

15. Congressional Budget Office, *An Analysis of the U.S. Military's Ability to Sustain an Occupation of Iraq*, September 3, 2003. James T. Quinlivan, "Burden of Victory: The Painful Arithmetic of Stability," *RAND Review*, Vol. 27, No. 2 (Summer 2003).

rewards for service and the policies and structures that surround them. This book offers that reassessment.

This is not a book about saving money; rather it is a book about transforming the personnel system in consonance with ongoing transformations in military operations and technology, thus harvesting the maximum combat power from the money the nation spends. Most of its recommendations are offered as part of cost-neutral packages: the savings from one recommendation can offset the added costs of another. (Although a few of them might add to costs, the additions would be relatively small.)

The central purpose of the book's recommendations is to improve the long-term effectiveness of the incentives the nation offers to its men and women in uniform—effectiveness first and foremost in terms of military outcomes, but also in terms of career satisfaction, sound leadership, and competitiveness in labor markets. Such improvements might also save money in the long run by averting the crises that could cause national leaders to panic and throw money at piecemeal, inappropriate, and fundamentally ineffective solutions.

The remainder of this chapter begins with a sketch of the history of key policies related to military pay, benefits, and concepts of the military career. It continues with a brief look at today's military people and the policies under which they serve. It then introduces the main problems addressed in the book. It ends with a short tour of the book.

How We Got to Where We Are

Some U.S. military personnel policies, such as the basic hierarchy of the ranks and notions of pay in kind, have their roots in centuries-old European tradition, while others stem from the U.S. Civil War, but most were established at the end of World War II by the Officer Personnel Act of 1947 (OPA 47).

For the United States, World War II was the last war of mass mobilization, which coupled the muscle of a vast conscript force with the powerful engine of American industrial strength to produce the military might needed for warfare on a massive scale. The decisions reflected in OPA 47 came in response to problems that the services experienced dur-

ing that mobilization, and also to the particular challenges of the post-war demobilization.¹⁶

OPA 47 established the basics of the current military retirement system, and put in place a system of rules (called up-or-out rules or high year-of-tenure rules) requiring people to leave the service if they are not promoted in a timely fashion. It centralized authority within each service for rotating officers from job to job and moving them through the ranks. It set up an overall structure for the officer corps that allowed for large cadres of career officers in the middle ranks to lead the units that would be filled with conscripts if the nation mobilized for war. For officers, the system was designed to favor generalists over specialists.

By the early 1950s, however, the Cold War was underway, and the nation abandoned the mass mobilization strategy in favor of a doctrine of massive retaliation underwritten by a growing arsenal of strategic and tactical nuclear weapons. The United States scaled back the size of the armed forces and also dramatically reduced the capacity of the government's military-industrial holdings. Nevertheless, the personnel policies customized for the old mobilization strategy remained unchanged. Meanwhile, the military greatly expanded the infrastructure to support those policies, including on-base housing, retail stores, and hospitals.

The transition from a conscript military to the all-volunteer force in 1973 was accompanied by a revolution in military training, especially in the Army. To make military life attractive to volunteers, the Defense Department undertook widespread reform of some of its more annoying traditions that offered little in terms of real military strength (such as rising at reveille whether or not there was a duty to be performed so

16. During the war, the services had found their cadres of mid-level officers far too small for the responsibility that landed on their shoulders to train and lead the massively expanded forces required upon mobilization. Fearing a repeat of the disorder that large-scale mobilization could bring, the service chiefs sought through OPA 47 to expand the middle ranks with officers who could lead a much larger force if necessary. See Edward N. Luttwak, *The Pentagon and the Art of War* (New York: Simon and Schuster/Institute for Contemporary Studies, 1984), Chapters 6 and 7; John C.F. Tillson, "It's the Personnel System," in Donald E. Vandergriff, ed., *Spirit, Blood, and Treasure* (Novato, Calif.: Presidio Press, 2001), Chapter 4.

early). There were some adjustments in reward and management systems: higher starting pay to attract recruits, increased emphasis on careers and educational programs, and a greater focus on the needs of families. In most ways, however, personnel systems still bore a strong resemblance to those adopted at the end of World War II.

The end of the Cold War and the terrorist attacks of September 11, 2001, transformed the strategic landscape.¹⁷ The Department of Defense and all four services now embrace ambitious plans to revolutionize the way wars are fought and reinvent their organizational structures. All seek to transform themselves to take more advantage of modern information systems and to rely less on the slow and heavy units and systems they have today.

In addition, since the 1940s, vast demographic, social, and economic changes in America mean that the supply side of the military personnel equation has become far different. America's youth are much more likely to enter college right after high school than the previous generation, and the earnings gap between those who go to college and those who do not has widened dramatically. The generation that fought in World War II is passing away, and growing numbers of young people thus have no close connection to people who have served in the military. A growing share of the U.S. population was born abroad, and English is the second language for increasing numbers of Americans. Women participate in the work force in far greater numbers, and military spouses are substantially more likely to work outside the home than they were. Individuals' expectations about careers and professions have also changed with growing labor mobility and corporate restructuring.¹⁸

Despite those enormous changes in the military setting, there has been virtually no change in the system of tangible rewards for military

17. Andrew Krepinevich, "The Changing Strategic Landscape," supporting paper for this project, April 2003. In addition, see Steven Kosiak, Andrew Krepinevich, and Michael Vickers, *A Strategy for a Long Peace* (Washington, D.C.: Center for Strategic and Budgetary Assessments [CSBA], January 30, 2001); Williams, *Holding the Line*.

18. William Butz, "The Supply Side: America's Future Demographic and Economic Landscape," supporting paper for this project, April 2003; and review comments by James Hosek.

service. Even the recruitment and retention problems of the late 1990s spurred very little change in the underlying system.

Where Things Stand Today

Even after shrinking by about one-third at the close of the Cold War, the military is the largest employer in the United States. Nearly 1.4 million men and women serve in the active-duty forces today. Another 1.2 million serve in the reserve components.¹⁹ In addition, the Defense Department employs some 650,000 civilians for jobs ranging from maintenance and clerical work to the high-level leadership in the Pentagon.²⁰

Commissioned officers, who typically have at least a four-year college degree, make up about 15 percent of the active force; enlisted members, typically high school graduates who increasingly have some college experience, comprise about 84 percent. Warrant officers, usually senior technicians or specialists who do not take on the command responsibilities of commissioned officers, constitute the remaining one percent. Appendix A provides an overview of the numbers, to give the reader some feel for who those men and women are.

The nation needs capable people to join and stay in the military, work hard, and accept the travails of military life. It must also motivate people to leave when their services are no longer desired: to trim the least capable from the force, to put young people into jobs where youth is an important factor, to create opportunities for others to move up, and to keep military service from becoming a sinecure. To achieve those ends, the government provides a wide variety of tangible rewards and incentives. They include monthly pay, government-provided housing and meals, or an allowance toward the cost of obtaining them from the private sector, and benefits including health care, child care, and government-subsidized groceries. In addition, the government provides health, educational, and other benefits for veterans and a generous re-

19. The DoD reserve components include the Army and Air National Guard and the Army, Naval, Marine Corps, and Air Force Reserves. Of the 1.2 million reservists, about 880,000 are in the Selected Reserve and paid to train or work. The remainder are in the Individual Ready Reserve.

20. This book focuses on people in uniform; it does not examine policies related to civilian DoD employees.

irement pension and health care benefit for those who serve for twenty years or more. The military also offers its members training in skills that will be valuable in the private sector.

Of course, the military is not just any employer subject to the economic tugs of the marketplace. Members entering the military join a unique profession with its own special traditions and expertise. For many who serve, tangible rewards such as pay and benefits may seem less important than intangible incentives such as patriotism, a shared sense of purpose, group solidarity, and a sense of calling. As important as those intangible rewards may be, however, pay and benefits are crucial incentives. For example, a 1999 survey of officers and enlisted people found that compensation was a key decision factor both for people thinking about staying in the military and for those considering leaving.²¹

Getting the tangible rewards right is critically important from a fiscal point of view. In 2002, the Defense Department spent more than \$100 billion on pay and benefits for military personnel and retirees, an amount that accounted for roughly 30 percent of the Defense Department's entire \$346 billion budget and was about as much as it spent to develop and purchase military equipment. In addition to those elements that are part of the Defense Department's budget, veterans' health care and other benefits, and the tax advantage to servicemembers on part of their compensation, cost the nation another \$33 billion. This brings the total annual cost of supporting military personnel to about \$140 billion, more than three times as much as today's total federal spending for homeland security.

The wars in Afghanistan and Iraq in 2001–03 provided a glimpse into the extraordinary diversity of skills the military will need to fight the wars of the future. Special forces and infantry troops, tank and artillery crews, helicopter and fighter pilots, and their commanding officers conducted combat operations. Aircraft and ship mechanics, computer network managers, communications experts, space system operators, and other high-tech specialists supported the fight. So did large numbers of people in other occupations such as cooks, truck drivers, stock clerks, purchasing officers, financial experts, and payroll specialists. Other specialists also served in supporting roles, including doctors,

21. General Accounting Office, *Military Personnel: Preliminary Results of DoD's 1999 Survey of Active Duty Members* (GAO/T-NSIAD-00-110, March 8, 2000).

lawyers, clergy, unmanned aerial vehicle controllers, and tanker and transport pilots.

Images of future transformation have profound implications for the people of tomorrow's military. On the battlefield, the wars of the future will require that lower-ranking officers and enlisted personnel have greater technological expertise, and will place far greater responsibility on their shoulders. Future fights will also require experienced, technically savvy people to maintain high-tech equipment, manage computer networks, and troubleshoot command and control systems. Bringing to fruition the technological innovations that enable the new ways of fighting will also mean devolving and distributing authority across a cadre of acquisition personnel who must be highly innovative and adaptive, able to see problems coming, explore new technologies, and develop creative solutions. At the same time, however, the services are still likely to need people in a host of relatively unskilled occupations.

It has never been easy to attract and keep a force of great occupational diversity and to shape careers in a way that benefits the individual member and at the same time serves the interests of the military as an institution. Doing so with today's inflexible pay and personnel systems, in the strategic, demographic, labor, and economic context of tomorrow, will be all but impossible.

Early in the Bush administration, Secretary of Defense Donald Rumsfeld signaled his intent to reform military and civilian personnel policies in the Defense Department. A key department review panel led by Admiral David Jeremiah (ret.) during spring 2001 called for fundamental change.²² David S.C. Chu, the undersecretary of defense for personnel and readiness, made personnel system modernization a key item on his agenda. In the spring of 2003, Secretary Rumsfeld sent Congress a legislative proposal for sweeping reform of pay and personnel policies for the Pentagon's civilian workforce that included some military personnel reforms. Independent panels and experts have also called for reform.²³

22. Admiral David Jeremiah (ret.), Department of Defense News Transcript, "Special DoD News Briefing on Morale and Quality of Life," June 13, 2001.

23. See, for example, David S.C. Chu and John P. White, "Ensuring Quality People in Defense," in Ashton B. Carter and John P. White, eds., *Keeping the Edge: Managing Defense for the Future* (Cambridge, Mass.: MIT Press, 2001); The

Unfortunately, as history shows, change will not be easy: attempts to reform military personnel policies encounter obstacles rooted in tradition, institutional culture, and politics. The emotionally charged nature of pay and benefits and the wide variety and influence of stakeholders make personnel policies particularly difficult to change. Past efforts at reform have generally met with failure; the retirement reform of 1986, for example, was difficult to institute and ultimately overturned. Nevertheless, change is critical.

Problems with Today's Policies

This section explores the key problems that are addressed in later chapters. The discussion highlights problems in eight areas:

- outmoded expectations for enlisted recruits;
- short and inflexible officer career paths;
- an outdated and inflexible retirement system and tenure rules;
- too little variation in cash pay;
- counterproductive assignment mechanisms;
- continued Cold War policies in a vastly changed Guard and Reserve;
- the cost-ineffective hodge-podge of goods and services provided to members as part of the compensation package; and
- outdated and fragmented delivery of support and services to military families.

The remainder of this section briefly outlines the nature of each of these problems.

IMAGES OF THE ENLISTED RECRUIT ARE OUT OF DATE

Recruiting mechanisms, entry levels, pay scales, and career paths for the active-duty enlisted force are all built around the notion that those en-

United States Commission on National Security/21st Century, *Road Map for National Security: Imperative for Change; The Phase III Report*, February 15, 2001.

tering the force are high school graduates with no post-secondary education or experience, looking to the military for training in an occupational specialty. Recruiters often shy away from college campuses, and their sales pitch emphasizes the value of the training the military can provide. Recruits enter at the lowest rank—private in the Army, airman basic in the Air Force—and their starting pay is largely unaffected by prior training or experience. (See Appendix B for a display of ranks and pay grades in the four services.) The military generally assumes that its recruits are blank slates, and runs its own schools to train welders, dental technicians, machinists, broadcast experts, graphic designers, laboratory technicians, drafting specialists, computer programmers, electricians, computer equipment repairers, court reporters, and a host of others.

However, an increasing number of America's young people go on to college or technical school after graduating from high school. Many of them could thereafter bring valuable skills to the enlisted force, but rigid entry pay structures can make it difficult to entice them to serve. Clinging to a vast training infrastructure designed for another time compounds the problem. Updated pay and training policies are called for.

CONCEPTS OF THE OFFICER CAREER ARE NOT FLEXIBLE ENOUGH

Compared with career patterns in other militaries, the American officer career is quite short. Because the retirement system offers a generous and immediate pension after twenty years of service, most career officers depart when they are still in their early forties. But fitting all the jobs expected of an officer into such a short career can be an enormous challenge. The Goldwater-Nichols Act of 1986 exacerbated the problem by requiring officers to serve for several years in joint positions in order to be considered for promotion to general or admiral; such joint duty can cut heavily into the time an officer has to take up all the other positions expected in a career.

Outmoded, inflexible policies lead to another problem for the military: officer turbulence. Under mobilization-motivated rules derived from OPA 47, the military keeps far more officers in the middle ranks than are required to lead the number of units in the force. Yet most of them are expected to serve in specific positions at increasing levels of command in order to have a reasonable expectation of being promoted. As a result, there are always too many people chasing those few posi-

tions. To ensure that as many people as possible get a chance at those jobs, the services rotate people through them as quickly as possible. The resulting turbulence makes nearly everyone unhappy: officers who want the opportunity to lead find their command tours cut short to give others a chance at key jobs; officer specialists who would rather spend time in their specialty areas typically must take up command assignments to be promoted; their families are disrupted by frequent moves; and enlisted people must constantly adapt to changes in leadership.²⁴

Short, inflexible careers are already causing serious problems. For example, Army retention figures for captains plummeted in recent years at least in part because of turbulence in assignments and dissatisfaction with the rotation system.²⁵ We risk a decline in the quality of a generation of future military leaders as a result.²⁶ Problems stemming from today's officer career paths will grow as the armed forces seek to transform the way they fight.²⁷

THE RETIREMENT SYSTEM AND TENURE RULES ARE OUTDATED AND INFLEXIBLE

Today's retirement system, which also dates to OPA 47, in many ways resembles the pension schemes of state governments or large private firms of the mid-twentieth century. The system provides an immediate lifetime annuity for servicemembers who stay on active duty for at least twenty years. Those who leave before twenty years receive no pension. The retirement system serves as an old-age benefit for those who be-

24. Luttwak, *The Pentagon and the Art of War*, Chapter 6; Tillson, "It's the Personnel System." Secretary of Defense Donald Rumsfeld put the problem of officer career turbulence for the most senior officers at the top of his agenda. His spring 2003 legislative package would lengthen the time senior officers spend in key jobs, end mandatory retirement of generals and admirals, and increase retirement pay for those who serve beyond 30 years.

25. John Tillson, "Reducing the Impact of Tempo," briefing, Institute for Defense Analyses, January 23, 2003; Mark R. Lewis, "Army Transformation, The Exodus, and the Cycle of Decay," unpublished article (copyright Mark R. Lewis), December 31, 2002; interview with Lt. General Trefry.

26. Lewis, "Army Transformation, The Exodus, and the Cycle of Decay."

27. Such reforms as the Army's Officer Personnel Management System XXI (OPMS XXI) address some of the problems, but do not go far enough.

come entitled to it, and also as a retention tool, a generous incentive for people to stay in until the twenty-year point. Then, however, because the pension begins immediately upon retirement, it is a major incentive for members to leave.²⁸ The system stands in stark contrast to the flexible, portable, early-vesting systems of today's corporate world or even of the Defense Department's civilian workforce.

In addition to the carrot of retirement, the services have a stick they can use to force members to leave: "up-or-out" rules that require individuals to quit active duty if they are not promoted according to a fairly rigid schedule.²⁹ (Appendix C displays the current up-or-out points for enlisted members.) The retirement system and the up-or-out rules are meant to work together as a force management tool: up-or-out rules permit the services to remove members not suited for higher-level positions, and at the same time to manage the size of the cohort at each rank. The retirement system induces people who survive the up-or-out system to stay in for twenty years, but also rewards them generously for leaving at that point, so that younger members can move up to take their places. Unfortunately, however, both the up-or-out rules and the retirement system are unduly rigid: they induce members to stay or leave without regard to occupation or skill, or how much (or little) the service may need them.

For obvious reasons, the services put a higher premium on youth and vigor in some occupational areas than in others, while evidence from the private sector shows that people with technical skills become increasingly valuable as they gain experience, and those in low-technology occupations typically do not. However, today's policies make no distinction between an infantry soldier, whose youth can be an extremely desirable asset, and a computer network troubleshooter, whose skill generally continues to grow with experience. In fact, the in-

28. Beth J. Asch and John T. Warner, "Should the Military Retirement System be Reformed?" in J. Eric Fredland, Curtis Gilroy, Roger D. Little, and W.S. Sellman, *Professionals on the Front Line: Two Decades of the All-Volunteer Force* (Washington, D.C.: Brassey's, 1996).

29. For the officer corps, the up-or-out rules are embodied in law and stem from OPA 47. For the enlisted force, they are set by the service secretaries. "Up-or-out" policies for enlisted people go by different names in the official lexicons of the services; for example, "retention control point" in the Army and "high year of tenure" in the Air Force.

centive structure created by the retirement system works against the best interests of the services: the infantry soldier has fewer prospects on the outside than the network troubleshooter, and is therefore more likely to see staying in the military for twenty years as an attractive option. Thus, retirement and up-or-out policies that treat people the same regardless of occupation cause the military to keep many people after they should leave, and to lose others just as their expertise becomes most useful.³⁰ A new, more flexible model is needed.

THERE IS TOO LITTLE VARIATION IN CASH PAY

With some notable exceptions, a servicemember's cash pay does not depend on his or her occupation. Rather, it is determined largely based upon rank, length of service, family status (whether he or she is married or has children), and location of work. The rigidity of the pay structure can make it difficult to reward individuals whose skills would bring top dollar in the private sector or whose contributions inside the military are particularly critical without also, at great expense, increasing the pay of all servicemembers.

The myths surrounding cash pay are many. For example, it is conventional wisdom that paychecks are the same for all members of a given rank and year group. In fact, the paychecks of any two members who entered in the same year, have the same rank, and are serving side-by-side are unlikely to be equal. Their paychecks can differ, for example, because one is single and the other married; because one lives in military housing and the other rents an apartment in the private sector; because one receives a reenlistment bonus or special pay for a duty or skill that the other lacks. What is the same for both of them is "basic pay," an amount set annually by law and displayed for all to see in a pay table organized by rank and years of service. The openly displayed pay table allows the services to preserve the myth that everyone earns the same amount.

Traditionalists argue that one-size-fits-all pay creates a sense of equity that leads to organizational solidarity. They also say that varying pay according to skill or performance could erode good order and dis-

30. See Chapter 6 by Donald Cymrot and Michael Hansen. See also Beth J. Asch and John T. Warner, "Should the Military Retirement System be Reformed?" in Fredland, et al., *Professionals on the Front Line*.

cipline by putting more money in the pockets of subordinates than of their superiors. Existing bonus programs contradict those myths, however. For example, on a Navy submarine, reenlistment bonuses can put thousands of dollars more per year in the pocket of a nuclear electronic technician than a mess specialist, yet the two work in close quarters and face the same dangers, with no apparent lack of solidarity or discipline.

Concerns about internal pay equity and pay compression arise in private firms too. Nevertheless, the private sector typically pays competitive wages to valuable employees rather than risk having them hired away by other firms, even if that means those employees earn more than their coworkers or more than the boss. As a result, there is much more variation in pay within private-sector firms than in the military.³¹

Bonuses and special pays make for some pay separation across occupations. As currently used, however, bonuses and special pays comprise only a tiny fraction of the total tangible incentives provided to servicemembers, and most are concentrated in a very few specialties, such as medicine, aviation, and Navy nuclear specialties.³² A particular shortcoming that is of increasing importance is a lack of special pays for information specialists, even though talented information specialists might earn twice as much or more on the outside as the cooks and clerical workers who take home the same military paychecks.³³ When rewards are that skewed in outside labor markets, the government cannot get the leverage to attract and keep people with the skills it will need in the future unless it can tailor more of its rewards.

ASSIGNMENT MECHANISMS CAUSE UNNECESSARY PROBLEMS

Although members volunteer for military service, they are assigned to duties according to the needs of the service. Typically, active-duty peo-

31. Beth J. Asch, James R. Hosek, and Craig W. Martin, *A Look at Cash Compensation for Active-Duty Military Personnel* (Santa Monica, Calif.: RAND, 2002), p. xv.

32. *Ibid.*, pp. 8–10.

33. For private-sector earnings, see the Bureau of Labor Statistics web site, <www.bls.gov>. Enlisted pay for an IT specialist is virtually identical to the average across other military occupations at every year of service. Asch, Hosek, and Martin, *A Look at Cash Compensation for Active-Duty Military Personnel*, p. 24.

ple are offered some choice in the matter. Nevertheless, all the jobs—even the dirtiest work in the least desirable locations—ultimately must be filled by somebody, and the least attractive ones are meted out by the services' assignment offices, sometimes coupled with informal promises that better positions will follow. Yet some people are more willing than others, or more able because of their family situations, to take on such duties, and might do so comfortably if offered appropriate financial incentives.

Today's assignment policies may be reducing motivation needlessly across the force and prompting good people to leave the service over being sent to jobs that others would have done willingly. A system that took greater advantage of individual preferences and that better tailored economic incentives to fill more assignments with volunteers could improve retention and motivation across the force.

POLICIES FOR THE GUARD AND RESERVE ARE STILL TUNED TO THE COLD WAR

After the Cold War ended, the nation transformed the way it uses the Guard and Reserve. Rather than a genuine reserve, to be tapped only in major emergencies, the reserve components (RC) have become a ready source of units and people for peacekeeping and humanitarian interventions. The events of September 11, 2001, ushered in another round of change. Today, the Guard and Reserve play key roles in homeland security, take over the stateside duties of deployed active forces, contribute to the occupation in Iraq, and more, while still training for major combat operations.

Since September 11, 2001, 300,000 members of the reserve component have been called to active duty at least once; more than 30,000 of them are into their second year of mobilization. The strain of long and frequent call-ups is reflected in lowered morale and is beginning to show up in recruiting shortfalls and in shortages of junior officers.³⁴ Nevertheless, even as

34. David Josar, "Voices on the ground: Stars and Stripes surveys troops on morale in Iraq," *Stars and Stripes* European edition, Wednesday, October 15, 2003; Dave Moniz, "Guard, Reserve short on recruits," *USA Today*, June 9, 2003; Dave Moniz, "Realities push Bush back to U.N.," *USA Today*, September 3, 2003; Major General Raymond F. Rees, "Prosecuting the Global War on Terrorism," *2004 National Guard Posture Statement*, <www.arng.army.mil/publications_resources/posture_statements/2004/index.html>.

the government calls increasingly upon the Guard and Reserve, a combination of laws and service policies create inappropriate incentives for individuals and decisionmakers. They also make things difficult for members of the reserve component and their families.

For example, members still earn more for a day of reserve training than they do for a day of active duty, making training time more financially attractive than active service. Bonuses and special pays, which could prop up recruiting and retention in hard-to-fill units and positions, are not widely used. Such skewed and insufficient incentives stand in the way of sustaining a reserve force that today shoulders more than its share of the burden of deployment. Other disparities in reserve compensation, such as housing allowances that accrue only when members are mobilized for more than 139 days or when they are deployed to contingency operations, can distort incentives for personnel managers trying to work with the system.

In addition, the structure of military benefits still presumes a reserve that trains part-time and is mobilized only rarely. As a result, when called to active duty, members often encounter transitional problems and extra expenses related to benefits such as health care. Those problems are especially hard on the families of reservists; if not fixed, they have serious implications for future morale and retention.

The Cold War mentality also applies to the basic model of reserve service and training. Increasingly, the old model of one weekend per month and two weeks in the summer does not apply. Some reservists need more training time or will be on active service for longer periods of time; others require less. Yet rigid compensation structures make it difficult to reward people appropriately along a continuum of service.

Not all of the RC's personnel problems can be fixed through changes in compensation policy. For example, by Cold War design, key Army support units—civil affairs and psychological operations, for example—are concentrated in the RC rather than the active Army. Those units are called up repeatedly, because their capabilities are in high demand. Similarly, RC units are typically outfitted with previous-generation equipment, handed down from the active forces when active units receive new gear. Such problems are best addressed through changes in force structure and equipment rotation or procurement policy. Nevertheless, changes in compensation policy could go a long way toward improving things.

GOODS AND SERVICES PROVIDED IN KIND ARE INEFFICIENT AND ILL-SUITED TO THE FUTURE FORCE

For many members of the military, goods and services provided directly by the government constitute an important part of total compensation. In-kind support and benefits include military housing, health care, subsidized groceries and child care, and educational benefits.

A large share of in-kind benefits are provided on large fixed military installations in the United States and abroad. To people who do not live on or near such an installation, the base-centered delivery of goods and services can seem unfair. More fundamentally, the concentration of services on large military bases is inconsistent with images of tomorrow's expeditionary military.

Goods and services provided in kind are an important part of today's military compensation package, but it typically costs the government substantially more to provide them than it would cost servicemembers to obtain them from the private sector. In addition, the dollar value of support provided in kind is often not apparent to servicemembers, making it difficult for them to see it as part of their compensation or to compare their earnings with remuneration in the private sector. Moreover, goods and services provided in kind restrict members' consumption choices to whatever the government makes available. As a result, in-kind support can blunt the effectiveness of the money the nation spends to attract and keep capable people.

Traditionalists argue that in-kind offerings are in some cases the only ones available to a military that is deployed globally and must sometimes operate and train in remote locations of the United States. But outside almost every U.S. base there is a vibrant, competitive private-sector market. It is argued that goods and services provided directly help create a sense of shared experience for a transient population and build a sense of belonging that bolsters organizational solidarity. Yet that same "company town" atmosphere can cut servicemembers off from the rest of America, a prospect that worries some observers who fear that a growing wall between military and civilian citizens may diminish recruitment and public support for the armed forces. Traditionalists argue that members and their families prefer living among military neighbors, shopping in special military stores, and so on. It is true that many families appreciate the benefits, even as they criticize their shortcomings, yet in recent surveys, military families placed little value on intangible benefits like having military neighbors, and revealed that economic fac-

tors overwhelmingly drive their housing and similar decisions.³⁵ Single members often chafe at the rules that require them to live in barracks and eat in mess halls. A growing body of evidence suggests that converting more compensation to cash and offering individuals greater choice about which benefits they receive could be more satisfactory for large numbers of military personnel, and might also help control costs in the future.

Unless changes are made, the costs of this part of military compensation will grow substantially as infrastructure ages. Moreover, aging infrastructure and imperfect provision of services will increasingly cause member discontent. One thing is certain: every dollar spent inefficiently on providing benefits that members discount is a dollar that will not be available for other compensation or for transforming the military in other ways.

DELIVERY OF FAMILY SERVICES IS FRAGMENTED AND OUT OF STEP WITH TODAY'S FORCE

About half of all servicemembers are married; nearly 60 percent have families. The Defense Department provides a wide array of goods and services to make military life attractive to families and to help them cope with the strains of military life, such as frequent household moves, absence of the servicemember on sea duty or deployment to war, and the possibility of injury, or death.

There is a troubling tension between deliberately making things more comfortable for the families of servicemembers and inadvertently creating incentives for single servicemembers to marry and have children. In an expeditionary military, life can be hard on families—especially young ones—and family obligations can compound the difficulties of military life for young recruits, which in turn may distract their commanders from core military duties.³⁶ Generous family benefits may, however, attract

35. Richard Buddin, Carole Roan Gresenz, et al., *An Evaluation of Housing Options for Military Families* (MR-1020-OSD) (Santa Monica, Calif.: RAND, 1999).

36. High rates of divorce and of leaving the service early for young married Marines and a high proportion of leaders' time spent on family issues prompted Marine Corps Commandant Gen. Carl E. Mundy in 1993 to call for an end to recruiting people with families. Although a storm of negative publicity caused him to reverse the order, the Marine Corps instituted programs to discourage

people who want to form families early and entice them to stay once they are in. Thus, enriching the benefits and making things easier for families can actually complicate things for both the families and the military. On the other hand, once the families are there, a failure to support them could interfere with the military mission and risk breaking a bond of trust between the nation and its servicemembers.

One problem with the goods and services provided to families is the evident unfairness to single members. Single members often complain that they do not benefit from family housing, child care, or commissaries, and that their housing allowances are lower than those of married people. Indeed, single people cost taxpayers less overall than those with families. They also leave the military earlier than those with families, perhaps because of dissatisfaction with their benefits.

Unfortunately, where family benefits are concerned, the lines between military necessity and attractive perquisite are often blurry. For example, some people argue that subsidized child care is critical to the missions of an expeditionary force; without it, a servicemember would worry about the children when he or she must deploy, or might even be prevented from deploying. On the other hand, much of the child care that the Defense Department subsidizes is used by office workers in uniform who are unlikely to deploy; for them it is a valuable fringe benefit, but not particularly related to the unique nature of military service.

Whatever the reasons for and the appropriate mix of family support services, the way the Defense Department delivers them today is out of step with today's realities. For example, although 70 percent of active-duty families and virtually all Guard and Reserve families live outside of military installations, most of the support offered to families is installation-centered. While military operations are increasingly carried out by the services working jointly, the delivery of family support is still typically service-specific. As a result, from the point of view of family members, help can seem disjointed, remote, and difficult to access. The

single marines from starting families. James Webb, "The Military is Not a Social Program," *New York Times*, August 18, 1993; Genilee Swope Parente, "Communicating Public Issues Has Many Challenges," IABC, *Washington Update* (Washington, D.C.: International Association of Business Communicators, August 1998), <iabdc.org/pages/n_update9808_2.html>; Susanne M. Schafer, "Yo Marines, Now Hear This: Marriage Can Be Tough," *South Coast Today*, July 5, 1998.

problem is particularly troublesome for the families of Guard and Reserve personnel, who may live nowhere near a large military installation, or for whom the nearest base may belong to a different service.

The services also rely on old-fashioned means of communicating and providing support. Rather than making information widely available through the Internet or brochures, the services often rely on word-of-mouth through a network of volunteers whose spouses serve together in a military unit. Yet, as in the rest of America, those spouses increasingly are not “stay-at-home moms,” but men and women with full-time jobs outside the home.

One of the most important problems faced by military families is that frequent moves can undermine career progression for military spouses. With more than half of military spouses working or seeking to work in the civilian labor force, spouses’ careers are important both for military family income and for satisfaction with military life. In addition, military families are increasingly concerned about the safety and educational environments in the public schools of the communities to which the military moves them. Such problems can have an impact on retention as members make future career decisions.

Change Will Not Be Easy

To solve the problems highlighted in the previous section, this book urges fundamental transformation of military career paths, retirement systems, pay, and benefits. Implementing its recommendations will make for a more agile and responsive military, better able to adapt to changes as they unfold in the future. As with other aspects of military transformation, however, institutional and political barriers stand in the way of change.

Transforming the policies related to the tangible rewards for service will require broad buy-in from numerous individuals and organizations with a stake in the current system: members of the military and their military leaders; military families, veterans, and retirees; firms that provide goods or services that make up part of the military pay and benefits package; associations that represent military people and families and that lobby on their behalf; civilian leaders and organizations in the Department of Defense and other offices of the executive branch; and members and committees of Congress, to name a few. The emotional

importance attached to pay for all Americans can be expected to make resistance to change especially fierce.

The recommendations offered in this book vary across a spectrum of time-urgency and difficulty; turning them into reality will require a combination of immediate action and sustained effort. Some of the proposals (for example those proposed for the reserve component by Glenn Gotz) fix near-term problems and should be relatively uncomplicated to implement, because leaders inside and outside the Pentagon already recognize the problems they address and may see the solutions offered as a clear win for everyone. Others, in contrast, such as Bernard Rostker's plan for a more stringent selection of mid-career officers and longer officer careers, would utterly transform the military. Such proposals will meet with tough institutional and political resistance, but they are worth pursuing for the important long-term advantages they offer.

In other aspects of military transformation, experimentation and analysis have proven to be crucial for evaluating solutions, reducing uncertainty regarding their effectiveness, surfacing unanticipated side-effects, securing the support of stakeholders, sustaining momentum for change, avoiding costly mistakes, and identifying and solving practical problems inherent in new systems and policies.³⁷ In this regard, military pay and personnel policies are no exception: an integrated program of experimentation, policy simulations, and other evaluative mechanisms can help light the path forward. Much has already been done. Surveys, experiments, simulations, and analyses already conducted by government agencies and by RAND, the CNA Corporation, the Institute for Defense Analyses, and others provide the analytical underpinnings for recommendations offered in this book. But additional work remains.

Because the fundamental, long-term reforms offered in this book can be undertaken over a period of years, there is, fortunately, time for experimentation and analysis to fill in any gaps in understanding about costs and effects, iron out the details of implementation, address practical problems and unexpected side-effects, and build consensus among key stakeholders.

37. Andrew F. Krepinevich, *Lighting the Path Ahead: Field Exercises and Transformation* (Washington, D.C.: CSBA, 2002); Naval Studies Board, *The Role of Experimentation in Building Future Naval Forces* (Washington, D.C.: National Academies Press, forthcoming).

Organization of the Book

This chapter is followed by Paul Hogan's overview of today's military personnel policies and the purposes they are meant to serve. Following it are two chapters that explore the setting in which the military will find itself during the first two decades of the twenty-first century: Owen Cote writes about the military landscape of the future and its implications for an important subset of the people that the military will need in the coming decades, while Thomas Strawn draws lessons for the military from the best practices in the private sector, with which the services must compete in the war for talent. Then Elizabeth Stanley-Mitchell looks at the linkages between tangible rewards such as pay and the less tangible ones such as patriotism, job satisfaction, group solidarity, and a shared sense of purpose.

Five chapters then address key issues in military personnel and pay policy. Donald Cymrot and Michael Hansen recommend overhauling enlisted careers and compensation; Bernard Rostker proposes a transformation of the officer personnel system; Glenn Gotz suggests restructuring reserve compensation; Carla Tighe Murray recommends transforming the way that in-kind pay and benefits are provided to servicemembers; and Joyce Wessel Raezer outlines a fundamental reform of the way services are delivered to military families.

The recommendations of those authors will not be easy to implement. The chapter by Diana Lien and Aline Quester, therefore, suggests a program of experimentation and assessment that can help light the way toward transformation. Chapters by Arnold Punaro and Stephen Rosen then identify some major obstacles that stand in the way of change, and both explore ways to overcome them.

The concluding chapter outlines the key recommendations for change and a blueprint for overcoming the obstacles to reform. Not all of the authors agree on every point, as the final chapter highlights. Taken together, however, the proposals in this book add up to an integrated plan for transforming U.S. military pay and personnel policies to suit the strategic, demographic, economic, and labor environments of the future.

America's military power depends on attracting, retaining, and motivating capable and dedicated men and women with a tremendous diversity of skills. Sound management principles and competing national interests dictate that leaders vigorously pursue innovative and cost-

effective ways to do that. The armed forces' future strength and adaptability will depend on the success of national leaders in reforming the systems and policies by which we reward and manage our men and women in uniform.