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The Challenges of the People Portfolio

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People, of course, are the central element of any military force. American policy statements highlight their importance:

The Department of Defense workforce: military—active, reserve, and National Guard—and civilian personnel are the foundation of the department and constitute its most valued asset.¹

While the people discussion typically focuses on active-duty military, it's actually a much broader portfolio, as the above quote emphasizes. Indeed, from a numerical perspective, the reserve components and federal civilian employees significantly outnumber active military. At the end of the last fiscal year, for example, 1.3 million people were serving on active duty with the five military services of the Department of Defense (DoD) versus 800,000 in the National Guard and selected reserve (i.e., those in units), 200,000 in the individual ready reserve, and 800,000 as appropriated-fund federal civilians, for a total of 1.8 million combined. Quite apart from those employed by firms manufacturing weapons for the DoD, additional civilians serve the department in a variety of arrangements, ranging from those working for nonappropriated funds to those engaged via service contracts.

The DoD personnel portfolio involves a rich variety of issues—and represents a considerable expense. Those employed directly by the DoD require nearly half of its budgetary resources, which makes controlling personnel costs essential to preserving the budget margin needed for investment. This paper focuses on several of the personnel issues most likely to affect the budget and where changes to current management paradigms might reduce explicit

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costs or do so through improved performance. This includes choosing the best mix of people and managing the incentives necessary to recruit, retain, and motivate them. The paper concludes with lessons from past attempts at change—those that succeeded and, equally important, those that failed.

The People Mix

It's remarkable how little of the discussion on the US defense budget involves trade-offs among the different types of personnel that might staff the enterprise. Their pay scales and fringe benefits differ, as do their potential contributions to the capabilities the country needs. Presumably, this implies there's an "optimal" combination, but you won't usually find defense budget justifications discussing personnel numbers from that perspective.

The "Trade Space"

Active military personnel are the most expensive per capita but are continuously on duty and available to protect the nation's interests. Reserve component personnel are substantially less expensive until called up but may require additional training investment upon mobilization. While active personnel are assumed to embody a higher level of readiness, reserve component personnel sometimes bring higher proficiency levels for certain skills than can easily be sustained for the active military, based on their civilian experience (e.g., civil affairs). The DoD acknowledges this in defending the decision to build these capacities in the reserves. Civilians provide a depth of experience and sustained effort that may be particularly effective in supporting operations. Unlike the military recruiting model (which assumes skills will be taught after joining, an important cost to the enterprise), it's generally assumed civilians will acquire the professional skills they need, at least in part, before their government appointment. Ignoring the "law of war" question and whether their appointment allows deployment and exposure to combat risks, civilians may be better suited to certain tasks than uniformed personnel. Staffing with federal civilians, however, may be more or less expensive (or more or less effective) than using contractor personnel. The several "outsourcing" competitions the DoD has run illuminate some of the situations where federal civilians are more expensive and others where they are less.

Whom Do We Want from Each Personnel Community?

Beyond the issue of personnel mix by type, there is also the question of the characteristics desired from the members of these personnel communities, which likewise will affect cost and performance. In contrast to the relative

silence about the broad mix issue, both Congress and the executive branch have been explicit in the quality standards they wish to set for military personnel, establishing minima and goals, especially for the enlisted ranks. The military services also specify the experience mix they desire in uniformed personnel, essentially a pyramid with a relatively large base. Rather than reflecting a choice based on analysis, some of this specificity may just be searching for a solution that is compatible with the constraints of a closed personnel system, in which virtually all personnel start at a junior level, progressing through a career via an up-or-out promotion mechanism, facing the incentive of what was until recently a cliff-vested annuity. Even with the recent annuity reform offering some retirement reward after two years of service, the retirement package retains a strong incentive to serve twenty years once the individual has completed ten years or so in uniform.

For federal civilians, a quite different paradigm governs the specification of personnel characteristics—a combination of what’s considered “normal” for each particular job series, an experience profile importantly influenced by the promotion practices associated with civil service grade schedules (i.e., often encouraging long tenure), and a decentralized approach to both deciding “requirements” and administering the “rules of the game.” In contrast to the uniformed military, for which the norms are quite clear, the civilian profile is thus a collage created by the decisions of lower-level executives. One important exception to this generalization is that the statutory requirement requires federal civilians to (usually) be US citizens. This is ironic, given that citizenship is not required for all uniformed personnel. They may enlist with a green card and sometimes less.

In contrast to federal civilians, the characteristics of contractor personnel are generally left to the contractor’s discretion, except for those characteristics that might be explicitly or implicitly defined by the nature of the contract. That’s as it should be since the contractor is asked to serve as an agent in making these decisions.

Could Civilians Play a Larger Role?

Besides the exception generated by any outsourcing competitions, the other exception to ignoring so much of the mix issue is the inclination of several secretaries of defense to propose greater use of federal civilians instead of uniformed personnel to reduce operating costs. These initiatives seem to stall short of what might be attempted and often encounter substantial congressional opposition (for example, the statutory bar imposed in 2007 on converting military medical billets to civilian status).

One limit on civilianization is the view that the law of war will require uniformed personnel for tasks that civilians might perform in peacetime. However, if one explored the British concept of sponsored reserves, there is a potential opportunity to consider some trade-offs. On a small scale, the United Kingdom allowed contracts for the provision of specialized services (such as trucking), in which the contractor was required to have all personnel become reserve force members who could be mobilized as uniformed personnel should the government decide it was warranted by developing circumstances. At one point, the UK also considered securing aerial tanker capacity in this manner, although it did not implement that option.

For the United States, perhaps the most serious impediment to considering additional civilians instead of military personnel lies in the differential manner in which the political process treats military and civilian slots. While the National Defense Authorization Act specifies military strength (thereby driving the funding level), civilian numbers are not usually specified. Their pay is funded from the operations and maintenance appropriation—an account that often suffers cuts relative to what’s actually needed to run the department. Thus, within the department, a decision maker who proposes giving up military billets in favor of civilian staffing runs the risk of winding up with neither.

Blended Units

Of course, more than one type of personnel can serve in the same unit. The Pentagon staff is a mix of military, federal civilian, and contractor personnel. Mixing personnel types in line (versus staff) units is much less frequent, although not unknown. One extreme example: at the height of the Cold War, contractor tech reps served aboard deployed aircraft carriers to provide high-end repair expertise for sophisticated equipment.

A Way Ahead

Would substantial changes in the mix of personnel and their characteristics substantially reduce DoD costs or improve performance? Decisively answering that question would require significant investment in empirical analysis and perhaps some experimentation to test alternative staffing approaches. Raising new options requires reliable evidence that they would be better than what currently characterizes the largely successful DoD enterprise. Some of that evidence could come from our history of past practices; some might also come from the experience of other militaries. However, such a review could

not be reasonably concluded in just a year or so. Committing to such a multi-year debate might be one of the most important reforms we could consider.

What Incentives Do We Need to Recruit, Retain, and Motivate the People We Want?

The Constraints on Departmental Action

Whatever mix of personnel might be desired, the ability of the department to attract and manage the people it wants is constrained by statutory constructs specific to each personnel type and policies that often have deep cultural roots, especially for direct compensation. Unlike the US private sector, where decision makers enjoy considerable latitude in designing compensation packages, basic pay for military and most federal civilian personnel is governed by pay tables, with annual adjustments that ultimately require congressional assent. In most years, the adjustment arrives as a uniform across-the-board change. Worse, reflecting political reality, the proposed and enacted adjustment is often the same for military and civilian personnel, even though there's no particular economic reason these should always be equal or even the same for active-duty and reserve component personnel.

Likewise, the important fringe benefits are effectively specified in the law, making it politically challenging to adapt them to changing circumstances, especially if change implies losers as well as winners.

Change Is Possible Nonetheless

However, when a serious problem arises, the political process can be willing to consider alternatives. With the DoD suffering significant midcareer military retention shortfalls in the late 1990s, above-average (targeted) pay raises were enacted for these personnel. Increases for military personnel equal to a half percentage point greater than those for civilians continued for much of the early 2000s, helping to sustain the all-volunteer force despite its engagement in a difficult and increasingly unpopular set of conflicts.

Similarly, when the George W. Bush administration persuaded Congress that the DoD's future success required a modernized civil service, it secured authority to reimagine the pay construct. It used that authority to establish a small number of pay bands for white-collar civilians (versus the fifteen grades of the general schedule), with managers allowed to set and adjust salaries within pay bands as necessary. This regime offered better latitude to meet market conditions in setting pay, especially since the DoD could exceed the usual ceiling on civilian pay, which is tied to the pay of Congress. The

congressional pay ceiling (currently \$174,000) makes it difficult to compete for highly compensated professionals, whether they are clinicians or among the technically adroit, whose alternative opportunities might offer several hundred thousand dollars per year. And in the hierarchical structure of civil service grades, a ceiling at the top translates into constraints on those at lower levels, with similar adverse effects on competitiveness.

Pay bands also offered the prospect of some savings in those situations where government positions were more generously compensated than might be necessary. But pay bands largely vanished with the revocation of the National Security Personnel System (NSPS), a victim of union opposition to the very flexibility that might otherwise recommend it (as well as the anticipated difficulties of transition and the system's origin in a largely partisan process). With NSPS's demise, the authority to exceed the politically imposed ceiling on pay for federal civilians similarly lapsed.

Perhaps the lesson of this history is that it requires consensus regarding the solution to a significant problem to change the basic constructs under which DoD leaders must operate for federal personnel, military or civilian. Recommendations based on empirical analysis alone, such as efficiency, will not be sufficient to drive change. The response to the recent Quadrennial Review of Military Compensation (QRMC), which concluded that a time-in-grade versus time-in-service pay table produces better results for the military, is consistent with that hypothesis. Without a burning platform consensus that better results were needed, the department and Congress ignored the potential improved retention of high-quality personnel the QRMC suggested could result. Likewise, in the absence of a consensus that the complex set of allowances that constitute so much of military pay is a potential source of considerable inefficiency, the cultural opposition to a salary system analyzed by the same QRMC that would replace the current pay and allowances construct doomed any attempt to consider such a shift seriously.

Rethinking Compensation

The Congressional Budget Office repeatedly points out that the US construct for military compensation is unusual compared to the practices of our larger society (most recently in its *Approaches to Changing Military Compensation*, January 2020).² The significant use of tax-sheltered allowances, for example, obscures the pay total, with military personnel typically underestimating the actual value of regular military compensation (RMC), which is the construct that estimates the average value of pay and major allowances, including the

tax advantage the allowances enjoy. Particular difficulties arise from the housing allowance, which constitutes an important fraction of RMC for junior personnel. Those who live in government-furnished quarters surrender the housing allowance. For single personnel (about half the force), those quarters are barracks, and it's doubtful that most personnel value the barracks at the value of the allowance. Even for those with families, the economist's observation may pertain that in-kind compensation may not be valued as highly as the cash equivalent.

It's certainly the case that those who analyze military personnel issues believe the skew of fringe benefits toward families helps explain the earlier marriage rates for uniformed personnel relative to our society as a whole and earlier family formation. Put differently, giving single military personnel the housing allowance in cash, and exiting the barracks business, might markedly improve recruiting while relieving the DoD of part of its housing management challenge.

To overcome the limitations of the military pay system, the department uses bonuses extensively, as is well known, both to encourage entry into particular career fields and to meet retention goals. Some special pays the department employs serve these same purposes. In contrast to the relative rigidity of basic pay, the DoD enjoys wide latitude from Congress for these bonuses and special pays, both in size and how they are administered. Cultural norms may still occasionally limit their application, as in the recent reluctance of air force leaders to seek bonuses large enough, as estimated by their analysts, to solve the pilot retention problem.

Given the aggressive use of bonuses, it's interesting that the department is much less energetic in exploiting the potential of Assignment Incentive Pay (an auction to staff difficult-to-fill postings) and the continuation pay feature of the revised military retirement system to shape the experience profile. One hypothesis is that Assignment Incentive Pay contradicts the cultural expectation that you accept what the assignment system directs, even though, in practice, the reality is somewhat different. Disinterest in using the new continuation pay may reflect an unwillingness to rethink the desired experience profile now that it need not be so closely tied to the cliff-vesting of the annuity at twenty years of service and need not be the same for every career field.

In contrast to the aggressive use of bonuses and special payments to ensure that military compensation produces the recruiting and retention results desired, the DoD makes much less use of these instruments for civilian personnel. The DoD is not alone among federal agencies in its reluctance

to do so. The result is chronic difficulty competing with the private sector for talent in selected skills, with the limited adjustment of grade levels in many cases being the only way to meet marketplace realities, and given the pay constraints related to the ceiling on congressional salaries. That competitive disadvantage is exacerbated by the careful nature of civil service hiring, such that often, the federal manager cannot make a prompt offer, even at the constrained salary. It should not be surprising that managers often prefer to use contractor personnel since the contractor is free to set salary and benefits as needed and can perhaps offer prompter staffing once the underlying contract mechanism is in place.

Further, the managerial challenge of dealing with subpar performers is the service contractor's responsibility. Contractors are generally viewed as being more responsive when performance problems occur versus the almost legendary difficulty of dismissing those with civil service status when they fail to perform or when they transgress.

These rigidities of the classic civil service system lead to a bias in the mix of the department's personnel, with managers desiring military personnel in situations where civilians might be more appropriate and contractor personnel taking the place of federal civil servants where the latter might be better from a governance perspective—i.e., with contractor personnel edging into inherently governmental responsibilities.

Beyond the Pecuniary

While pecuniary compensation directly affects the DoD budget, and while the DoD must compensate its people competitively lest they make other choices, it would be unwise to view salary and benefits as the only source of motivation for joining the national security team. Whether it's patriotism or a chance to contribute to a larger cause, the intangible notion of service is obviously a critical factor in staffing the department with both uniformed and civilian personnel. That's a standard observation about military service, but it is also true for civilians. Paul Light, the longtime observer of the US civil service, remarked years ago on the strong sense of mission he sensed among DoD civilians—stronger than he observed across the federal government as a whole.³

For the uniformed force especially, the military's reputation with the American public is crucial to recruiting success. With the success of the all-volunteer force, the military became one of the most respected institutions in American society. The recent erosion in that reputation—although it is still

higher than for most of our institutions—is a cause for concern. Whatever is causing that drop may help explain the recent recruiting difficulties the armed services are facing, with the army missing its recruiting goal by fifteen thousand in FY2022—an extraordinary shortfall. Some of that shortfall may be the result of the wrenching effects of the COVID-19 pandemic coupled with the prevailing low unemployment rate.

Other likely factors, however, include the lower labor force participation rate for young men and perhaps mismanagement of recruiting resources. As some are fond of observing, it's really an all-recruited force and the skillful management of recruiting is necessary to sustain success. The marine corps recruiting model is often held up as the standard, starting with its emphasis on assigning the best personnel to recruiting responsibilities, continuing through the incentives facing its recruiters—they only receive credit after the recruit finishes basic training—and including its use of the period before recruits enter service for some basic acculturation and physical training. Practices like these merit consideration by the other services.

There is a concern that one of the classic incentives for military service—the GI Bill—is now less effective as other educational assistance programs have expanded. Given the importance of college aspiration for young Americans, the military has tried hard to make military service compatible with seeking a college degree, not only through the GI Bill but also by offering substantial tuition assistance to those in uniform and promoting college credit for selected military experiences. To the extent that college is less desired by our youth, the draw of the GI Bill is also commensurately reduced.

The military's attention to the career prospects of its members presumably improves its attractiveness. In that regard, the recent interest in “talent management” could be helpful. By giving individuals a chance to express their preferences regarding assignments in part by allowing them to describe their qualifications more fully than standard personnel records have allowed, military personnel gain agency in charting their respective career courses. Unfortunately, the systems for doing so still leave much to be desired, and there is an inevitable tension between such systems and the demands of an institution that must often ask its people to fulfill unexpected and potentially unpleasant requirements. Even apart from actual combat, the nation's need to employ its military power may require sudden moves to unfamiliar locales, either imposing an unwelcome geographic change on a family or a separation from the family that likewise makes a military career less attractive. Easing family burdens, especially spousal employment difficulties, is a crucial

component of managing the people portfolio—through a mix of pecuniary benefits (e.g., subsidies to spousal careers) and nonpecuniary ones (e.g., the quality of the schools military family children attend).

Whether it's the design of talent management systems or family support programs, perhaps the most important issue is managing expectations. Creating expectations that cannot be fulfilled is a guaranteed route to failure. Some of the air force's retention difficulties during the Global War on Terror can be ascribed to disappointment among those assigned to duties distinctly out of their chosen career fields. Conversely, experience suggests that setting expectations in line with what the institution can deliver, even if disappointing to the aspirations of some, will more likely promote institutional success.

Can We Improve DoD's People Results? If So, How?

Among the many issues that might be addressed, two are particularly critical: reversing the recent recruiting weakness and attacking the high personnel costs that consume so much of the DoD budget. Without recruiting success, we cannot field the force we desire. And if costs cannot be better controlled, we cannot sustain that force over time.

Recruiting

The recruiting challenge is more urgent. At least four steps are worth considering. First, adapt the most successful elements of the marine corps recruiting model as appropriate to the needs of the other services. Next, sustain and, as necessary, enlarge efforts to ameliorate destructive behaviors (e.g., sexual assault, suicide) and the problematic effects of service (e.g., post-traumatic stress), which some fear contribute to the erosion of public respect for the military.

Third, equalize compensation for junior enlisted personnel who are single by paying some or all of their housing allowance in cash and pricing barracks at market-clearing rates, perhaps even limiting how much of a barracks business the DoD operates over the longer run. And last, offer military service as a route to citizenship for those who immigrated to the United States without authorization as children (the "Dreamers").

Increasing cash compensation for junior and single enlisted personnel imposes an explicit upfront cost, but it's an empirical question of whether it's more efficient than offering yet larger signing bonuses. It's certainly less costly than an across-the-board pay raise and avoids the additional family support

costs that might otherwise accrue, which should be included in the net cost of a change.

The Personnel Mix

Determining the best mix of personnel communities—active, reserve, federal civilian, and contractor—to provide the capabilities needed is the most important way to curb personnel costs. If such an optimization reduces the demand for active-duty personnel, it would also relieve some of the recruiting burden. Moreover, for active-duty personnel especially, we should tailor the experience mix in each skill area to that skill area's needs. This would lead to the best organizational structure and offer a more viable approach than the one-size-fits-all experience pyramid in use today. The present practice is driven by the current closed personnel system (in which virtually everyone starts as a recruit or officer trainee) and the just-reformed cliff-vested pension, not necessarily by explicit empirical examination of what's best. To the extent that a skill needs more midcareer than junior personnel, lateral entry and midcareer retraining can be considered. Lateral entry also allows the military to benefit from talent developed in civil life—i.e., we begin to emulate the civilian practice of recruiting from the ranks of those who already possess a skill rather than assuming everyone will be trained from scratch, as is largely the case for the military today.

Three Other Ways to Confront Costs

Beyond explicitly choosing an optimal personnel mix, three other issues deserve attention in any serious effort to curb costs:

1. Relax the rigidity of the civil service regime for the DoD by replacing the fifteen-grade general schedule with a small number of pay bands (relieved of the congressional pay constraint at the top end) and adopting a hiring system that allows the department to compete successfully for talent (e.g., by granting direct hire authority for all DoD positions). The purpose, of course, is to make federal civilians an attractive option for managers to choose versus overrelying on both uniformed personnel and contractors.
2. Aim to increase the share of military compensation paid in cash over the long run versus allowances and income paid in kind. Because such a change presents a deep sociological challenge, it will likely

require a generation or more to accomplish and a gradual approach to addressing the specific issues involved.

3. Rethink the nature and delivery of health-care benefits. The DoD spends over 7 percent of its budget on the Military Health System. Nonetheless, many beneficiaries are dissatisfied with what they receive. That is especially true of younger households—the very community we’re currently worried about from a recruiting perspective. One potential start is the proposal from the Military Compensation and Retirement Modernization Commission to offer a military-specific Federal Employee Health Benefit in lieu of the present system. The option developed by the commission was estimated to save \$3 billion annually in steady-state DoD outlays.⁴

Public policy analysts would likely applaud changes of this sort, for which significant empirical support can be marshaled.⁵ The political record, however, suggests that this alone would be insufficient to secure adoption. The reception to various quadrennial reviews of military compensation underscores this reality—as does Congress’s ignoring the health-care recommendation from the Military Compensation Commission.

Nor is endorsement by prestigious leaders necessarily sufficient. In the George W. Bush administration, the secretary of defense and the Joint Chiefs of Staff endorsed a relatively modest change to the health-care benefit; the congressional response was to pile up in a hearing the mountain of adverse correspondence generated by advocates for the status quo.⁶ The sad fate of the recommendations from the Dole-Shalala Commission, reforming Veterans Affairs disability (a much more significant issue), reinforces this reality.

Developing a Strategy for Change

What, then, might be the elements of a change strategy? First, as others would likely agree, the president’s voice can be decisive. Experience from the last fifty years provides three examples of significant DoD personnel policy changes in which the president’s leadership was arguably critical. These include the return to an all-volunteer force under President Richard Nixon, civil service reform for the DoD during President George W. Bush’s administration, and the creation of the space force under President Donald Trump. Yes, others and other factors contributed, and success might require old-fashioned political horse-trading (e.g., Secretary Melvin Laird securing President Nixon’s support

for a military medical school, the “trade” in return for Chairman F. Edward Hébert allowing the volunteer force bill to emerge from his Armed Services Committee). And a subsequent president might reverse course, as happened when President Barack Obama decided to disestablish the National Security Personnel System. But that only underscores how important presidential support is to accomplishing difficult changes.

A second element in a change strategy may be less obvious: rethinking the motivation for action. The ideas presented here derive basically from principles with which economists and public policy analysts are comfortable. Military retirement reform was advocated based on similar arguments over a generation or more, never gaining political traction. But when the unfairness of the system became the basis for action, a degree of change became possible. Admiral Don Pilling, a vice chief of naval operations, pointed out to Secretary Donald Rumsfeld in an internal review that most military personnel would never collect an annuity. The Military Compensation Commission later took up this refrain, proposing reform to address this unfairness, which Congress adopted.⁷

It’s worth noting in both these examples the critical contribution two experienced hands made to the change process. Thanks to Laird’s and Pilling’s deep understanding of the mechanisms and issues involved, they could identify what might be needed to move change proposals forward—elements that might not be evident to those approaching the challenge from a largely analytic perspective.

Two final thoughts are worth offering as one thinks about improving DoD’s “people results.” First, for all its shortcomings, the present system succeeds in creating a first-class military. The medical adage comes to mind as one contemplates change: “First, do no harm”—or at least ensure the benefits will importantly exceed the adverse effects that change may create. Second, while it is crucial to curb personnel costs to the extent we can, first-rate people will always be expensive to recruit and retain, be they military or civilian. And as history and current experience demonstrate, it’s first-rate people you want when the nation’s interests are at stake.

Notes

1. US Department of Defense, “DoD Strategic Management Plan: Fiscal Years 2022–2026,” October 28, 2022, 27.
2. Congressional Budget Office, “Approaches to Changing Military Compensation,” (publication 55648), January 2020.

3. Personal communication to author in 2005 (confirmed in an email, March 6, 2023).
4. Alphonso Maldon Jr., Larry L. Pressler, Stephen E. Buyer, Dov S. Zakheim, Michael R. Higgins, Peter W. Chiarelli, Edmund P. Giambastiani, J. R. Kerry, and Christopher P. Carney, "Report of the Military Compensation and Retirement Modernization Commission: Final Report," Defense Technical Information Center (ADA625626), January 2015, 262.
5. Beth J. Asch, "Setting Military Compensation to Support Recruitment, Retention, and Performance," RAND Corporation, 2019.
6. Author's recollection of his testimony to the House Armed Services Committee hearing on the Military Health System, March 29, 2006.
7. Briefing of the Defense Advisory Committee on Military Compensation to Secretary of Defense Donald Rumsfeld, September 30, 2005, Admiral Donald L. Pilling, Chairman (attended by author).