

✓

TESTIMONY OF ROBERT F. HALE
BEFORE THE NATIONAL SECURITY TASK FORCE
OF THE HOUSE BUDGET COMMITTEE
ON DEFENSE MANPOWER ISSUES

JULY 12, 1977

I APPRECIATE THE OPPORTUNITY TO TESTIFY THIS MORNING ON DEFENSE MANPOWER ISSUES AND, IN PARTICULAR, ON THE PROBLEMS OF THE ALL-VOLUNTEER FORCE. I WOULD LIKE TO BEGIN BY LAYING OUT THE NUMBERS AND TYPES OF DEFENSE EMPLOYEES, WHAT THEY COST, AND HOW NUMBERS AND COSTS HAVE BEEN CHANGING IN RECENT YEARS. THEN I'LL TURN TO SOME MAJOR DECISIONS THAT WILL BE FACING THE CONGRESS IN THE NEXT FEW YEARS, AND DISCUSS HOW THEY MAY AFFECT DEFENSE MANPOWER COSTS. FINALLY, I'LL GO INTO MORE DETAIL ON ONE OF THE MOST IMPORTANT OF THESE DECISIONS--THE FUTURE OF THE ALL-VOLUNTEER FORCE.

OVERALL THEME

I THINK THERE IS AN OVERALL THEME THAT I HOPE YOU'LL KEEP IN MIND AS I DISCUSS THESE DEFENSE MANPOWER ISSUES. WE ARE AT SOMETHING OF A CROSSROADS AS REGARDS THE COST OF DEFENSE MANPOWER. THERE ARE SOME DECISIONS TO BE MADE IN THE NEXT FEW YEARS THAT COULD LEAD TO A LARGE INCREASE IN THE COSTS OF DEFENSE MANPOWER. A GOOD EXAMPLE WOULD BE A DECISION TO MEET ANY RECRUITING SHORTFALLS BY SIMPLY INCREASING PAY. BUT THERE ARE OTHER DECISIONS THAT COULD AVOID THESE COST INCREASES. IN FACT, SOME COULD ACTUALLY LEAD TO SIGNIFICANT SAVINGS, WHILE STILL MAINTAINING THE SIZE AND READINESS OF OUR ARMED FORCES. THUS THE CROSSROADS: DEFENSE MANPOWER COSTS COULD GO UP RATHER SHARPLY, OR ACTUALLY COME DOWN, DEPENDING ON DECISIONS MADE IN THE NEXT FEW YEARS. I'LL COME BACK TO THIS THEME SEVERAL TIMES THIS MORNING AS I DISCUSS WHAT THESE CRITICAL DECISIONS ARE.

NUMBERS AND COSTS OF DEFENSE EMPLOYEES

I WOULD LIKE TO BEGIN BY GIVING YOU AN IDEA OF THE NUMBER OF DEFENSE EMPLOYEES AND WHAT THEY COST. I HAVE A HANDOUT THAT I WILL USE THROUGHOUT MY TESTIMONY. ON PAGE 2 OF THE HANDOUT, YOU WILL SEE THAT--IN FISCAL YEAR 1978--DEFENSE PLANS TO EMPLOY SOME 2.1 MILLION ACTIVE DUTY MILITARY PERSONNEL. DEFENSE WILL ALSO EMPLOY ANOTHER 800,000 PAID MILITARY RESERVISTS WHO SERVE IN UNIFORM PART-TIME. IN ADDITION, IN FISCAL YEAR 1978 THERE WILL BE ABOUT 1.0 MILLION CIVILIAN EMPLOYEES, SPLIT ROUGHLY EQUALLY BETWEEN BLUE COLLAR AND WHITE COLLAR WORKERS. FINALLY, DEFENSE PAYS COSTS OF 1.2 MILLION MILITARY RETIREES, THOUGH THESE PERSONS ARE OF COURSE NOT IN TODAY'S LABOR FORCE.

THE HANDOUT ALSO SHOWS HOW THE NUMBERS HAVE CHANGED SINCE FISCAL YEAR 1964. ALL CATEGORIES OF EMPLOYEES HAVE FALLEN. ACTIVE MILITARY NUMBERS HAVE DECLINED ABOUT 22 PERCENT, WHILE RESERVES AND CIVILIANS HAVE DECLINED ABOUT 12 PERCENT. ON THE OTHER HAND, THE NUMBER OF MILITARY RETIREES HAS INCREASED SHARPLY, BY ABOUT A FACTOR OF THREE.

IN FISCAL YEAR 1978, DEFENSE REQUESTED 61 BILLION DOLLARS TO PAY FOR THESE VARIOUS WORKERS AND RETIREES. THE 61 BILLION DOLLARS REPRESENTS ABOUT 56 PERCENT OF TOTAL DEFENSE OUTLAYS FOR 1978, CLEARLY A SIZEABLE CHUNK OF THE DEFENSE BUDGET. I THINK THAT A LOOK AT THE TRENDS IN DEFENSE MANPOWER COSTS WILL BE HELPFUL IN UNDERSTANDING WHY THESE COSTS ARE HIGH.

SINCE 1964, THE SHARE OF DEFENSE OUTLAYS DEVOTED TO MANPOWER HAS GROWN FROM 47 PERCENT TO 56 PERCENT. THIS HAS OCCURRED DESPITE DECLINES IN NUMBERS OF MILITARY AND CIVILIAN EMPLOYEES. ONE IMPORTANT REASON FOR THE GROWTH FROM 47 PERCENT TO 56 PERCENT IS THE SHARP INCREASE IN NUMBERS OF MILITARY RETIREES. THE NUMBERS AT THE TOP OF PAGE 2 ATTEST TO THIS GROWTH. BUT THERE IS ANOTHER REASON. THERE HAVE BEEN SUBSTANTIAL PAY INCREASES FOR BOTH MILITARY AND CIVILIANS DESIGNED TO BRING THESE WORKERS UP TO LEVELS COMPARABLE WITH THE PRIVATE SECTOR, AND TO KEEP THEM THERE. ON THE MILITARY SIDE, THESE PAY INCREASES WERE NEEDED IN ORDER TO MOVE TO AN ALL-VOLUNTEER FORCE.

KEY MANPOWER DECISIONS

NO MATTER WHETHER YOU LOOK AT PAST TRENDS OR THE COST OF DEFENSE MANPOWER TODAY, I THINK THE NUMBERS ON PAGE 2 MAKE CLEAR THAT MANPOWER COSTS ARE A KEY PART OF THE DEFENSE BUDGET. IN THE NEXT FEW YEARS, DECISIONS MAY BE REACHED BY THE EXECUTIVE AND THE CONGRESS THAT COULD HAVE A MAJOR INFLUENCE ON THESE COSTS, AND HENCE ON THE ENTIRE FEDERAL BUDGET. PAGE 3 OF MY HANDOUT LISTS A FEW OF THESE KEY DECISIONS, AND SUGGESTS THE COSTS OR SAVINGS ASSOCIATED WITH THEM. I'D LIKE TO BRIEFLY DISCUSS EACH OF THEM WITH YOU.

NUMEROUS STUDIES AND PIECES OF LEGISLATION HAVE CALLED FOR REFORM OF THE MILITARY COMPENSATION SYSTEM. THE PRESIDENT HAS RECENTLY FORMED A BLUE RIBBON COMMISSION TO REVIEW THESE STUDIES AND TO RECOMMEND A NEW COMPENSATION SYSTEM.

THE BLUE RIBBON COMMISSION COULD RECOMMEND A NUMBER OF REFORMS INCLUDING CHANGES IN THE WAY ACTIVE DUTY MILITARY ARE PAID AND THE WAY THEIR PAY IS ADJUSTED FOR INCREASES IN PRICES. BUT THE KEY CHANGE WILL PROBABLY BE IN THE MILITARY RETIREMENT SYSTEM. MILITARY RETIREMENTS COSTS HAVE GROWN SHARPLY IN RECENT YEARS, FROM 1.2 BILLION DOLLARS IN 1964 TO 9.2 BILLION DOLLARS IN 1977. AND COSTS WILL CONTINUE TO INCREASE, THOUGH ALMOST CERTAINLY AT A SLOWER RATE. PART OF THE REASON FOR HIGH RETIREMENT COSTS IS THAT MILITARY MEMBERS CAN RETIRE AFTER 20 YEARS OF SERVICE--WHICH SOMETIMES OCCURS AS EARLY AS AGE 38--AND STILL RECEIVE HALF THEIR BASIC PAY FOR LIFE, ADJUSTED FOR INCREASES IN THE CONSUMER PRICE INDEX. AN IMPORTANT PART OF ANY RETIREMENT REFORM WOULD INVOLVE REDUCING RETIRED PAY FOR FUTURE 20-YEAR RETIREES, IN ORDER TO ENCOURAGE LONGER CAREERS AND CUT COSTS. BUT ANOTHER EQUALLY IMPORTANT PART OF RETIREMENT REFORM WOULD INCREASE BENEFITS TO THOSE WHO LEAVE THE MILITARY WITH LESS THAN 20 YEARS OF SERVICE. RIGHT NOW THEY GET NOTHING AT ALL, WHICH MAKES IT DIFFICULT TO PROPERLY MANAGE THE FORCE.

THESE TWO CHANGES, PLUS MANY OTHERS THAT MAY BE PROPOSED, COULD SAVE LARGE AMOUNTS OF MONEY, THOUGH SIGNIFICANT SAVINGS OCCUR ONLY AFTER A NUMBER OF YEARS. PAGE 3 OF MY HANDOUT INDICATES THAT, DEPENDING ON THE SPECIFIC REFORM, SAVINGS BY THE YEAR 2000 COULD RANGE FROM 700 MILLION DOLLARS TO 2 BILLION DOLLARS PER YEAR, AND THAT'S IN TODAY'S DOLLARS.

IMPORTANT DECISIONS MAY ALSO OCCUR IN THE AREA OF CIVILIAN COMPENSATION. SINCE DEFENSE EMPLOYS ALMOST HALF OF ALL FEDERAL GOVERNMENT CIVILIANS OUTSIDE THE POSTAL SERVICE, ANY CIVILIAN PAY REFORMS WILL HAVE A SIGNIFICANT EFFECT ON DEFENSE MANPOWER COSTS. A KEY CIVILIAN REFORM INVOLVES FEDERAL BLUE COLLAR WORKERS, USUALLY CALLED WAGE BOARD WORKERS. UNDER THE CURRENT PAY LAW, THESE WAGE BOARD WORKERS RECEIVE AN AVERAGE OF 8 TO 9 PERCENT MORE THAN WORKERS HOLDING COMPARABLE JOBS IN THE PRIVATE SECTOR. IN SOME CASES, FEDERAL WAGE BOARD WORKERS RECEIVE AS MUCH AS 35 PERCENT HIGHER WAGES. LAST YEAR A PRESIDENTIAL COMMISSION RECOMMENDED MAJOR CHANGES IN THE WAGE BOARD LAW. THESE CHANGES WOULD EVENTUALLY SAVE THE FEDERAL GOVERNMENT SOME 660 MILLION DOLLARS PER YEAR. DEFENSE WOULD REALIZE ABOUT 540 MILLION DOLLARS OF THE SAVINGS.

YET ANOTHER IMPORTANT AREA IS CIVILIAN PERSONNEL REQUIREMENTS. HERE THERE ARE SEVERAL DECISIONS THAT MAY AFFECT NUMBERS OF REQUIRED CIVILIANS AND HENCE THEIR COST. DECISIONS MAY BE MADE ON CLOSING DEFENSE BASES, ON THE AMOUNT OF WORK THAT CAN BE CONTRACTED OUT TO PRIVATE WORKERS, AND ON APPROPRIATE SUBSTITUTIONS OF CIVILIAN FOR MILITARY WORKERS. SINCE THERE ARE FEW CONCRETE PROPOSALS IN THIS CONTROVERSIAL AREA, WE HAVE NOT ATTACHED A DOLLAR FIGURE TO THIS DECISION. HOWEVER, DEFENSE NOW SPENDS ABOUT 19 BILLION DOLLARS, OR 30 PERCENT OF ITS MANPOWER BUDGET ON CIVILIANS. SO THE POSSIBILITY FOR SAVINGS MAY BE SIGNIFICANT.

THE LAST OF THE KEY DEFENSE MANPOWER DECISIONS THAT I WANT TO DISCUSS IS HOW WE SHOULD MEET OUR NEEDS FOR MILITARY RECRUITS. SHOULD WE CONTINUE THE ALL-VOLUNTEER FORCE, OR SEEK OTHER SOLUTIONS? SINCE THIS IS THE FOCUS OF THESE HEARINGS, I INTEND TO GO INTO MORE DETAIL ON THIS DECISION. SUFFICE IT TO POINT OUT NOW THAT SOME WAYS OF MEETING RECRUIT NEEDS, SUCH AS INCREASES IN PAY, COULD RESULT IN LARGE INCREASES IN THE COSTS OF DEFENSE MANPOWER. BUT OTHER WAYS OF MEETING OUR RECRUIT NEEDS COULD AVOID THESE INCREASES.

THIS COMPLETES MY BRIEF OVERVIEW OF KEY DECISIONS IN DEFENSE MANPOWER. I THINK THIS BRIEF DISCUSSION OF KEY ISSUES EMPHASIZES THE THEME I MENTIONED AT THE BEGINNING OF MY TESTIMONY. THERE ARE SOME DECISIONS, PARTICULARLY IN THE COMPENSATION AREA, THAT CAN LEAD TO SIGNIFICANT SAVINGS. BUT COSTS COULD INCREASE SHARPLY DEPENDING ON DECISIONS REGARDING THE ALL-VOLUNTEER FORCE. LET ME NOW TURN TO THIS ISSUE IN MORE DETAIL.

I WOULD LIKE TO DIVIDE MY DISCUSSION OF THE ALL-VOLUNTEER FORCE, OR AVF, INTO TWO PARTS: FIRST, PROBLEMS WITH ACTIVE FORCES, AND THEN A DISCUSSION OF THE SEPARATE BUT RELATED PROBLEMS OF RESERVES. LET ME DEAL FIRST WITH THE ACTIVE SIDE.

PROBLEMS IN MEETING NEEDS FOR ACTIVE RECRUITS

SINCE THE DRAFT ENDED IN JANUARY OF 1973, THE SERVICES HAVE HAD TO ATTRACT ABOUT 440,000 PERSONS A YEAR INTO THE ACTIVE FORCES. THE MAJOR ISSUES REVOLVE AROUND THE 400,000 OR SO WHO ARE RECRUITED ANNUALLY INTO THE ENLISTED FORCES.

THE SERVICES HAVE BEEN QUITE SELECTIVE ABOUT WHO MAKES UP THESE 400,000 ENLISTED RECRUITS. THEY HAVE TAKEN MOSTLY MALES; ONLY ABOUT 8 TO 9 PERCENT OF ACCESSIONS ARE WOMEN. THEY HAVE GENERALLY BEEN YOUNG MALES, MOSTLY 18 AND 19 YEAR OLDS. ONLY ABOUT 60 PERCENT OF ALL YOUNG MALES IN THE UNITED STATES MEET THE ARMY'S PHYSICAL AND MENTAL STANDARDS FOR ENLISTMENT. OF THE REMAINING ELIGIBLES, THE SERVICES HAVE TRIED TO ENSURE THAT 60 TO 70 PERCENT OF THEIR 400,000 RECRUITS HAVE HIGH-SCHOOL DEGREES. .

DESPITE THESE MANY RESTRICTIONS, THE DEPARTMENT OF DEFENSE AND MOST INDEPENDENT OBSERVERS HAVE CONCLUDED THAT THE SERVICES HAVE MET THEIR RECRUITING GOALS. THEY HAVE GOTTEN ENOUGH RECRUITS TO MEET CONGRESSIONALLY AUTHORIZED END STRENGTHS WITH MINOR EXCEPTIONS. AND QUALITY HAS BEEN IMPROVING, USUALLY TO LEVELS AT OR ABOVE THOSE UNDER THE DRAFT.

ALL HAS NOT BEEN ROSY, OF COURSE. THERE HAVE BEEN SHORTAGES OF RECRUITS WANTING TO ENTER COMBAT SKILLS. THERE HAS BEEN CONCERN ABOUT HIGHER NUMBER OF BLACKS WHO HAVE ENTERED UNDER THE AVF. AND COSTS HAVE GONE UP AS PAY, BONUSES, AND RECRUITING COSTS INCREASED.

BUT THE PROBLEM OF THE ALL-VOLUNTEER FORCE, AT LEAST ON THE ACTIVE SIDE, IS BASICALLY NOT A PROBLEM OF TODAY. INSTEAD, THE PROBLEM IS A PROBABLE SHORTFALL OF HIGH QUALITY RECRUITS IN FUTURE YEARS, PARTICULARLY IN THE 1980s.

LIKELY RECRUIT SHORTAGES. I THINK THE CHART ON PAGE 4 OF MY HANDOUT MAKES THIS POINT CLEAR. THE CHART COMPARES SERVICE ESTIMATES OF THE DEMAND FOR HIGH QUALITY ENLISTED RECRUITS WITH CBO PROJECTIONS OF THE LIKELY SUPPLY. NOTE THAT THE CHART DEALS ONLY WITH THE PRIME RECRUITING CATEGORIES: YOUNG, MALE, HIGH SCHOOL GRADUATES WITH HIGH MENTAL TEST SCORES. I WANT TO EMPHASIZE THAT: WE ARE DEALING HERE ONLY WITH HIGH QUALITY RECRUITS. THE SERVICES HAVE GOTTEN, AND PROBABLY WILL CONTINUE TO GET, ENOUGH LOWER QUALITY RECRUITS. I ALSO WANT TO POINT OUT THAT THIS CHART IS A SORT OF CURRENT-RULES PROJECTION. IT ASSUMES NO MAJOR CHANGES IN NUMBERS OF RECRUITERS, ENLISTMENT BONUSES, OR OTHER POLICIES.

THE HEAVY LINE AT THE TOP OF THE CHART SHOWS THAT DEMAND FOR HIGH QUALITY RECRUITS IS RELATIVELY CONSTANT. THERE ARE ONLY SMALL CHANGES TO ADJUST FOR ANNUAL FLUCTUATIONS AND A SLIGHT UPWARD TREND TO REFLECT SOME DESIRE ON THE PART OF THE SERVICES FOR EVEN MORE RECRUITS OF HIGH QUALITY.

BUT THE DASHED LINES ON THE CHART SHOW THAT SUPPLY IS LIKELY TO DROP SHARPLY, ESPECIALLY IN THE 1980s. THE MAJOR REASON FOR THE DROP IS LOW BIRTH RATES IN THE 1960s. BECAUSE OF THESE LOW BIRTH RATES, THERE WILL BE 15 PERCENT FEWER 18 TO 19 YEAR OLDS IN THE 1985 POPULATION THAN THERE ARE IN TODAY'S POPULATION.

AND THERE ARE FACTORS OTHER THAN BIRTH RATES THAT ARE PUSHING DOWN THE SUPPLY OF RECRUITS. IN RECENT YEARS, MILITARY PAY HAS TENDED TO LAG BEHIND CIVILIAN BLUE-COLLAR PAY, AND OUR CURRENT POLICY FORECAST ASSUMES A CONTINUATION OF THIS TREND. UNEMPLOYMENT ALSO PLAYS A ROLE. DURING PERIODS OF HIGH UNEMPLOYMENT, DoD HAS AN EASIER TIME GETTING RECRUITS. SINCE FUTURE UNEMPLOYMENT IS PARTICULARLY UNCERTAIN, WE HAVE SHOWN THE EFFECTS OF TWO DIFFERENT UNEMPLOYMENT RATES: ONE WHICH ASSUMES A HIGH UNEMPLOYMENT RATE THAT STAYS AROUND 7.5 PERCENT, AND ANOTHER THAT ASSUMES A RATE THAT FALLS TO ABOUT 4.5 PERCENT.

THE BUSINESS OF LONG-RUN FORECASTS, SUCH AS THIS, IS AN UNCERTAIN BUSINESS AT BEST. THIS CHART REFLECTS AN EDUCATED GUESS AS TO HOW RECRUITING SUCCESS WILL BE AFFECTED BY CHANGES IN PAY, UNEMPLOYMENT, AND NUMBER OF AVAILABLE HIGH SCHOOL GRADUATES. NONETHELESS, I THINK THE MESSAGE OF THIS CHART IS CLEAR. UNDER CURRENT POLICIES, THERE IS LIKELY TO BE A SHORTAGE OF HIGH QUALITY MALE RECRUITS. THE SHORTAGE RANGES BETWEEN 20 AND 40 PERCENT, DEPENDING ON UNEMPLOYMENT RATES.

SOLUTIONS TO THE SHORTFALL. WHAT CAN WE DO ABOUT THIS SHORTAGE? ONE SOLUTION, OF COURSE, IS TO REDUCE THE SIZE OF OUR ARMED FORCES. FOR EXAMPLE, WITHDRAWING A DIVISION FROM KOREA AND ELIMINATING IT FROM THE FORCE WOULD HELP SOLVE THE PROBLEM. HOWEVER, SUCH FORCE REDUCTIONS HAVE IMPLICATIONS FOR OUR DEFENSE CAPABILITY AND FOREIGN POLICY THAT ARE BEYOND THE SCOPE OF MY TESTIMONY THIS MORNING.

SO I WOULD LIKE TO TURN TO WAYS TO SOLVE THE RECRUIT SHORTAGE WHILE MAINTAINING TODAY'S DEFENSE CAPABILITY. PAGE 5 OF MY HANDOUT OUTLINES SEVERAL POSSIBLE SOLUTIONS, AND THE COSTS ASSOCIATED WITH EACH ONE. ONE WAY TO SOLVE THE SHORTFALL IS TO INCREASE PAY OR BONUSES. BUT THIS IS LIKELY TO BE EXPENSIVE. CBO ESTIMATES THAT, IF WE MEET THE LARGEST OF THE 1985 SHORTFALLS THAT I HAVE JUST DISCUSSED WITH HIGHER PAY, DEFENSE MANPOWER COSTS IN 1985 WILL BE 8 BILLION DOLLARS HIGHER. THE 8 BILLION DOLLAR FIGURE DOES ASSUME THAT EQUAL PAY RAISES ARE GIVEN TO ALL PERSONNEL, AS IS REQUIRED BY CURRENT LAW. IT WOULD BE MUCH MORE EFFICIENT TO PAY BONUSES ONLY TO SCARCE RECRUITS, RATHER THAN RAISING EVERYBODY'S PAY. BUT EVEN BONUSES WOULD INCREASE MANPOWER COSTS BY ABOUT 2.6 BILLION DOLLARS A YEAR BY 1985.

HOWEVER, THERE ARE WAYS TO AVOID THE COST INCREASES. A VARIETY OF POLICY CHANGES COULD HELP MEET RECRUITING SHORTFALLS WITH MUCH SMALLER INCREASES IN COSTS, OR PERHAPS WITH NO INCREASES AT ALL. I HAVE LISTED SOME POSSIBLE POLICY CHANGES ON PAGE 5. LET ME DISCUSS A FEW OF THE MORE IMPORTANT ONES VERY BRIEFLY, AND I'LL LEAVE THE DETAILS TO OTHER WITNESSES AND YOUR QUESTIONS.

ABOUT 7 PERCENT OF THE CURRENT ENLISTED FORCE IS FEMALE. THIS IS UP FROM ONLY 1 PERCENT IN 1964, BUT THERE IS EVIDENCE THAT MORE WOMEN COULD BE USED IN THE MILITARY. IF MORE WOMEN CAN BE USED, MORE WOMEN CAN CERTAINLY BE RECRUITED. THERE HAVE BEEN NO SHORTAGES OF WOMEN RECRUITS TO DATE, AND ALMOST ALL WOMEN RECRUITS HAVE BEEN OF HIGH QUALITY. AND, OF COURSE, EVERY EXTRA HIGH QUALITY FEMALE RECRUIT REDUCES THE MALE SHORTFALL.

ANOTHER WAY TO REDUCE THE RECRUIT SHORTFALL IS BY HIGHER RETENTION OF THOSE RECRUITS WE DO GET. IN RECENT YEARS THE FRACTION OF ENLISTED PERSONNEL WHO HAVE LEFT THE SERVICE HAS ACTUALLY BEEN HIGHER THAN IN SIMILAR PERIODS UNDER THE DRAFT. THIS IS DUE IN PART TO POLICIES THAT MAKE IT EASIER FOR YOUNG RECRUITS TO LEAVE THE MILITARY DURING THE FIRST FEW YEARS. IF WE CHANGE POLICY SO AS TO REDUCE THESE LOSSES, WE CAN NOT ONLY REDUCE THE DEMAND FOR RECRUITS. WE CAN ALSO SAVE MONEY BECAUSE OF REDUCED COSTS OF INITIAL TRAVEL AND TRAINING.

YET ANOTHER WAY TO REDUCE THE RECRUIT SHORTFALL IS BY USING THE PEOPLE WE HAVE MORE EFFICIENTLY. WE COULD DO THIS BY SUPPORT EFFICIENCIES. FOR EXAMPLE, ALMOST 20 PERCENT OF ALL DEFENSE PERSONNEL ARE INVOLVED IN TRAINING, EITHER AS STUDENTS OR TRAINERS. CBO HAS IDENTIFIED SEVERAL OPTIONS THAT COULD REDUCE THE SIZE OF THIS TRAINING ESTABLISHMENT, WHILE STILL KEEPING UP THE AMOUNT OF TRAINED OUTPUT. THIS OPTION, LIKE THE OPTION OF IMPROVED RETENTION, COULD ACTUALLY CUT COSTS AT THE SAME TIME IT REDUCES THE RECRUIT SHORTFALL.

AND THERE ARE A NUMBER OF OTHER POSSIBLE CHANGES. WE COULD CONSIDER USING MORE CIVILIANS IN STATESIDE COMMERCIAL AND INDUSTRIAL JOBS, THEREBY REDUCING THE NEEDS FOR MILITARY RECRUITS. OR WE COULD INCREASE THE SUPPLY OF RECRUITS BY MODESTLY RELAXING OUR STRINGENT PHYSICAL STANDARDS, OR BY ACCEPTING SLIGHTLY HIGHER FRACTIONS OF THOSE IN THE LOWER MENTAL CATEGORIES, AND OF COURSE BY MAKING MORE USE OF RECRUITERS AND ADVERTISING.

THE BOTTOM LINE IS THAT, AT LEAST BASED ON CBO ESTIMATES, WE CAN MEET EVEN THE 1985 SHORTFALL OF RECRUITS BY REASONABLE COMBINATIONS OF THESE POLICY CHANGES. DEPENDING ON WHICH CHANGES ARE SELECTED, COSTS MAY GO UP BY A FEW HUNDRED MILLION DOLLARS. BUT THERE ARE SELECTIONS OF OPTIONS THAT CAN EVEN REDUCE COSTS SLIGHTLY WHILE MEETING THE SHORTFALL. NATURALLY, THESE POLICY OPTIONS MUST BE CONSIDERED IN MORE DEPTH BY THE EXECUTIVE BRANCH BEFORE ANY ARE IMPLEMENTED, AND IT APPEARS THAT THE EXAMINATION IS TAKING PLACE RIGHT NOW.

LET ME TURN BRIEFLY NOW TO OTHER POSSIBLE SOLUTIONS TO THE PROBLEMS OF THE AVF, NAMELY NATIONAL SERVICE AND THE DRAFT. THERE ARE SOME WHO SEE THE PROBLEMS OF THE AVF AS PART OF BROADER PROBLEMS IN OUR APPROACH TO YOUTH EMPLOYMENT. SENATOR NUNN OF THE SENATE ARMED SERVICES COMMITTEE IS PROMINENT AMONG THESE PEOPLE. SENATOR NUNN ADVOCATES A GREATLY EXPANDED PROGRAM OF NON-MILITARY NATIONAL SERVICE OPPORTUNITIES, SUCH AS VISTA AND THE PEACE CORPS. HE WOULD ALSO REQUIRE THAT EVERY YOUTH, BOTH MALE AND FEMALE, BE INTERVIEWED BY A RECRUITER WHO WOULD EXPLAIN BOTH THE MILITARY AND NON-MILITARY ALTERNATIVES. HOW THIS SORT OF A NATIONAL SERVICE PROGRAM WOULD AFFECT THE MILITARY REQUIRES FURTHER STUDY. BUT THE PROGRAM WOULD ALMOST CERTAINLY INCREASE COSTS. WHILE NO FIRM ESTIMATES OF COSTS ARE AVAILABLE, A STUDY DONE FOR SENATOR NUNN ESTIMATED THAT COSTS COULD INCREASE BY ROUGHLY 8 BILLION DOLLARS PER YEAR. MUCH OF THIS INCREASE WOULD OCCUR OUTSIDE OF THE DEFENSE BUDGET.

FINALLY, WE COULD RETURN TO THE DRAFT. A RETURN TO THE DRAFT WOULD SAVE MONEY. AT A MINIMUM, WE COULD GREATLY REDUCE RECRUITING, ADVERTISING, AND ENLISTMENT BONUSES. DEFENSE ESTIMATES THAT THIS WOULD SAVE ABOUT 500 MILLION DOLLARS PER YEAR. ANY FURTHER SAVINGS WOULD REQUIRE CUTS IN THE PAY FOR NEW RECRUITS. IF, FOR EXAMPLE, WE WERE TO CUT THE PAY OF NEW RECRUITS BACK TO THE FEDERAL MINIMUM WAGE, DEFENSE ESTIMATES SAVINGS OF 2 BILLION DOLLARS PER YEAR. OF COURSE, CRITICS OF THE DRAFT WOULD ARGUE THAT WE WOULD ACHIEVE THESE SAVINGS BY SHIFTING THE COST FROM THE TAXPAYERS AS A WHOLE TO THE SMALL NUMBER WHO WOULD BE REQUIRED TO SERVE INVOLUNTARILY.

PROBLEMS OF THE RESERVES

I HAVE DEALT AT SOME LENGTH WITH THE PROBLEMS OF THE ALL-VOLUNTEER FORCE FOR ACTIVE DUTY PERSONNEL. I WOULD LIKE TO CONCLUDE BY BRIEFLY DISCUSSING PROBLEMS OF THE RESERVES UNDER THE ALL-VOLUNTEER FORCE. THE UNITED STATES CURRENTLY HAS SOME 820,000 PAID RESERVISTS. THESE SO-CALLED SELECTED RESERVES USUALLY HAVE FULL-TIME CIVILIAN JOBS, BUT FOR ONE WEEKEND A MONTH AND FOR TWO WEEKS IN THE SUMMER, THEY ARE MEMBERS OF THE MILITARY. IN CASE OF A MAJOR WAR, THEY WOULD ATTEMPT TO MOBILIZE QUICKLY AND ASSIST OUR ACTIVE FORCES. PAGE 6 OF MY HANDOUT SHOWS THAT, UNLIKE THE ACTIVE FORCES, THE SELECTED RESERVES HAVE PROBLEMS TODAY. AS OF FEBRUARY OF THIS YEAR, THE RESERVES WERE 58,900 PERSONS SHORT OF THE LEVEL THAT CONGRESS HAS AUTHORIZED. MOST OF THIS SHORTFALL WAS IN TWO ARMY COMPONENTS, THE ARMY RESERVE AND THE ARMY NATIONAL GUARD.

THE UNITED STATES ALSO HAS UNPAID RESERVISTS. THESE PEOPLE GENERALLY DO NOT SERVE IN THE MILITARY DURING PEACETIME. BUT DURING A FULL MOBILIZATION THESE "INDIVIDUAL READY RESERVES" WOULD JOIN THE ACTIVE FORCES IN ORDER TO BRING THEM TO FULL STRENGTH AND REPLACE COMBAT LOSSES. MOST INDIVIDUAL READY RESERVES ARE YOUNG MEN WHO HAVE SERVED ONE TERM IN THE SERVICE AND GOTTEN OUT. THE LAW REQUIRES THAT THEY SPEND SEVERAL YEARS IN THE UNPAID RESERVE. BUT AS INITIAL TERMS OF ACTIVE SERVICE LENGTHENED UNDER THE ALL-VOLUNTEER FORCE, THE INDIVIDUAL READY RESERVE HAS FALLEN SHARPLY. RECENT STUDIES HAVE ESTIMATED THAT, BY 1980, WE WILL BE SHORT ABOUT 250,000 INDIVIDUAL READY RESERVES.

THE SOLUTIONS TO THE RESERVE PROBLEM ARE SIMILAR TO THOSE ON THE ACTIVE SIDE. WE COULD RAISE PAY. UNFORTUNATELY, WE DON'T KNOW MUCH ABOUT HOW RESERVES WILL REACT TO EXTRA PAY. SO IT IS HARD TO SAY HOW MUCH MORE WE WILL HAVE TO RAISE IT. BUT THE CHIEF OF STAFF OF THE ARMY HAS SAID THAT THE ARMY RESERVE COMPONENTS ALONE NEED PAY INCREASES THAT COULD COST 750 MILLION DOLLARS PER YEAR. SO THE BILL MAY BE HIGH.

HOWEVER, AS WAS THE CASE FOR ACTIVE PERSONNEL, IT MAY BE POSSIBLE TO AVOID AT LEAST SOME OF THE INCREASED COSTS THROUGH POLICY CHANGES. ONE CHANGE INVOLVES A CLOSE LOOK AT HOW MANY RESERVISTS WE REALLY NEED. THE CRITICAL ROLE OF THE RESERVES WOULD COME IN THE EARLY DAYS OF A MAJOR WAR BEFORE NEW RECRUITS COULD BE DRAFTED AND TRAINED. IT MAY BE POSSIBLE TO FILL THESE EARLY NEEDS

WITH FEWER THAN 800,000 OR 900,000 RESERVES. EVEN IF WE WANT TO KEEP AROUND 900,000 RESERVES, SHORTFALLS COULD BE MET THROUGH MORE USE OF PERSONNEL WITH PRIOR MILITARY EXPERIENCE--WHO ARE NOT IN SUCH SHORT SUPPLY. RESERVES COULD ALSO USE MORE WOMEN, THOUGH THEY ARE ALREADY RECRUITING MORE FEMALES THAN THE ACTIVE FORCES. AND THE RESERVES MUST SEEK HIGHER RETENTION. OF COURSE, IF NATIONAL SERVICE OR THE DRAFT ARE SERIOUSLY CONSIDERED, THEY COULD PROBABLY BE STRUCTURED IN A WAY THAT WOULD SOLVE RESERVE RECRUITING PROBLEMS.

SUMMARY

LET ME CONCLUDE BY SUMMARIZING THE KEY POINTS I HAVE TRIED TO MAKE. PAGE 7 OF MY HANDOUT SHOWS THESE POINTS. THE FIRST IS THAT DEFENSE MANPOWER COSTS DEPEND CRITICALLY ON HOW WE DECIDE TO MEET OUR NEEDS FOR RECRUITS. UNDER CURRENT POLICIES, THERE IS LIKELY TO BE A SHORTFALL OF RECRUITS. ON THE ACTIVE SIDE, THE 1985 SHORTAGE COULD AMOUNT TO 20 TO 40 PERCENT. IF WE TRY TO RAISE PAY IN ORDER TO ELIMINATE THE SHORTFALL, MANPOWER COSTS COULD GO UP BY 2 TO 8 BILLION DOLLARS PER YEAR BY 1985. BUT IF WE ELIMINATE THE SHORTFALL BY CHANGING POLICIES, IT MAY BE POSSIBLE TO AVOID THESE INCREASES. POLICY CHANGES COULD INCLUDE USING MORE WOMEN, HIGHER RETENTION, SUPPORT EFFICIENCIES, AND OTHERS.

A SECOND KEY POINT IS THAT THERE ARE OTHER DECISIONS THAT COULD REDUCE COSTS OF DEFENSE MANPOWER. I REVIEWED THESE DECISIONS BRIEFLY AT THE BEGINNING OF MY TESTIMONY. THEY ARE PRIMARILY DECISIONS ABOUT REFORM OF THE MILITARY AND CIVILIAN COMPENSATION SYSTEM, AND DECISIONS ABOUT CHANGING PERSONNEL REQUIREMENTS.

I THINK THIS SUMMARY EMPHASIZES AGAIN THE THEME I HAVE MENTIONED SEVERAL TIMES THIS MORNING. DEFENSE MANPOWER COSTS COULD GO UP RATHER SHARPLY IN THE NEXT FEW YEARS. OR THEY COULD GO DOWN, AND ASSIST IN REACHING A BALANCED FEDERAL BUDGET IN THE 1980s. WHICH WAY THEY GO DEPENDS ON DECISIONS THAT WILL CONFRONT THIS COMMITTEE AND THE CONGRESS OVER THE NEXT SEVERAL SESSIONS.

DEFENSE MANPOWER AND THE ALL-VOLUNTEER FORCE

- o COSTS OF DEFENSE MANPOWER
- o MAJOR DECISIONS THAT COULD AFFECT COSTS
- o A KEY DECISION: THE FUTURE OF THE ALL-VOLUNTEER FORCE
 - ACTIVE DUTY PROBLEMS AND SOLUTIONS
 - RESERVE PROBLEMS AND SOLUTIONS

THE DEFENSE PAYROLL (in millions)

	<u>FY 64</u>	<u>FY 78</u>
ACTIVE MILITARY	2.7	2.1
PAID MILITARY RESERVES	1.0	0.8
CIVILIANS	1.2	1.0
~		
MILITARY RETIREES	0.4	1.2

COSTS OF DEFENSE MANPOWER

	<u>\$ BILLIONS</u>	<u>% OF DEFENSE OUTLAYS</u>
FISCAL YEAR 1978	\$61.0	56%
FISCAL YEAR 1977	57.2	58
FISCAL YEAR 1976	53.6	61
FISCAL YEAR 1970	41.4	53
FISCAL YEAR 1964	24.0	47

KEY DEFENSE MANPOWER DECISIONS

SHOULD THE MILITARY COMPENSATION SYSTEM BE REFORMED:

- o Key reform: military retirement
- o Retirement reform can eventually save \$0.7 billion to \$2 billion per year, or more

SHOULD THE CIVILIAN COMPENSATION SYSTEM BE REFORMED?

- o Key reform: wage board pay
- o Wage board reform can save DoD \$540 million per year

SHOULD CIVILIAN PERSONNEL REQUIREMENTS CHANGE?

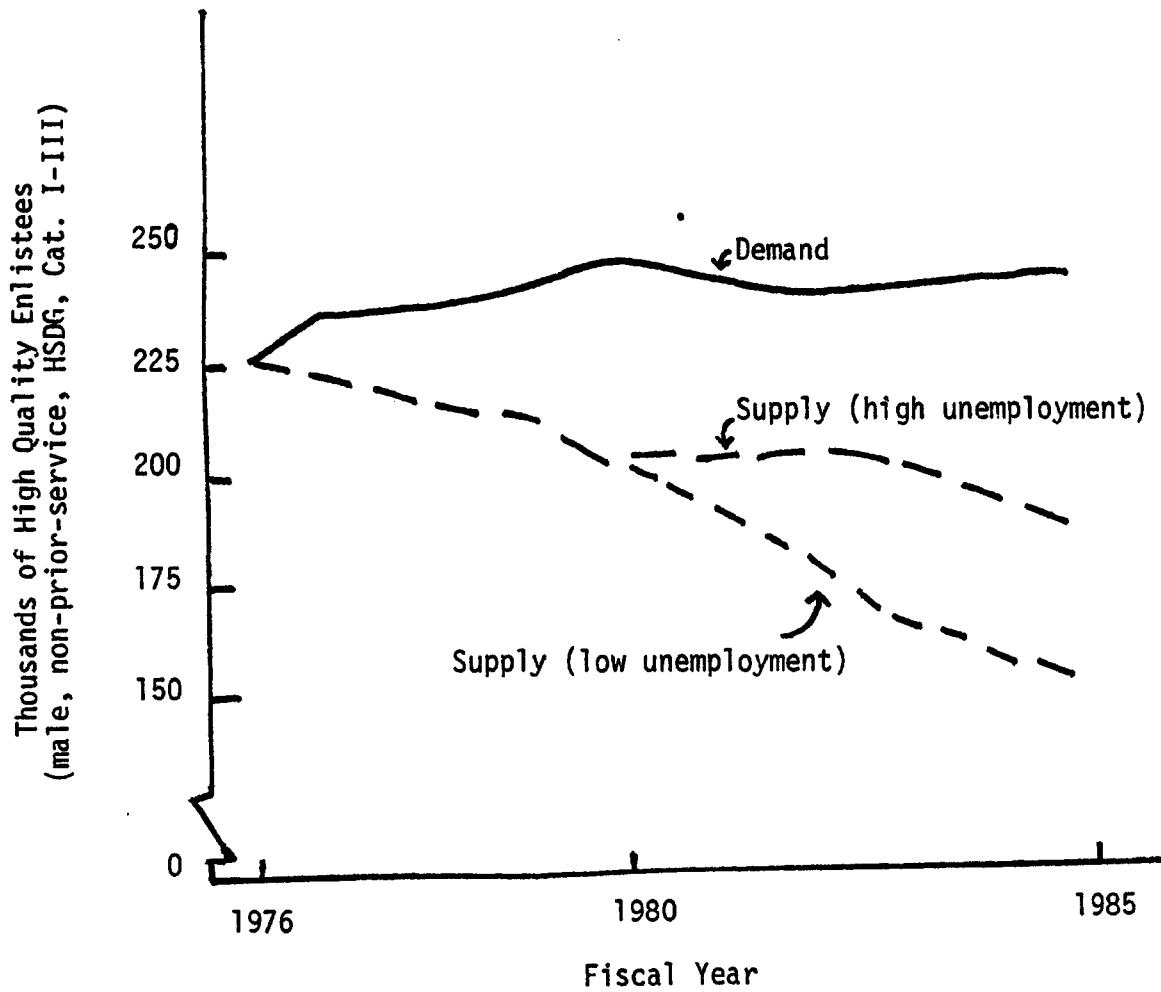
- o Close unneeded bases
- o Contract out work to the private sector
- o Substitution of civilian for military personnel

HOW SHOULD WE MEET RECRUIT NEEDS?

- o Raising pay to meet needs could cost \$2 billion to \$8 billion more per year
- o Policy changes may meet needs without cost increases

PROBLEM FOR THE ALL-VOLUNTEER FORCE:

PROBABLE SHORTFALL OF HIGH-QUALITY
MALE ENLISTEES FOR ACTIVE FORCES



MEETING NEEDS FOR ACTIVE DUTY RECRUITS

<u>OPTIONS</u>	<u>ANNUAL COSTS (+) OR SAVINGS (-) (LONG RUN)</u>
HIGHER PAY OR BONUSES	+\$2.6 TO +\$8.4 BILLION
POLICY CHANGES	-\$0.1 TO +\$0.4 BILLION (DEPENDING ON CHANGES SELECTED)
o MORE WOMEN	
o HIGHER RETENTION	
o SUPPORT EFFICIENCIES	
o MORE CIVILIANS	
o INCREASE RECRUIT SUPPLY	
NATIONAL SERVICE	?
THE DRAFT	-\$0.5 TO -\$2.5 BILLION

PROBLEM FOR THE VOLUNTEER FORCE:
RESERVE SHORTFALLS

	FEBRUARY 1977		
	AUTHORIZED	ASSIGNED	SHORTFALL
SELECTED RESERVE	.		
ARMY COMPONENTS	602,400	553,900	-48,500
OTHER SERVICES	275,300	264,900	-10,400
TOTAL	877,700	818,800	-58,900

INDIVIDUAL READY RESERVE: SHORT 250,000 BY 1980

SUMMARY

- o COSTS DEPEND ON HOW WE DECIDE TO MEET NEEDS FOR RECRUITS
 - o SHORTFALLS LIKELY UNDER CURRENT POLICY
 - o MEETING NEEDS WITH HIGHER PAY WILL BE EXPENSIVE
 - o MEETING NEEDS BY CHANGING POLICIES COULD AVOID INCREASES

- o COSTS COULD BE REDUCED BY OTHER DECISIONS
 - o REFORM OF MILITARY COMPENSATION
 - o REFORM OF CIVILIAN COMPENSATION
 - o CHANGES IN CIVILIAN PERSONNEL REQUIREMENTS

* * * * *

COSTS OF DEFENSE MANPOWER COULD GO UP SHARPLY, OR DOWN
DEPENDING ON KEY DECISIONS

* * * * *

