

## Keeping the Pentagon Running

### *Commonsense Changes to Defense Budgeting*

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A near-constant reform effort has been underway at the world's largest bureaucracy for the past two decades. The Department of Defense (DoD) is under the microscope constantly. Its four-thousand-page annual policy and oversight bill has been enacted into law every year for over a half century, unique among all federal agencies. Beyond the defense authorization act, however, have been numerous other internal and external change efforts—ranging from “Better Buying Power” and the Levin-McCain Weapons Systems Acquisition Reform Act of 2009 to “Night Court” and the efficiency drills run by former secretary of defense Robert Gates. There is no shortage of constant churn to improve how the Pentagon does business. What there is a shortage of, however, is lasting results.

Updates and improvements are important for the transparency of taxpayer investments, accountability of officials, staying relevant in a rapidly changing world, and meeting varied threats over differing time frames. But change for change's sake, or change intended to bolster political arguments to sustain needed defense spending levels, is unhelpful. Indeed, it is time for reformers to focus more on what policies can be sunsetted, what laws must expire, what rules and regulations should go away, and what specific work and tasks of lesser or outdated importance can be stopped.<sup>1</sup> Reform that removes barriers is more important than efforts to add layers of new rules, organizations, or manpower to the Defense Department.

While threats are evolving, as is America's response to them, the base defense budget mostly stays the same year after year as if in a constant

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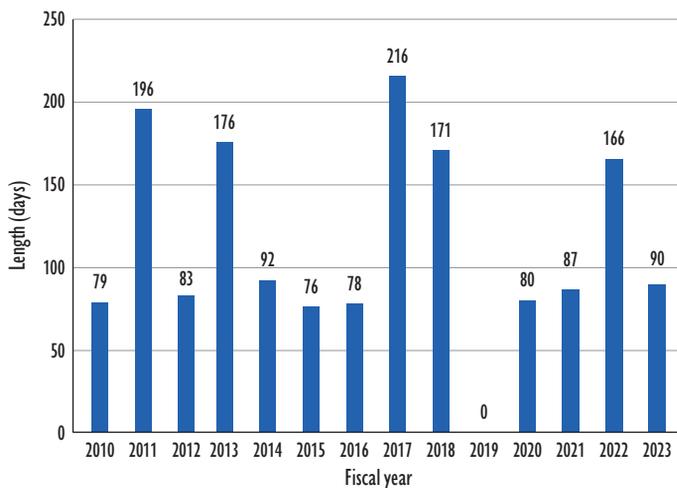
peacetime posture.<sup>2</sup> Defense planning, programming, and budgeting are rife with flaws and overdue for updates. This is why Congress established a commission to review and reform these internal processes to help prioritize and allocate nearly three-quarters of a trillion dollars annually.

While the commission investigates at a detailed level over many months, some practical and quickly implementable reforms at a macro level are outlined in this paper. In the meantime, Congress and the executive branch should begin the earnest process of scrubbing the books, and axe procedures, headquarters, and regulations where necessary. By undertaking this necessary but difficult job of slashing and burning the barnacles of bureaucracy that have piled up and calcified over time, policy makers will demonstrate their seriousness about needed defense rehabilitation while skipping the defense reform theater that has plagued the military for too long.

### *Strike a Two-Year Budget Deal for Defense and Nondefense Discretionary Spending Now*

Of the more than 1,200 days of operating under a continuing resolution or spending freeze over the past decade, one fiscal year stands apart: 2019.<sup>3</sup> This year saw defense appropriations enacted on time, a virtual miracle in modern times. The single biggest reason for this outcome of true efficiency was the two-year budget deal struck the previous year between the two political parties, both chambers, and the White House ahead of time. Signed in an attempt to raise the defense and nondefense discretionary spending caps under the Budget Control Act of 2011, this deal set overall federal spending levels for two years, offering much-needed clarity and certainty to keep the government functioning.<sup>4</sup> And, in doing so, it made FY2019 the only fiscal year in the last decade when the Pentagon was not under a continuing resolution (see fig. 14.1).<sup>5</sup> Compare that to the passage of FY2022 appropriations, when there was no two-year deal. At that time, it took four short-term freezes for appropriations to be passed, and they were enacted nearly half a year after the start of the fiscal year.<sup>6</sup>

Predictability of finances for a federal agency that buys more goods, services, and IT/software than all other agencies combined per year is as important as a new, additional defense dollar to the topline when needed. Removing the guesswork and endless stop-start negotiations allowed Pentagon planners and program managers to allocate resources in the most cost-effective manner possible in 2019. It also enabled the industry to manage workforces,



**Figure 14.1** Department of Defense under Continuing Resolutions

Sources: US Government Accountability Office, “Defense Budget: DOD Has Adopted Practices to Manage within the Constraints of Continuing Resolutions,” GAO-21-541, September 13, 2021; Consolidated Appropriations Act, 2022, Pub. L. No. 117-103; Consolidated Appropriations Act, 2023, Pub. L. No. 117-328.

suppliers, and investments to support the warfighter. Moreover, it untethered funding the government from raising the debt ceiling.<sup>7</sup>

Further, two-year budget deals help prevent government shutdowns and spending freezes, both of which lead to a serious loss of buying power for the Defense Department. This wasteful effort of forcing feds to live in stasis at last year’s levels causes hundreds of misaligned programs, millions of wasted dollars, training time that cannot be recovered, and further self-imposed technology delays vis-à-vis China across the military. Continuing resolutions add entirely avoidable burdens to stressed systems across the defense enterprise. Plus, no one can buy back time. The longer a continuing resolution drags on, the higher the likelihood of inadvertent staff reductions, insufficient operating budgets, and the underfunding of existing programs that the military needs to remain on schedule.

Looking ahead to 2024, the Office of Management and Budget should use the national defense topline number of \$858 billion in FY2023 appropriations as a floor and adequately adjust for inflation-accounted real growth.<sup>8</sup> Assuming a 6 percent inflation rate, according to a recent estimate provided

to the Senate Appropriations Committee by Secretary of the Navy Carlos Del Toro, a national defense budget (Function 050) for 2024 would need to be roughly \$909 billion.<sup>9</sup> A 6 percent inflation rate may seem to be an over-estimation but with the start of the next fiscal year only twenty-three weeks away (as of this writing), that high level of inflation appears increasingly likely. After inflation is accounted for, 3 percent real growth should be added to better and more speedily enact the National Defense Strategy, resulting in an overall defense topline (Function 050) of about \$936 billion for 2024.

While the Budget Control Act offered an impetus for a two-year spending deal in 2018, Congress should pursue such a deal now because of the certainty and flexibility that it provides.<sup>10</sup> Lawmakers would then be able to complete their work on time, and defense officials and industry leaders would benefit from the deal's fiscal stability.

### *Sequester Paychecks until Delayed Appropriations Are Enacted past the Start of the Fiscal Year*

To avoid spending freezes, bold moves are needed to break the logjam and attractiveness of holding the defense budget hostage in nondefense negotiations. In an attempt to incentivize the passing of appropriations bills on time and punish lawmakers for failing to do so, members of Congress should have their paychecks sequestered until appropriations are passed starting October 1 of each year. This automatic action would be designed to avoid the scores of problems that continuing resolutions cause for the military and industry, chief among these being misaligned funding. As continuing resolutions pause spending increases (or decreases) and lock in last year's funding levels, appropriations accounts become misaligned, work stalls, readiness takes a hit, and time is wasted waiting on the system to work as intended and, often, for funding increases to arrive for strategic priorities.<sup>11</sup> Continuing resolutions also prevent the start of any new acquisition programs, wreaking havoc on the armed forces' modernization plans.<sup>12</sup> For instance, the latest continuing resolution delayed procurement funds for the Air Force's Long Range Stand-Off Weapon, a new procurement program in Fiscal Year 2023.<sup>13</sup>

More than just the start of new programs, continuing resolutions delay the progression of established programs. The Pentagon depends on a steady flow of funding for production increases that keep its many weapons, services, and technical programs on track for development and delivery to the warfighter. By willfully injecting uncertainty into that funding profile, continuing resolutions create inefficiencies and cost overruns, rendering industry leaders

unable to plan appropriately.<sup>14</sup> Workforces and vendors cannot adequately staff up when funds do not arrive on time.<sup>15</sup> Finally, continuing resolutions are simply wasteful. The most recent one in FY2023 forced the military to miss out on over \$200 million per day in funding. By the time regular appropriations became law on December 29, 2022, the Defense Department had lost \$18 billion in buying power in those previous three months.<sup>16</sup>

While this reform would certainly be difficult to implement, no less for the reason that members of Congress may not willfully withhold their own pay, there have been similar proposals introduced in recent years. For instance, multiple bills have been introduced in previous Congresses that would prohibit members from being paid during a government shutdown. And, as a sign of Congress's ability to resist the urge to increase its members' own pay, the body has not received a salary increase since January 2009.<sup>17</sup> Lastly, the mere floating of this reform would be helpful, as it could draw more stakeholders into policy debates, thereby putting more pressure on politicians to do their core job on time each year.

For all these reasons, garnishing politicians' pay until they do the basic job of keeping the government functioning through on-time funding would help ensure that continuing resolutions are a worst-case solution instead of a tool for Congress to routinely rely on.

### ***No More "Use It or Lose It" Penalty on the Defense Department for Expired Appropriations***

As a result of continuing resolutions, federal agencies often have less than a year to obligate a year's worth of appropriations in key accounts. That means there may be a rush at the end of the fiscal year to obligate funds, leading to an end-of-year spending bulge if politicians do not do their job and provide on-time funds.<sup>18</sup> In 2016, for example, the Congressional Research Service found that obligations jumped to over \$43 billion in September, the last month of the fiscal year, well above the year's \$25 billion monthly average.<sup>19</sup>

In the Pentagon's case, that bulge may be exacerbated due to the time limits on each appropriations account for when funds must be obligated.<sup>20</sup> On the shorter end, operation and maintenance and military personnel funds must be obligated within one year of being appropriated, while on the longer end, research, development, test, and evaluation funds must be obligated within two years and procurement funds, three.<sup>21</sup>

Thanks to these limits due to the so-called "color of money," the Pentagon experiences a "use it or lose it" phenomenon, where program managers worry

that unspent funds will expire permanently and be returned to the Treasury, and that the lack of full spend will send the wrong signal—that there is a decreased funding need.<sup>22</sup> This has a number of negative effects, ranging from reduced negotiating leverage in government contracts to misplaced or wasteful uses of funds.<sup>23</sup>

To fix this phenomenon, Congress must allow for greater carryover authority, letting funds meant to expire in one fiscal year to be used in the next.<sup>24</sup> That's all the more urgent given just how much money has been returned, or gone unobligated, in recent years (in large part because of Capitol Hill's delayed work). A Government Accountability Office analysis found that between \$8.9 billion and \$16.3 billion went unobligated between FY2013 and FY2018 at the Pentagon—most of which were one-year operation and maintenance dollars.<sup>25</sup>

Prior to 1990, expired budget authority remained available indefinitely in certain appropriations accounts. According to the Government Accountability Office, these balances “could be used to pay valid obligations incurred before the budget authority had expired, including certain upward adjustments.”<sup>26</sup> This same report noted how the flexible authority allowed the military to “pay routine bills as they became due and to fund valid but previously unrecorded obligations or increases in amounts originally obligated for a particular activity when circumstances warranted.” As a reasonable limit, the authority could not be used to incur new obligations.

Given how much larger the defense budget is today, perhaps Congress could grant a carryover authority in the one-year military personnel and operation and maintenance accounts of 20 percent, allowing the department to retain significant amounts of money that are often provided late. With rampant inflation affecting defense spending in many ways, this type of benefit would seem desirable and necessary.<sup>27</sup>

Some may be concerned that allowing the services to keep more money would lead to a lapse in oversight and, ultimately, abuse. While valid, safeguard measures can be put in place to prevent this, including midyear budget reviews provided to Congress where information on anticipated expenditures and surpluses for the remaining part of the fiscal year may be provided. Congress could also institute a limit on when carryover funds expire.<sup>28</sup> If Congress cannot and will not give the military on-time funds every year, there is no reasonable case for Capitol Hill to simultaneously punish the armed forces for being unable to spend money in a timely fashion once it finally arrives. Providing carryover authority would allow the Pentagon to

increase flexibility in its finances and avoid the negative and wasteful effects of rushed spending.

### *Increase Defense Reprogramming Thresholds*

Once Congress allocates funding, albeit often late given the frequency of continuing resolutions, it often does not provide the Pentagon with enough flexibility to match investments to changing needs against a great-power competitor in China. One of the prime reasons for this is the inadequacy of reprogramming thresholds, which prevent dollars from being shifted without consulting layers of bureaucracy within the Pentagon and on Capitol Hill. For the current fiscal year, reprogramming thresholds for prior approval, otherwise known as above threshold reprogramming, are set at \$10 million for military personnel and operation and maintenance, while for research, development, test, evaluation, and procurement, that threshold is \$10 million or 20 percent of the budget line item, whichever is less.<sup>29</sup>

If a reprogramming request exceeds those limits, it is subjected to a battery of reviews. The process may consist of up to twelve rounds of review within the Defense Department before being sent to the White House budget office for review and eventually on to the House and Senate Armed Services and Appropriations Committees for their stamps of approval.<sup>30</sup> One study found that this whole process can take an average of ninety-six days, all while the often-urgent need necessitating a reprogramming request is still present and languishing.<sup>31</sup> Prior approval reprogramming thresholds are, in the words of former Pentagon comptroller Dov Zakheim, “much too low, and too constrained, and prevent the timely adjustment of accounts for a host of programs.”<sup>32</sup>

If the US military is to truly operate at the “speed of relevance,” as stated by then secretary of defense Jim Mattis, then bureaucracy must catch up to the times—and the sheer size of the massive defense budget. Thresholds from an era when topline were less than \$215 billion are irrelevant today and only help our competitors and enemies go faster while Washington continues its Soviet-style central management approach to defense investments.<sup>33</sup> To circumvent the lengthy approval process and provide the armed forces with the flexibility to shift funds as needed, reprogramming thresholds must increase.

At a minimum, allowable reprogramming amounts should keep pace with inflation, which has generally not been the case despite adjustments to the thresholds over time. Following the advice of the Section 809 Panel, reprogramming thresholds should rise to compensate for the loss in buying

power due to inflation and the steady growth of the overall topline. Raising these limits will not just benefit the military by providing flexibility in terms of budget execution, but it will also shift congressional committees' limited time and bandwidth away from exercising oversight over small programs (and their relatively small amounts of money). Their oversight is better focused on larger, more expensive, technical, and complicated programs.<sup>34</sup> Raising reprogramming thresholds for prior approval will provide a number of benefits to both branches of government while increasing agility and necessary flexibility.

### *Reorganize the Major Appropriations Accounts for a More Realistic Summary of Priorities*

Accountability in budgeting should not be limited to just accountants, auditors, and comptrollers. All defense stakeholders spanning the service chiefs, combatant commanders, and civilian officials able to pull on the Pentagon's purse strings, should have so-called skin in the game. The more transparent funds are to each stakeholder, the more awareness there will be across viewpoints about the costs of doing business—costs that outpace inflation every year and for each appropriations account at the Defense Department.<sup>35</sup>

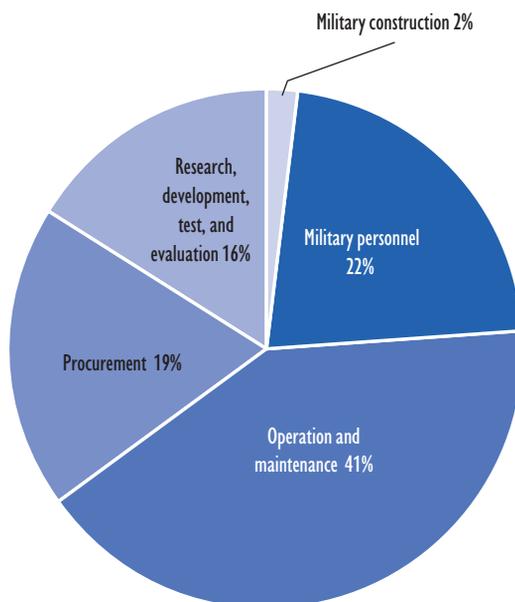
One area ripe for more transparency is the organization and public presentation of major defense appropriations accounts. Within the division of these accounts are the true and varied labor costs of the three defense workforces, which are deeply buried and marbled throughout the budget documents. Because civilian pay and benefits and the bulk of funding for the Defense Health Program are included in the operation and maintenance account, service chiefs may assume people cost less than they do by solely evaluating spending through the military personnel account.<sup>36</sup> Even more complicated is that military health-care costs are spread across the procurement, research, development, test and evaluation, and military construction accounts.<sup>37</sup> To resolve this obfuscated dataset that totals more than half of all defense spending, and provide more clarity as to the true costs of professionals, the simple composition of these accounts should be changed.

No longer should there be a spending account for just military personnel. Rather, federal defense civilian salaries should move out of operation and maintenance, along with the bulk of the Defense Health Program, into the military personnel account. Costs of the Defense Health Program and Military Health System spread across other appropriations accounts should also move into military personnel. In addition, given that they provide

benefits to service members, funding for dependents' education and family housing should be reallocated to the military personnel account.

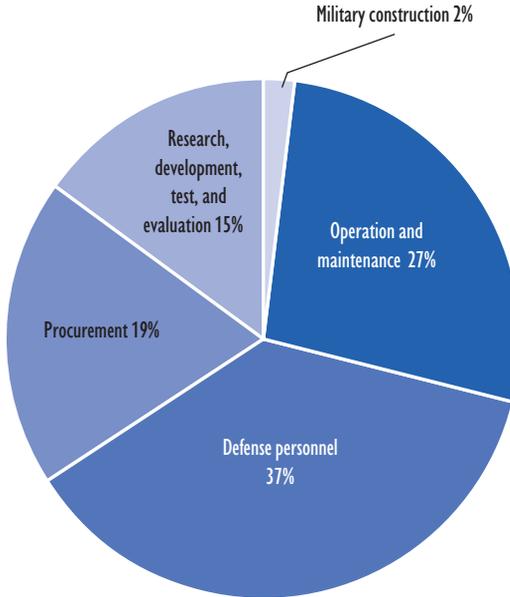
If such changes were implemented using defense appropriations for enacted 2022 levels, the military personnel account would grow from over \$167 billion to \$276 billion—nearly a 65 percent increase. On the other hand, operation and maintenance's size would fall by about 35 percent, from \$307 billion to \$200 billion. This is only a partial accounting of the true costs of personnel spread across the appropriations accounts, and should other personnel costs be included, such as those contained within base operations support, this total would certainly grow even more. The restructured appropriations accounts can be seen in figures 14.2 and 14.3, with military personnel being renamed defense personnel to reflect the inclusion of civilian pay and benefits, as well as health care and other personnel costs across the enterprise.

This analysis takes into account the costs of compensation and benefits for direct hire and direct-funded personnel. Given the difficulties in determining



**Figure 14.2** Fiscal Year 2022 Enacted by Appropriations Account

Source: US Department of Defense, Office of the Under Secretary of Defense, (Comptroller)/ Chief Financial Officer, *Defense Budget Overview: Fiscal Year 2023 Budget Request*, April 2022, Table A-1.



**Figure 14.3** Fiscal Year 2022 Enacted with Defense Personnel Account

Sources: Bryce H. P. Mendez, "FY2023 Budget Request for the Military Health System," Congressional Research Service Report IF12087, April 29, 2022; US Department of Defense, Office of the Under Secretary of Defense, (Comptroller)/Chief Financial Officer (DoD CFO), *Defense Budget Overview: Fiscal Year 2023 Budget Request*, April 2022, Table A-1; DoD CFO, *Defense Operation & Maintenance Overview Book: Fiscal Year 2023 Budget Request*, May 2022; DoD CFO, *Fiscal Year 2023 Budget Estimates: DoD Dependents Education*, April 2022.

where reimbursable funded personnel receive compensation, whether from the Department of Defense or other federal agencies, they were excluded from this analysis.<sup>38</sup> But, should the over \$31 billion worth of compensation and benefits for direct hire, reimbursable funded personnel be included, operation and maintenance would decrease by close to 45 percent, from \$307 billion to \$169 billion. As for military personnel, the account would grow from \$167 billion to \$307 billion, an 83 percent increase.

Restructuring the appropriations accounts is a simple act of accounting that will strike a disproportionate and fierce resistance to implementing it for a variety of parochial interests. These will come from stakeholders such as the appropriators themselves. But the alternative to not doing so is worse. Service leaders, the Office of the Secretary of Defense, Congress, and taxpayers are not receiving an accurate picture of the costs of labor, typically the largest balance sheet item of any big organization, of which the military is no

different. Creating a defense personnel account would immediately improve transparency at a time when Capitol Hill is set to review enlisted pay tables in the 118th Congress and increase the salaries of those in uniform.

### *Link Total Federal Defense Civilians to the Size of the Active-Duty Force*

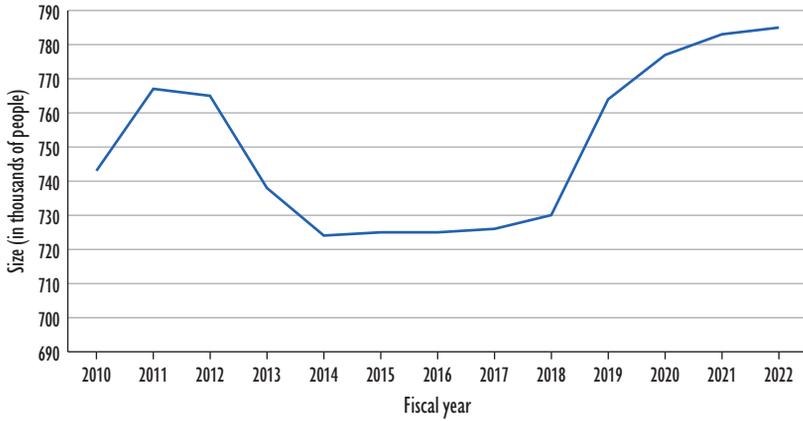
More sunshine about the actual labor cost across the sprawling defense bureaucracy is only a net positive. Another reason for this overdue step is that because of obscurity and obfuscation, too often in modern times, active-duty military rolls have shrunk while their supporting workforces grew. This makes little sense, given that federal defense civilians and defense contracting workforces exist to support the uniformed services. To keep these three defense workforces in balance, they should be linked explicitly.

Federal defense civilian head count should grow or shrink only in tandem with the overall size of the active-duty military. Under the broadest definition of a civilian employee at the Defense Department, 815,000 full-time equivalent civilians were permitted to be employed in FY2022 per enacted levels.<sup>39</sup> Using a narrower definition of a civilian employee, 785,000 full-time equivalents worked for the department in FY2022.<sup>40</sup>

As the most recent *Green Book* notes, the military fell below two service members per civilian in 2010 and has not improved since. The president's proposed force mix for 2023 offers a 1.68:1 ratio of active-duty military personnel to civilian employees, the lowest ratio since World War II. For perspective, the Pentagon maintained an approximately 2.2:1 ratio of uniforms-to-civilians throughout the height of the Iraq War and a staggering 5.11:1 ratio in 1944.<sup>41</sup>

As shown in figures 14.4 and 14.5, between 2010 and 2022, there was a nearly 6 percent drop in active-duty personnel, while Pentagon civilians grew by largely the same amount (5.65 percent) in that period. This discrepancy between the trends in active-duty personnel and the defense civilian workforce is largely a result of the Pentagon's failure to undertake a thorough "rightsizing" of its workforce, adequately matching personnel to workforce requirements.<sup>42</sup>

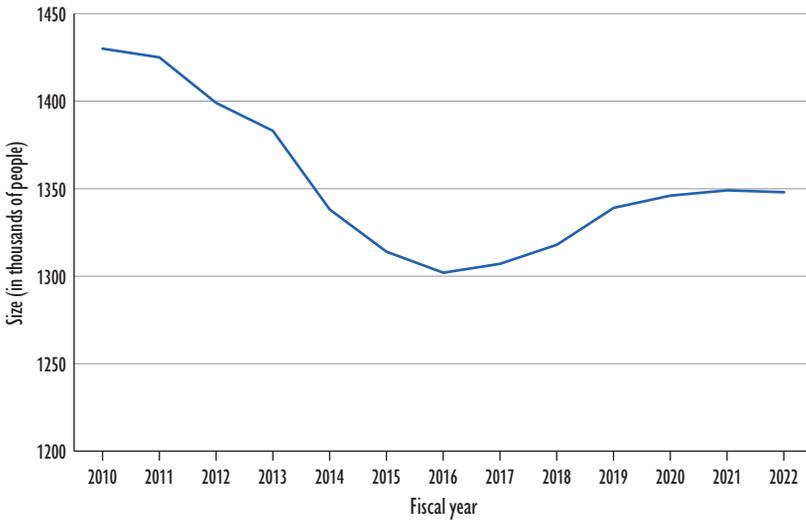
This growth in the civilian workforce comes with a cost. The Congressional Budget Office has projected that compensation for civilian defense employees will consume 33 percent of operation and maintenance dollars between 2022 and 2031.<sup>43</sup> Biasing one workforce over another is unsound and mismatched to global requirements. While there is no doubt that the feds do



**Figure 14.4** Size of Defense Civilian Workforce

Note: Civilians are composed of US and foreign national direct hires. The civilian workforce is counted in full-time equivalents.

Source: US Department of Defense, Office of the Under Secretary of Defense, *National Defense Budget Estimates for FY 2023*, July 2022, Table 7-6.



**Figure 14.5** Size of Active-Duty Force

Note: Figures for 2022 reflect enacted amounts for military personnel.

Source: US Department of Defense, Office of the Under Secretary of Defense, *National Defense Budget Estimates for FY 2023*, July 2022, Table 7-5.

important and valuable work, there is still not enough clarity for senior leaders as to what labor is unique versus duplicative to what the services or Joint Staff may already be doing.<sup>44</sup>

One of the prime drivers of overhead bloat has been a continuous increase in the various headquarters' staffing. As retired major general Arnold Punaro notes in his book *The Ever-Shrinking Fighting Force*, the staffs of the Office of the Secretary of Defense, Joint Chiefs, combatant commands, and defense field activities alone employ more than 240,000 defense civilians and contractors. From the 1950s on, the growth of these staffs has helped push the defense-wide spending category from 5 percent of the defense budget to nearly 20 percent.<sup>45</sup>

Rightsizing defense workforces is challenging; to do it smartly will take time and require careful leadership. No small reason for this is that nearly half of all federal defense civilians are veterans.<sup>46</sup> Understanding the need for certain hiring preferences and programs and whether those goals have been met must also be balanced with keeping civilians involved in US national security structures. Although veterans are civilians, they retain a military ethos, training, and sometimes a mindset not shared by their colleagues who have not served in the armed forces or deployed in conflict.

In 2018, the congressionally mandated National Defense Strategy Commission cautioned that "civilian voices have been relatively muted on issues at the center of US defense and national security policy, undermining the concept of civilian control."<sup>47</sup> Due to the potential for increased interest relative to nonserving peers or preferential hiring practices and other factors, many considerations must be deliberated before taking action.

Even if defense civilians were to shrink only due to attrition or a hiring freeze, the 1990s track record bears dismal results. Blue-collar positions were disproportionately reduced while white-collar civilian supervisor billets were repeatedly filled—resulting in a misshapen workforce with imbalanced skill sets.<sup>48</sup> And in the 1980s, increases in the civilian workforce followed the trend line in military personnel, just as a shrinking civilian workforce in the 1990s followed troop strength cutbacks.<sup>49</sup> Congress should take note and ensure that the growth of the federal defense civilian workforce is tied to the active-duty military's growth (or decline).

### *Reforming the Pentagon Bureaucracy by Subtraction*

Addition is not the only way to bring greater flexibility, stability, and accountability to the Defense Department. Subtraction of rules, regulations, and

bureaucracy is another path and one that Congress should consider embarking on as it looks to reform the Pentagon. The below reforms aim to do just that.

First, when it comes to updating and modernizing bureaucracy, reformers should look no further than the Office of the Under Secretary of Defense for Personnel and Readiness. This office is a bureaucratic add-on that has lacked the innovation and creativity it needs to be effective.<sup>50</sup> And even when the office has attempted bold and creative change, such as in its attempt to overhaul the military in what was dubbed the “Force of the Future” initiative, it was swatted down by Congress and labeled by the late chairman of the Senate Armed Services Committee John McCain (R-AZ) as “an outrageous waste of official time and resources.”<sup>51</sup>

Duplication of work and general dysfunction call for the division of this secretariat’s portfolio of statutorily mandated responsibilities among existing organizations within the Defense Department and the sunseting of the superfluous. For instance, housing, compensation and benefits, health care, education, and training all fall under the purview of the office. Oversight of these areas should be doled out elsewhere in the Pentagon to offices such as the Office of Cost Assessment and Program Evaluation, the Joint Staff, and the Comptroller.<sup>52</sup> Additionally, closing the organization would free up civilian and military personnel to work on these issues in existing organizations or stop missions altogether. Budget documents put the total number of civilians working in personnel and readiness at 146 full-time equivalents in 2022, though this is undoubtedly an undercount when military billets and contractors are considered.<sup>53</sup>

Similarly, Congress should review whether or not the US Space Command is duplicative or redundant now that the US Space Force has fully stood up. For instance, while space is a warfighting domain (in a narrow sense today), we are not yet at the stage where there are full-on battles and combat operations executed in space. That may obviate the need for an entire command dedicated, like the other geographic combatant commands, to planning and executing combat operations.<sup>54</sup> Moreover, given the multiple space-focused organizations spread across the services and the intelligence community, space command is worth a relook to see if it is truly needed.<sup>55</sup>

Another way to trim the Pentagon bureaucracy is a relatively simple one in that it cuts down on the fuel of bureaucracy everywhere: paperwork. Congress should consider reducing the plethora of reports that it mandates the Pentagon produce for the institution. According to the Government

Accountability Office, Pentagon reporting requirements grew 178 percent between 2000 and 2020, from just over 500 in 2000 to over 1,400 two decades later.<sup>56</sup> While there's no doubt that many of the reports produced by the department are useful, such as the Selected Acquisition Reports, which lay out details of the most expensive acquisition programs, others are far from needed.<sup>57</sup> Take, for example, the readiness reports issued by the Office of Personnel and Readiness to Congress each quarter. To compile these, the organization simply collects readiness reports issued by each individual service and then makes a few changes, failing to offer valuable insight into the data that is contained within them.<sup>58</sup> Each report also comes with a price tag for the labor and expenses used to produce them, such as the Section 718 report on restructuring military treatment facilities, which costs \$46,000 in labor.<sup>59</sup> Individually, the cost of a report may not seem like much, but given their varied costs and their explosion in number since 2000, eliminating some of the requirements for them would be a useful step to both rolling back bureaucracy and saving taxpayer dollars. While Congress has moved to ensure all recurring reports have a sunset date certain, there is much more work to be done in minimizing the sheer number of reporting requirements on the executive branch.

Another way that Congress can practice subtraction rather than addition when it comes to reforming the Defense Department is by reducing contracting requirements. Here again, as with the reporting requirements mandated by Congress, bureaucracy has reared its ugly head. Nowhere is this more evident than in commercial item procurement, covered under Federal Acquisition Regulation Part 12, as my colleague Bill Greenwalt has noted. According to the Section 809 Panel, government-specific contracting clauses for commercial items, as well as commercial off-the-shelf (COTS) contracts, increased 189 percent between 1995 and 2018, jumping from 57 to 165.<sup>60</sup> As a matter of principle, these clauses in and of themselves aren't harmful. Contracting regulations, such as those in the Truthful Cost or Pricing Data Act, help ensure the American taxpayer receives a fair shake in the Pentagon's dealings.<sup>61</sup>

But, the growth in government-specific contracting clauses means that companies have to spend more to comply with government regulations. In turn, those costs act as a barrier to doing business with the Defense Department—especially for new entrants and innovative small businesses and technology start-ups.<sup>62</sup> This is all the more concerning given the Pentagon's increasing reliance on commercial sector solutions for its hardware, software,

and services. Congress should carefully consider which contracting clauses are absolutely necessary and which are simply a barrier to entry for businesses that want to work with the Pentagon.<sup>63</sup>

### *Bite-Sized Changes with Outsize Immediate Impact*

The kinds of defense budget reforms needed today to meet the moment fall into two categories: (1) change that aims at a reduction—whether of rules, head count, regulations, laws, provisions, and more; and (2) change that aims to increase accountability for passing appropriations on time and realizing the true costs of running the Department of Defense.

These recommendations are mostly simple, but they're not easy. Yet there is too much admiring of defense budget problems and far too little action and change for bold new ideas. Political will and leadership are required across the various stakeholders in both branches of government but that is a small price to pay, given that the status quo is not working. The challenge of China is too great and too urgent to continue business as usual. Allowing Pentagon leaders to be better able to respond to shifting priorities and threats should not wait.

### *Notes*

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2. Mackenzie Eaglen, "The Paradox of Scarcity in a Defense Budget of Largesse," American Enterprise Institute, July 18, 2022.

3. US Government Accountability Office (GAO), "Defense Budget: DOD Has Adopted Practices to Manage within the Constraints of Continuing Resolutions," GAO-21-541, September 13, 2021; Consolidated Appropriations Act, 2022, Pub. L. No. 117-103; and Consolidated Appropriations Act, 2023, Pub. L. No. 117-328.

4. Grant A. Driessen and Megan S. Lynch, "The Budget Control Act: Frequently Asked Questions," Congressional Research Service Report R44039, October 1, 2019.

5. Bipartisan Budget Act of 2018 (Pub. L. 115-123) (June 2018); Susan Davis, Jessica Taylor, Kelsey Snell, and Scott Neuman, "Trump Signs 2-Year Spending Pact," National Public Radio, February 9, 2018; GAO, "Defense Budget: DoD Has Adopted Practices."

6. GAO, "Federal Budget: Selected Agencies and Programs Used Strategies to Manage Constraints of Continuing Resolutions," GAO-22-104701, June 2022.

7. Mackenzie Eaglen, "Congress, It's Time for Two-Year Budget Deal: Eaglen at AEI," *Breaking Defense*, American Enterprise Institute, January 10, 2021.

8. Patrick Leahy, "Fiscal Year 2023 Omnibus Appropriations Bill: Highlights," a summary report from the US Senate Committee on Appropriations, December 20, 2022.

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