



Transforming the Rewards for Military Service

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Air National Guard photograph by Senior Master Sgt. Mike Arellano.

Executive Summary

For the first time since conscription ended in 1973, U.S. military forces are engaged in a large, long, deadly operation abroad. The wars in Iraq and Afghanistan and, more recently, the disaster relief effort in the aftermath of Hurricane Katrina have greatly increased the visibility of the contributions and sacrifices that America's men and women in uniform make on behalf of their country. At the same time, however, recruiting problems in the active and reserve forces of the Army are raising questions about the sustainability of the all-volunteer military.

Yet the all-volunteer force is a key enabler of the technological advantage the U.S. military enjoys today. It is fundamental to the transformations the services envision for themselves in the future. Moreover, because the Army's recruiting shortfall is fueled by growing public concern that the war in Iraq is not worth the price the nation is paying in lives or treasure, trying to institute a draft while the war is ongoing would be political folly.

The best solution to the Army's recruiting problem is an honorable disengagement from Iraq. Failing that, four strategies can help the Army avert a staffing crisis in the short term: keeping more of the soldiers who already joined, drawing more on the other services for staffing and support, changing the minds of young people who are not inclined to serve and of parents who do not want them to serve, and bringing in more of the people who would consider serving but have not joined.

Unfortunately, however, even those strategies will do nothing to solve fundamental problems the services will face as they attempt to staff jobs with the right people in the future. Solving those problems will require a transformation in the system of rewards for military service.

People who serve in the military do so for a variety of reasons, from intangibles like patriotism and a chance to do something important, to tangibles like good pay and benefits, training, and rewarding careers. Many of the policies related to tangible rewards for members of the U.S. military were established shortly after World War II. Since then, much has changed in the military's strategic environment and in the economic and labor markets within which the services compete for people. As a result, the tangible rewards are not as effective as they should be in the modern world. Moreover, those policies stand in the way of transformation in other aspects of military affairs.

Seven problems plaguing today's system of rewards for people in uniform are particularly troubling:

- *The system stands in the way of shaping the force;*
- *Overly rigid officer career paths lead to trouble for the services, the individuals who serve, and their families;*
- *Pay and benefits for members of the Reserve Component have not kept up with today's use of the Guard and Reserve;*
- *The costs of military pay and benefits are rising rapidly;*
- *Too much of the nation's spending for military personnel goes toward deferred benefits;*
- *Too much of the nation's spending for military personnel goes toward noncash benefits; and*
- *Delivery of benefits to families is out of step with today's realities.*

Solving those problems will require fundamental changes. Recommendations include improving the variability of military cash pay; transforming the military retirement system; overhauling officer career patterns, with fewer and longer-serving officers in the upper-middle ranks than under today's system; changing the pay system to reward Guard and Reserve participation along a continuum of service; ending and even reversing the expansion of military entitlements; reducing the number of servicemembers who serve until retirement; substituting immediate cash for some in-kind and deferred benefits; making the costs of in-kind benefits more transparent to servicemembers and policy makers; and reducing service stovepipes in the delivery of family services.

As in other aspects of military transformation, reform will not be easy. To help fine-tune reform plans and build support for them, a comprehensive program of policy experiments, simulations, and analyses is in order. In addition, a collaborative process similar to the one that cemented reforms and resulted in the Goldwater Nichols Act of 1986 would help to develop a base of support among key stakeholders and leaders. Transformation in the personnel dimension of military capability will be no easier than in other areas, but it will be crucial if other aspects of transformation envisioned for the U.S. military are to be achieved.



U.S. Marine Corps photograph by Staff Sgt. Bill Lisbon.

Chapter 1 Introduction

For the first time since the draft ended in 1973, the U.S. military is involved in a large and deadly operation that could continue for years. The active-duty Army is so stretched that the National Guard and Reserve—once viewed as genuine reserves that would be called to federal active duty in the case of a massive war—must supply a substantial share of troops for the operations in Iraq and Afghanistan. All the services are short of people in key occupations.¹ The strain is reflected in weakened morale, especially in the Guard and Reserve, where recruiting and retention have suffered dramatically.² While retention in the active forces remains high, recruiting for the active-duty Army has suffered.³

Some observers suggest the solution is to bring back the draft.⁴ From the point of view of the military and society, that would be a mistake. Re-instituting conscription would reverse what is arguably the most important transformation of U.S. forces since the Vietnam War—and a key enabler of the transformation in other aspects of military affairs that took place between Vietnam and the Persian Gulf War of 1991. Moreover, even with an Army doubled in size, U.S. forces could not use more than a small fraction of the

nation's men and women of military age. Proponents of a new draft say the inequities that plagued the system during the 1960s could be avoided through a lottery system. But a lottery, no matter how fairly run, cannot erase the fundamental inequities caused when some are forced to serve while most are not. The better solution by far is to modernize and transform the volunteer system.

The U.S. Department of Defense is the largest employer in the world, with some 1.4 million active-duty servicemembers, 880,000 paid members of the Guard and Reserve, and 650,000 civilian workers.⁵ Since conscription ended in 1973, every uniformed member of the armed services is a volunteer. While intangible factors like patriotism are important draws for many who volunteer to serve, the military relies heavily on good pay and benefits—the tangible rewards for service—to maintain its competitive edge as an employer in U.S. labor markets. Military pay and benefits and the personnel policies that underpin them are crucial to attracting the right people to join the military, to stay as long as they are needed, and to do the best job they can in service to their country. Yet the United States inherited most of those

policies from the 1940s; today they are outdated.

The Department of Defense has ambitious goals for transforming the way the U.S. military fights, in large part by exploiting information technologies to achieve information superiority. Transformed forces are meant to rely less on mass and more on information than today's military to achieve their lethality and survivability. They are also meant to be more agile and autonomous. Those attributes have important implications for military people, who increasingly must be versatile, savvy users of information systems and make critical decisions formerly held at higher echelons.

The military's outmoded pay and personnel policies stand in the way of the military's plans for transformation. Inflexible pay scales blunt the services' capacity to compete for people with technical skills or information savvy that bring top dollar in the private sector or even to hold onto people with skills that are especially valued inside the military. The retirement system draws too many people whose skills do not grow with experience to stay longer than is useful, but induces others to leave when their technical skills or their contributions as leaders are at their peak. Officer personnel policies can make it difficult for technical specialists to have rewarding careers and for future leaders to accumulate the knowledge they require. Such problems have their roots in systemic flaws of the military pay and retirement structures—flaws that existed well before

the all-volunteer force was created and that would persist even if the United States returned to a draft.

The tangible rewards for military service are also out of step with the educational and career aspirations of American youth, with changes in American society, and with human resources practices in the private-sector firms against which the armed services must compete in the war for talent. Absent a fundamental makeover of military personnel policies, people problems will subvert transformation, and the costs will eat away at the heart of U.S. military might. Transforming the policies related to rewarding military personnel in light of changing strategic, demographic, social, and labor realities is as important as transforming military equipment and concepts of fighting to meet the demands of tomorrow's battlefields.

During the past decade, a range of experts and commissions have criticized the nation's military personnel policies and recommended reform.⁶ In vision statements, the military services embrace personnel policy reform as a key component of military transformation. Secretary of Defense Donald Rumsfeld and his civilian staff have called for reshaping incentive structures and altering military career patterns.⁷

Under the leadership of Chief of Naval Operations Adm. Vern Clark, the Navy took steps in recent years to improve the situation. Among other actions, the service worked to reverse its staffing imbalances by training sailors

to work in a wider variety of positions, improving educational opportunities, and creating a new cash bonus system and an on-line auction to attract people into hard-to-fill jobs. In addition, the Navy is shedding unnecessary positions where possible and turning increasingly to civilians for jobs that do not require a person in uniform. Such measures signal real promise for improving the situation, and reveal just how much a committed leader can do to remedy a service's staffing problems within the existing military personnel system.

Unfortunately, the Navy's recent reforms do not help the other services out of their problems. Moreover, because the principal policies related to rewarding military service are set in law, no service leader can correct the systemic flaws that feed the worst problems. Across the Department of Defense, few of the fundamental changes that are needed have been made, either because the seriousness of the situation has not been recognized or because institutional and political hurdles stand in the way. But the problems emerging from today's large deployments make the consequences too immediate and the benefits of reform too important to put off any longer.

This occasional paper identifies fundamental problems with today's policies and recommends solutions to deal with them. Chapter 2 discusses the immediate recruitment problems the U.S. Army faces today and the strategies it might use to solve them. Chapter 3 describes the persistent problems

faced by all of the services in seven areas and recommends solutions for them, and ends with a brief wrap-up and some suggestions for overcoming the hurdles that stand in the way of change.



DoD photograph by Sgt. 1st Class Johncharles Van Boers, USA.

Chapter 2 The Immediate Challenge: U.S. Army Recruiting in Time of War

Some two and one-half years since the war in Iraq began, the U.S. Army faces a serious staffing challenge.⁸ As of July 31, 2005, the active-duty Army fell 11 percent short of its year-to-date recruiting goals (see Table 2.1). The Army National Guard was 23 percent short (see Table 2.2). If things do not improve substantially, the service will have only 10 percent of needed active-duty enlistees pre-signed for basic training at the beginning of 2006; normally it begins the year with about one-third of its trainees already committed to contracts.⁹

To improve its chances with America's young people, the Army has altered its advertising strategy and enlarged the advertising budget, added recruiters, and boosted enlistment bonuses.¹⁰ Defense leaders hope those measures will improve the recruitment

picture enough this year to avert a staffing crisis next year.¹¹ Nevertheless, some experts say that only a military draft can avert disaster.¹²

The operation in Iraq is the military's first long, bloody war since

Table 2.1

**U.S. Active-Duty Enlisted Recruiting,
October 2004 through July 2005**

	Recruits	Year-to-Date Goal	Percent of Year-to-Date Goal
Army	55,207	62,385	89
Navy	27,761	27,749	100
Marine Corps	25,006	24,491	102
Air Force	13,546	13,425	101

Data from DoD News Release, August 10, 2005

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Table 2.2

**U.S. Reserve Component Enlisted Recruiting,
October 2004 through July 2005**

	Recruits	Year-to-Date Goal	Percent of Year-to-Date Goal
Army National Guard	39,301	50,909	77
Army Reserve	18,618	23,394	80
Navy Reserve	8,550	10,210	84
Marine Corps Reserve	7,302	7,283	100
Air National Guard	7,011	8,446	83
Air Force Reserve	7,276	6,439	113

Data from DoD News Release, August 10, 2005

Figure 2.1

**Fraction of 18-Year-Old Males Needed
Annually for an All-Male Force**



Data from DoD *Population Representation 2003*, Table D-1

the nation ended conscription in favor of an all-volunteer force. Thus it might seem as though a return to compulsory service could fix the problem. But a look at what underlies the Army's recruiting challenges reveals that the American public is highly unlikely to support a return to conscription while the war in Iraq is ongoing. Moreover, a draft cannot solve the Army's immediate problem, since it would take time to call up and train the first draftees.

The way to end the Army's staffing problems is to find an honorable end to the war in Iraq. Short of that, the Army can undertake a variety of remedies similar to the ones it is already applying.

The public will not support a draft for Iraq

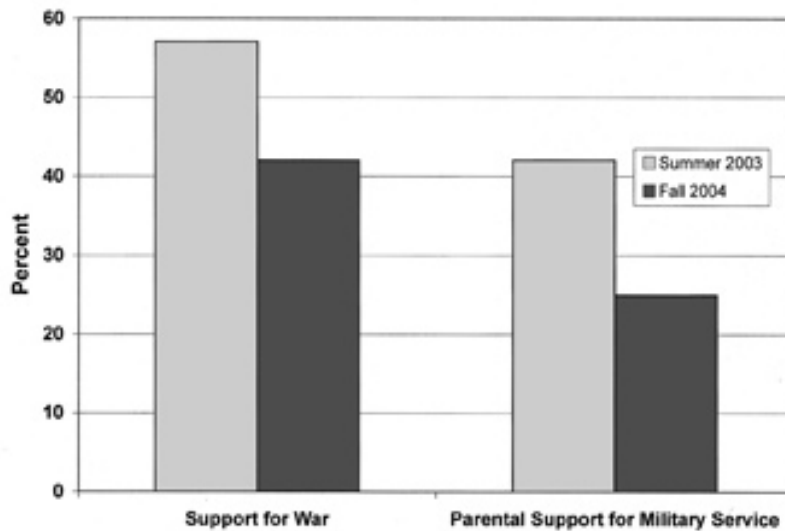
The United States has had an all-volunteer military through most of its

history. Until the Cold War, the nation called young men up for compulsory service only for vast wars.¹³ The public supported conscription only to fight wars that were widely popular, and only when the number of draftees was so large that most eligible young men were required to serve—thus making conscription seem equitable across the population.¹⁴

Today, neither of those conditions holds. The war in Iraq is increasingly unpopular. Moreover, in contrast with the situation at the height of the Vietnam War, when the military needed to draw in nearly half of all 18-year-old American men each year, the Department of Defense will need about 190,000 new recruits in 2006—just 9 percent of the nation's 2.11 million 18-year-old males (see Figure 2.1).¹⁵ To maintain a force with today's gender balance (85 percent men and 15 percent women), the military would need

Figure 2.2

**Public and Parental Support,
Summer 2003 and Fall 2004**



no more than 7.7 percent of that male cohort. Even if the Army were doubled in size to counter the insurgency in Iraq, it would still need only a small fraction of the nation's young people.

Army leaders and recruiters say parental support is key to recruitment.¹⁶ Unfortunately, however, the share of parents who would recommend military service to their children fell from 42 percent to 25 percent—a 17-point decline—between August 2003 and November 2004.¹⁷ That drop in parental support tracked very closely the decline in public support for the war in Iraq. Between August 2003 and December 2004, the fraction of Americans who thought the war in Iraq was worth fighting experienced a 15-point decline, from 57 percent to 42 percent (see Figure 2.2).¹⁸

Opposition to the war is taking a particular toll on the participation of

black Americans in the military. Until recently, blacks were far more likely than whites to volunteer for the Army.¹⁹ Today that is no longer the case.²⁰ In surveys sponsored by the Army, only 22 percent of young people say they are willing to fight for their country for any cause; black youth especially identify having to fight for a cause they don't support as a barrier to military service.²¹

The 75 percent of parents who would not recommend their children join the military voluntarily are unlikely to want them drafted for Iraq. Recent opinion polls found some 70 percent of Americans opposed a return to the draft.²² In fact, the U.S. experience during the Vietnam War suggests that a draft would further erode support for the war—and weakened support could spill over to a drop in public support of the Army.²³

Conscription ended in 1973 when presidential authority to induct young men into the armed forces expired; restoring the draft would require an act of Congress. Absent broad popular support for such a move, congressional action seems highly unlikely.

Indeed, on the eve of the Iraq War—when memories of September 11, 2001, were still fresh and public support for invading Iraq was still high—Representative Charles Rangel of New York introduced a bill requiring national service for all young men and women. Recognizing the public antipathy toward conscription, Congress set the bill aside for ten months. Then, one month before the 2004 presidential election, facing campaign charges that President Bush secretly favored the draft, the Republican leadership of the House of Representatives brought the bill to a vote with the intention of killing it. As anticipated, the measure failed, 402 to 2.²⁴ Given the current level of public skepticism over Iraq, it seems extremely unlikely that Congress would take the issue up again.

With growing concerns over the war fueling the Army's recruitment problems, the best way to improve the service's staffing prospects is not conscription, but a strategic and honorable departure of most American troops from Iraq.

Strategies for staffing the force

Absent an end to the war, four strategies can help the Army avert a staffing crisis in the near term.

- *Keep more of the soldiers who already joined;*
- *Draw more on the other services for staffing and support;*
- *Get some parents and youth to change their minds about serving; and*
- *Bring in more of the people who would consider serving but have not signed up.*

Keep more of the soldiers who already joined

To the extent that the Army can keep more soldiers who already joined, it will not have to recruit replacements. In contrast to recruitment, retention in the active-duty Army is still solid.²⁵ The “stop-loss” policy imposed on all Army units headed for deployment to Iraq or Afghanistan can be viewed as serving this strategy.²⁶

To encourage enough qualified people to stay, the services offer reenlistment bonuses to people in military occupations and ranks that experience staffing problems. Early in 2005, the Army opened those bonuses to most soldiers deployed to Iraq and Afghanistan, regardless of their occupations or normal reenlistment dates.²⁷

Retaining more soldiers will pose problems for the longer term. Keeping too many soldiers beyond the point when they would normally leave, rather than replacing them with fresh recruits, can lead to a force that is older than desirable. It can also cause problems for force managers in future years as

the smaller-than-normal entry cohorts move through the ranks, and (as discussed in Chapter 3) may exacerbate the Army's already troubling imbalances in staffing across occupations. In addition, Army leaders fear that high levels of retention in the active force can rob the Guard and Reserve of new members. Nevertheless, given the poor recruiting picture and events in Iraq, it would seem wise for the Army to get as far ahead on retention as it possibly can in the short term. That might require increasing retention bonuses, relaxing the so-called "up-or-out" rules that normally require soldiers to leave if they are not promoted on time, and emphasizing mentoring programs that let soldiers know their continued sacrifices are needed and appreciated.

Draw more on the other services for staffing and support

The Army taps into the Air Force and Navy both for support units and for individuals. Some 3,000 airmen and sailors are organized into units that provide security, transportation, medical support, and ordnance disposal in support of Army operations in Iraq.²⁸ Increasing such cross-service support could help the Army deal with its staffing crunch.

Unfortunately, typical Air Force and Navy training does not prepare members for the dangerous insurgency environment in Iraq. As a result, airmen and sailors in Iraq may be at greater risk than their Army counterparts. The Air Force and Navy are working to rectify that situation through improved training for

deploying units.²⁹ If that training is still found to be deficient, the Army might do well to train other services' individuals or units itself, particularly if recruiting shortfalls leave the Army with excess training capacity.

The Army can also try to attract individuals from the other services. Such inter-service transfers are in the interests of the Air Force and Navy. As discussed in Chapter 3, both of those services want to reduce their ranks substantially; the Defense Department has requested authority from Congress to offer cash incentives amounting to hundreds of thousands of dollars to entice people to leave.³⁰

Working in partnership, the Army, Navy, and Air Force instituted Operation Blue-to-Green in June 2004 to facilitate the movement of individual volunteers from the other services directly into the Army. Unfortunately, only a handful of airmen and sailors volunteered to turn in their blue uniforms for green ones during the first year.³¹

Offering bonuses for individuals willing to make the switch might help; the Senate markup of the defense authorization bill for fiscal year 2006 included a \$2,500 bonus for individuals who volunteer to transfer between services. Much larger bonuses—in line with the Army's enlistment or reenlistment bonuses—might be needed to attract larger numbers of volunteers to change uniforms. Compared with the separation incentives now under consideration for the Air Force and Navy, such transfer bonuses would be a bargain.

Get some parents and youth to change their minds

The third strategy is to try to change the minds of young people who think military service is not for them or—seemingly more important—the 75 percent of parents who would not recommend military service to their children. To that end, the Army has embarked on a new advertising campaign that targets parents with an appeal to service and patriotism. In addition, the Army has increased spending for advertising, added some 3,000 recruiters, and reached out to schools and neighborhoods where relatively affluent youth were previously believed unlikely to be attracted by the opportunity to serve.

Given weakened public support for the war in Iraq, changing people's attitudes about service may constitute both the most important and the most difficult path to improved staffing prospects for the Army.

Bring in more of the people who would consider serving but have not signed up

Adding recruiters and expanding their coverage of schools and neighborhoods is also consistent with the fourth strategy, trying to bring in more of the young people who would consider serving but have not joined the military. In addition, the Army has increased recruitment bonuses and education benefits. Today's recruits are eligible for as much as \$20,000 in direct cash and \$70,000 in college money. The Army has requested an increase in the maximum sign-up bonus to \$40,000.³² Such

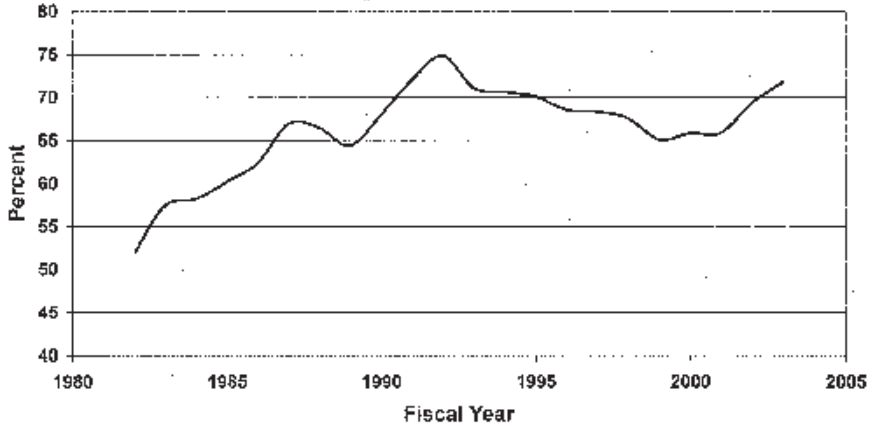
an increase may be prudent.

Another way to bring in more of the people who are willing to serve is to expand the pool of people who are considered eligible. Critics of this tactic worry that by softening eligibility criteria, the Army may undermine a key advantage of the all-volunteer force: its high quality.

Two measures of troop quality are particularly important to the Defense Department: the fraction of troops with high school diplomas, and the fraction that scored above the median on the military's entrance test of cognitive aptitude, the Armed Forces Qualification Test (AFQT). Some 90 percent of today's Army recruits hold high school diplomas, consistent with the Defense Department's target and better than the Army's record from 1999 to 2003.³³ The Defense Department aims to have at least 60 percent of its recruits score above the median on the AFQT. As of May 2005, the Army exceeded that goal by a wide margin: some 72 percent of this year's recruits scored above the median, the same share as in 2003.³⁴ Reductions in that measure from today's high level would hardly be unprecedented. In 1986, at the height of the Reagan era, only 62 percent of new recruits across all the services scored above the median, and the fraction dipped again to 65 percent in 1999, when a booming economy made recruiters' jobs difficult (see Figure 2.3). Thus, modest declines in these measures of troop quality should not pose serious problems, and could improve the recruiting picture in today's difficult environment.

Figure 2.3

**New Active-Duty Enlisted Recruits
Scoring Above the Median on the AFQT
(All Services)**



Data from DoD *Population Representation 2003*, Table D-7

There are options short of a draft

In summary, the U.S. Army is involved in its first long, dangerous operation since creation of the all-volunteer military in 1973. Given the depth of emerging public opposition to the war, it is a credit to the Army that recruiting and retention are holding up as well as they are. But recruiters are falling behind their goals for 2005, and today's recruiting challenges will translate into tomorrow's problems in filling the ranks if things do not improve quickly.

The Army hopes that recent changes will bring the needed improvements, but they may not be sufficient. Some experts argue that the only way to fix the problem is to impose compulsory service on the nation's youth.

But trying to institute a draft in the face of deepening public opposition to the war in Iraq would be political

folly. In fact, the Army's recruiting shortfall is fueled by growing public concern that the Iraq war is not worth the price the nation is paying in lives or treasure. The best solution to the recruiting problem is an honorable disengagement from Iraq.

Failing that, the nation has several options to help the Army meet its staffing goals. Any of them will take some time to work—though not as long as to bring in new enlistees under a draft. Thus, it is crucial that civilian and military leaders recognize the potential severity of the problem and take appropriate actions immediately.



DoD photograph by Petty Officer 2nd Class Juan E. Diaz, USN.

Chapter 3 Addressing the Systemic Problems

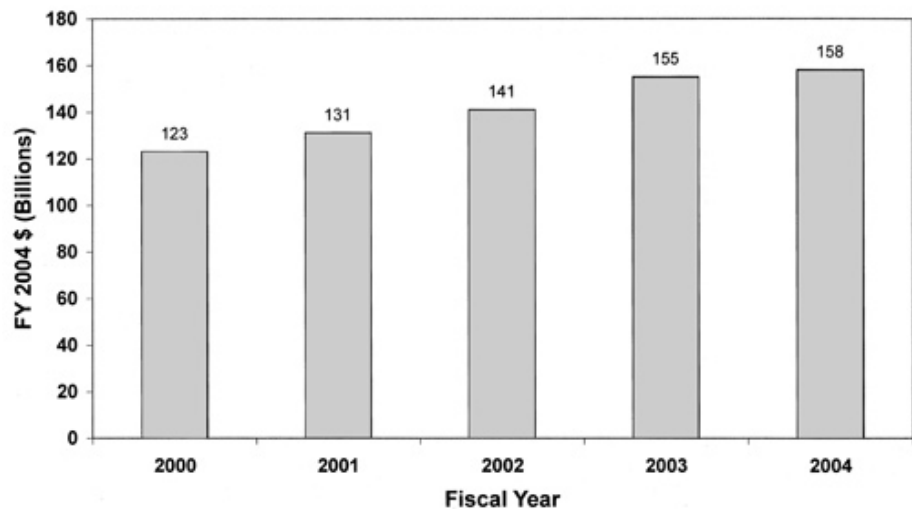
U.S. government spending for military personnel is high and rising.³⁵ The total cost of military pay and benefits increased by nearly 29 percent between 2000 and 2004—three and one-half times the rate of consumer inflation and about twice the rate of wage inflation in the private sector (see Figure 3.1). The Government Accountability Office estimates that the government’s average cost of compensation in 2004 was about \$112,000 per active duty servicemember.³⁶

Despite the substantial investment on the part of American taxpayers, however, the military personnel system is not as effective as it should be in providing for the individuals who serve. More troubling, it is not as effective as it must become in helping the services to get the right people into the right jobs at the right time.

Seven problems plaguing today’s system of rewards for people in uniform are particularly troubling:

Figure 3.1

Total Cost of Military Compensation 2000 to 2004



Data from GAO-05-798

- *The system stands in the way of shaping the force;*
- *Overly rigid officer career paths lead to trouble for the services, the individuals who serve, and their families;*
- *Pay and benefits for members of the Reserve Component have not kept up with today’s use of the Guard and Reserve;*
- *The costs of military pay and benefits are rising rapidly;*

- *Too much of the nation's spending for military personnel goes toward deferred benefits;*
- *Too much of the nation's spending for military personnel goes toward noncash benefits; and*
- *Delivery of benefits to families is out of step with today's realities.*

Those problems are visible and troubling today. They will worsen in the future, as the Department of Defense moves to capitalize more fully on information systems and transform the force.

This chapter discusses the seven fundamental problems. It recommends changes that would improve the situation for the individuals who serve the nation in uniform, for the military as an institution, and for taxpayers.

The personnel system stands in the way of shaping the force

In recent years, the services had shortages in about 30 percent of their enlisted occupations, while they were overstaffed in 40 percent.³⁷ The Air Force and Navy instituted a variety of measures—including cross-training, repeated calls for volunteers to switch career fields, and compulsory orders to change occupations—to try to reverse the situation and get the right people into the right jobs. The initiatives brought only modest success, however.

Unfortunately, the staffing imbalances across the Department of Defense are deep and systemic, owing

in large part to two features of the military personnel and compensation systems: the 20-year retirement system and the one-size-fits-all pay structure. Getting the right people into the right jobs in the future will require fundamental changes in both.

The military retirement system, a defined-benefit plan that dates to the 1940s, in many ways resembles the pension schemes of state governments or large industrial firms of the mid-twentieth century. The plan provides no benefit for individuals who leave after fewer than 20 years in the military. For those who stay for 20 years, it provides a generous annuity beginning immediately upon retirement. For people who serve more than 8 to 12 years, the carrot of the pension exerts a strong pull to stay in service for 20 years; because the pension is immediate, most people who stay that long depart shortly after the 20-year point.

Modern retirement schemes in the private sector are generally much more flexible. Most employees who earn retirement benefits are covered by “defined contribution” schemes that vest within five years and can be carried from one employer to the next.

Unfortunately, the “cliff vesting” of the military’s one-size-fits-all pension scheme pulls some people to stay even though the services would prefer them to leave. It induces others to leave shortly after 20 years, even though longer careers would be more desirable from the point of view of the services.

The situation is compounded by a lack of variation in immediate cash pay. The bulk of servicemembers’ cash

pay is determined based upon rank, length of service, family status (whether he or she is married or has children), and location of work. Less than 4 percent of the government's spending for military cash pay goes to the special pays and bonuses that vary with occupation. The private sector offers far greater variability in cash pay, with employees in some occupations earning substantially more than those in others. The lack of variation in military pay can make it difficult for the services to reward individuals whose skills bring top dollar in the private sector or whose contributions inside the military are particularly crucial without also, at great expense, increasing the pay of all servicemembers through across-the-board raises.

Proponents of today's system argue that one-size-fits-all pay creates a sense of equity that leads to organizational solidarity. They also say that varying pay according to skill or performance could erode good order and discipline by putting more money into the pockets of subordinates than of their superiors. Existing bonus programs contradict those myths, however. For example, on a Navy submarine, reenlistment bonuses can put thousands of dollars more per year into the pocket of a nuclear electronic technician than a mess specialist. Yet the two work in close quarters and face the same dangers, with no apparent lack of solidarity or discipline.

Concerns about internal pay equity and pay compression arise in private firms too. Nevertheless, the private sector typically pays competitive wages

to valuable employees rather than risk having them hired away by other firms. As a result, there is much more variation in pay within private-sector firms than in the military.³⁸

In the military, bonuses and special pays make for some pay separation across occupations. As currently used, however, such pay comprises only a small fraction of the total money the government spends on military people, and most of it is concentrated in a very few specialties, such as medicine, aviation, and Navy nuclear specialties. It is noticeably absent from the information specialties at the heart of military transformation.³⁹

Having the wrong people in key jobs harms military readiness today and can spell big trouble for the future. The lack of variation in cash pay may underlie the problems that have surfaced recently for U.S. forces in Iraq, as members of the special operations forces leave the service of their nation to take jobs with contractors who will pay them substantially more. Moreover, if information specialists and other technical experts find military pay too low to compete with offers from the private sector, then the problems created by the military pay and retirement systems may well become a show-stopper for the transformation of military operations and technology that all the services hope to achieve in the coming years.

Recommendation

- Improve the variability of cash pay
- Transform the retirement system

To reverse deep imbalances in staffing and clear the way for transformation, the nation must find a way to bring greater variability into military cash pay, allowing the services to pay individuals at levels that are more in keeping with their value inside as well as outside the military. In the near term, leaders should move to slow down across-the-board raises, while simultaneously concentrating and improving bonuses in the critical, understaffed occupations. Over the longer term, they should work toward a new, more flexible pay structure that accounts for differences among occupations and skills.

The nation also needs a more flexible military retirement system that encourages people in some occupations to stay in the military for shorter periods of time and others to stay for longer. A more flexible system could be used by the services as a force management tool, inducing people in overstaffed occupations to leave. At the same time, the more variable pay system and later retirement options could attract people in critical understaffed occupations to stay as long as is desirable.

Overturning the existing retirement system will not be easy. One way to protect a new system from repeal would be to keep the current system for members who prefer it, or those whom the services wish to keep for twenty years or more. By adding a voluntary defined-contribution plan, with a generous government matching contribution available only to those who depart

before 20 years on a schedule preferred by the government, the nation could revamp the incentive structure to keep the right people for the right length of time, without harming the retirement prospects of members who prefer the current system.

Officer career patterns are too rigid

Because the retirement system offers a generous and immediate pension after twenty years of service, most career officers depart when they are still in their early forties. But fitting all the jobs expected of an officer into such a short career can be an enormous challenge, and officers are often rushed from one position to the next without learning what they need to know.⁴⁰

Career paths for most active-duty officers are startlingly rigid. Across the services, for example, most officers are expected to complete the same educational courses and to command units of increasing size as they progress through their careers; promotion for most officers depends upon becoming a leader-generalist with command experience at the appropriate level. The services are moving toward greater flexibility in some facets of the system, but a troubling rigidity in officer career paths persists.⁴¹

Fitting in all the jobs the services expect of an officer can be an enormous challenge. The Goldwater Nichols Act of 1986 exacerbated the problem by requiring officers to serve for several years in joint positions in order to be considered for promotion to general or admiral. In

addition, the problem is compounded by the fact that, under rules established at the end of World War II and modified only at the margins since then, the military keeps far more officers in the middle ranks than are required to lead the number of units in the force. As a result, there are always too many people chasing too few jobs—jobs that an officer must hold if he or she is to have a good chance of being promoted.⁴²

To ensure that as many people as possible get a chance at those jobs, the services rotate people through them as quickly as possible. The resulting turbulence has a way of making nearly everyone unhappy: officers who want the chance to lead, because their command tours are cut short to give others a chance at key jobs; officer specialists, because they would rather spend time in their specialty areas but typically must take up command assignments to be promoted; their families, because of the frequent moves involved; and enlisted people, who must constantly adapt to changes in leadership.⁴³

Inflexible career paths and career management systems are already causing serious problems for the services. Good people increasingly turn down senior promotions, because they do not want to stay for the three years they will owe if they accept them.⁴⁴

Problems stemming from today's inflexible career paths will grow as the armed forces try to adapt to the

changing national security environment and to embrace new technologies. Although recent service reforms are a step in the right direction, a stubborn preference for generalists and an emphasis on supervisory careers across the services may make it difficult to attract and keep specialists in the future.⁴⁵ A fundamental overhaul of officer career patterns is in order.

Recommendation

- Sharply reduce the number of officers in the upper-middle ranks through stringent selection into the “career force” for officers with 12 to 15 years in service
- Provide severance pay and a deferred annuity to those who do not make the career cut
- Encourage longer service, with increasing pay and better opportunities for those who stay in the career force

In a transformed system, competitive up-or-out rules in the junior ranks, similar to today's, would be followed by stringent selection into the “career force” at the 12 to 15-year point (depending upon service and occupation). Consistent with the recommendation for a more flexible retirement system in the previous section, the retirement system would be transformed to provide severance pay and a deferred annuity for officers who do not make the career cut, or who choose to leave before they have completed a full career, but to induce those selected as career members to stay in the force for substantially longer careers than they

would have today. Those who stay in the career force would be rewarded with increasingly challenging jobs, better educational opportunities, and higher pay as they gain experience. The new model would allow career officers much more time in critical jobs, thus building the cadre of future leaders whose talents and skills will be the bedrock of future forces.

Pay and benefits for members of the Reserve Component have not kept up with today's use of the Guard and Reserve

After the Cold War ended, the nation transformed the way it uses the Guard and Reserve. Rather than a genuine reserve, to be tapped only in major emergencies, the reserve components became a ready source of units and people for peacekeeping and humanitarian interventions. The events of September 11, 2001, ushered in another round of change. Today, the Guard and Reserve play key roles in homeland security and disaster relief, take over the stateside duties of deployed active forces, contribute to the occupation in Iraq, and more—and still conduct training for major combat operations. Antiquated pay and benefits policies create inappropriate incentives and also make things difficult for reservists and their families.

For example, members typically earn more for a day of reserve training than they do for a day of active duty, making training time more financially attractive than active service. Also, bonuses and special pays, which could prop up recruiting and retention in

hard-to-fill units and occupations, are not as extensive or as widely used as they are in the active forces. Such improperly skewed and insufficient incentives stand in the way of a reserve force that today shoulders a far greater share of the load than in past decades.

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

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

The problems are compounded by a payroll system that cannot keep up with members' transitions between reserve and active duty, leaving some members with no paychecks or problem paychecks for months at a time. For example, in a 2004 case study of six Army National Guard units, the Government Accountability Office (GAO) found that 450 of 481 mobilized soldiers had "at least one pay problem associated with their mobilization." Such problems are rooted in

obsolete payroll systems and flawed business management systems that affect other areas of defense operations as well. The Department of Defense is working to develop new payroll and business systems. Given the importance of the reserve component to ongoing operations, the urgency of modernization in this area cannot be overstated.

also have new bonus programs and proficiency pays to attract people to join and stay in hard-to-fill units and occupations.

In addition, the nation must find better ways to ease the transition to active service for the families of reservists. Finally, the Department of Defense should take every possible measure to get the new payroll sys-

tem working and fielding it rapidly for all military personnel.

Recommendation

- Change the pay system to reward Guard and Reserve participation along a continuum of service
- Improve bonuses and proficiency pays to attract Guard and Reserve members to hard-to-fill units and occupations
- Ease transitions between reserve and active status
- Field the new payroll system as quickly as possible

The costs of military pay and benefits are rising rapidly

In recent years, the Clinton and Bush administrations and Congress

One of the most important remedies is to reorient the pay system so as to reverse the skewed incentives of today's structure and reward more seamlessly a member's participation along a continuum of service. Those goals could be met by developing a new, two-part payment structure, with one part for participation (to be granted regardless of training or mobilization status) and a second part for each day of training or active duty. Members would be paid the same amount for an active duty day as for a training day. Participation pay could vary depending upon occupational specialty or unit to help achieve localized recruiting and retention goals. The reserves should

have greatly expanded entitlements for military personnel. The expansion began in 1998, when a booming economy, coupled with the end of the military's post-Cold War downsizing, led to modest personnel shortages for most occupations and more severe shortages in some fields.⁴⁶ Responding to pressure from uniformed leaders, the Clinton administration and Congress poured money into across-the-board pay raises for serving members and new entitlements for military retirees. Between 1999 and 2005, the average pay for enlisted personnel (adjusted for inflation) rose by 28 percent; for senior enlisted personnel, by 43 percent.⁴⁷

In addition to providing pay raises that substantially exceeded both consumer price increases and private-sector wage growth, Congress in 1999 reversed a 1986 law that would have trimmed pensions for retirees who joined the military after 1986—at a cost of some \$1 billion annually. Moreover, in 2000, Congress added the “Tricare for Life” health care entitlement. Tricare for Life works like a premium-free wrap-around policy for Medicare-age military retirees and their spouses, paying virtually all medical expenses—including the cost of prescription drugs—that are not covered by Medicare. That entitlement costs nearly \$4 billion today, and its costs will rise over the coming years. Another entitlement, so-called “concurrent receipt,” was granted by Congress in 2004. The benefit, which will phase in over a decade, will permit retirees who depart the military with moderate to severe disabilities to collect retirement pensions in addition to their disability payments. Its cost, about half a billion dollars in 2005, will rise to some \$2.5 billion a year by 2011. In addition, a change authorized in October 2004 will provide larger pensions to spouses who outlive retired servicemembers, at a cost of about \$200 million in 2005 year and nearly one billion dollars in 2011.

As expensive as these new benefits already are, retiree advocates are pressing Congress for more, including retirement at age 55 for reservists (who now must wait until age 60 to begin receiving pensions), expansion of the concurrent receipt entitlement to

retirees with the least serious disabilities, and a costly new health insurance program for retirees who have not yet reached Medicare age.

In the context of a deteriorating economy (which always favors the military’s prospects as an employer, because opportunities outside the military are less attractive than in boom times), the large pay raises helped to restore recruiting and retention.⁴⁸ Yet the spending binge did not get at the underlying problems that caused the crisis in the first place. More troubling, it created incentives likely to exacerbate those problems in the future.

Among other things, across-the-board raises probably exacerbated the crucial problem of staffing imbalances. Rather than fix the problems of skill imbalances across the force, the one-size-fits-all remedies raised the incentives for people with the least valuable skills to stay in the military longer than they are needed, while falling short of expectations for those who have the most outside possibilities.

In addition, the new entitlements for retirees—those 1.7 million veterans who serve in uniform for more than 20 years and become eligible for retirement benefits—will do virtually nothing to improve the military’s competitive edge as an employer. While they will be valued by the small percentage of the force that will ultimately become eligible for them, they will do nothing at all for the nation’s 23 million living veterans who served for shorter terms. Moreover, they hold little attraction for the 19-year-old deciding whether

to join the military, or even for the 24-year-old deciding whether to stay in for a second term.⁴⁹

As reflected in Figure 3.1, expanded pay and other entitlements pushed up the costs of military pay and benefits by tens of billions of dollars in real terms in recent years. Military pay and benefits in recent years have cost the Defense Department some 30 percent of the annually appropriated defense budget. The total cost to taxpayers in 2004 (including veterans' and other benefits and the federal revenues forgone as a result of tax exemptions on some elements of military pay) came to \$158 billion—about \$112,000 for every active-duty servicemember.⁵⁰

The cost of military people raises three serious problems for the Defense Department. First, the high cost of people in uniform makes it very expensive to expand the military by even a modest amount; adding 40,000 troops to the active-duty Army would add nearly \$4 billion a year to the Defense Department's budget (and more to federal government spending)—more than what the Army will spend in 2006 to develop the Future Combat System, its premier new fighting capability.

Second, to avoid the high costs of people in uniform, the Defense Department is turning increasingly to contractors to fill military roles. For many activities, such outsourcing can be a healthy choice. In fact, by relying more on private contractors, the department could reduce the number of specialists in uniform whose opportunities in the outside labor market strain the military

pay system. But as the nation witnessed in Iraq, turning key jobs over to contractors can raise serious concerns, both on and off the battlefield.⁵¹ Such problems cannot be solved by adding money; in fact, increasing military pay and benefits can complicate the situation by making troops even more expensive relative to contractors.

Third, rising personnel costs can drain resources from other defense priorities. Until now, the rapid growth in military entitlements has been matched by growth in other areas of the defense budget. On average during the past half-decade, the department's overall budget (excluding the costs of operations in Iraq and Afghanistan) grew by 4 percent a year, and spending to modernize equipment rose by more than 7 percent annually after adjusting for inflation. With such rapid growth across the entire budget, the rising bills for pay and benefits have not cut visibly into the resources required to maintain existing equipment and infrastructure or to invest in new equipment.

Under current plans for future spending, however, the growth in defense budgets will slow to some 2.4 percent a year in real terms between now and 2009. Given the size of federal deficits, the budgetary impact of Hurricane Katrina, and the continuing costs of operations in Iraq and Afghanistan, even that level of growth for non-war expenses seems unrealistic. As total defense budgets flatten or even decline in real terms, the rising costs of entitlements will steal resources for upkeep and modernization of military equipment and infrastructure.

Navy and Air Force leaders are so concerned about the impending budget crisis that they are reducing the size of their forces. The Navy dropped nearly 8,000 positions from its uniformed force in 2005 and plans to reduce its ranks by tens of thousands of positions over the coming decade. The Air Force hopes to reduce its number of authorized positions substantially in 2006. Some reductions are no doubt consistent with a military meant to rely increasingly on technology. But continually reducing forces to keep up with the rising costs of people risks hollowing the military until it is too small to do what the nation asks of it.

Recommendation

- Stop expanding entitlements
- Consider reversing recent entitlement expansions
- Improve the cost effectiveness of pay and benefits

Unlike weapons programs, military entitlements cannot be canceled or deferred when budgets get tight. Pay raises cannot be reversed, and history shows that permanently reversing any entitlement is difficult. The seeming inevitability of rising costs of military personnel appears to have convinced some service leaders that the most viable alternative within reach is to cut the size of their forces.

The most important way to address the growth in pay and benefits spending is to put an end to the piling

on of new entitlements—especially benefits that will not help the services to recruit, retain, and motivate the people they need and to shape the force for the future. In addition, Congress and the administration should give serious consideration to reversing or significantly constraining some of the expensive new benefits, as discussed in the following section.

Another approach to constrain future cost growth is to improve the efficiency and cost effectiveness of pay and benefits. For example, slowing across-the-board raises and increasing the bonuses and special pays directed toward people in hard-to-fill occupations (as suggested in the first section of this chapter) could avoid some \$25 billion in costs between 2006 and 2015, while greatly improving the services' ability to get the right people into the right jobs.⁵² Converting in-kind benefits to cash or putting government-operated businesses serving military personnel on an even footing with private-sector firms (as recommended in a later section) could also slow the growth of costs over time.

Too much of the nation's spending for military personnel goes toward deferred benefits

About 31 percent of the nation's spending on pay and benefits for military personnel goes toward benefits that are deferred: pensions and health care for those who retire after 20 or more years of service, veterans' benefits,

and goods and services provided to military retirees and their families.⁵³ Veterans' benefits are an important part of the nation's commitment to those who serve in uniform, and generous retirement benefits encourage servicemembers to stay in the military for a career, rather than leaving after one or two four-year terms. Unfortunately, however, for many military people—especially the younger ones—deferred benefits appear to hold little value when compared with immediate cash pay; as such, they contribute little to the military's competitiveness as an employer.⁵⁴ At a time when the nation is asking so much of its people currently in uniform, immediate pay and benefits should come first.

The military's allocation between immediate and deferred compensation differs markedly from private-sector practice, where deferred benefits rarely exceed 10 or 15 percent of the total. That skewed allocation can make it difficult for the military to compete against private-sector firms as an employer of young people.

Yet, as discussed in the previous section, deferred entitlements have expanded greatly since 1998. The two most expensive new entitlements are likely also the least effective in promoting current readiness: so-called Tricare for Life, which provides unlimited health care coverage to Medicare-age military retirees, and “concurrent receipt,” which for the first time permits military retirees with relatively severe

disabilities to double-dip into federal coffers, thus receiving both a full military retirement pension and a veterans' disability pension. Both of those entitlements reward only a small elite: the 47 percent of officers and 15 percent of enlisted members who will stay in the military for 20 years or more and retire with military pensions.⁵⁵ Neither provides any benefit at all to the 23 million living veterans who devoted fewer than 20 years of their lives to the military.

Recommendation

- Stop adding new entitlements
- Reverse or constrain recently expanded entitlements
- Transform the retirement system
- Encourage more servicemembers to leave before becoming eligible to retire
- Substitute cash for some retirement benefits

As with other entitlements, deferred pay and benefits, once established, are difficult to overturn. Thus, as discussed in the previous section, an important way to guard against the future uncontrolled growth of deferred entitlements is to stop adding new ones.

A more difficult but potentially very effective choice is to overturn Tricare for Life and concurrent receipt. Reversing those two hastily passed recent entitlements would save taxpayers more than \$10 billion a year, with virtually no effect on recruitment and very little effect on retention in the early years of service.

The best solution for the longer term would be to institute a new retirement system that is more flexible and more responsive to the needs of the military as an institution, as discussed in the first section of this chapter.

Another strategy is to reduce the proportion of servicemembers who stay in uniform until they are eligible to retire. All four services rightly want some members to serve for 20 years or more. On the other hand, the services would be better off if some members who now are drawn by the prospect of the military pension to stay for 20 years would instead leave after 12 or 15 years. Under today's retirement system, the services are reluctant to force such people to leave. For example, the Air Force in recent years had 24,000 more people than it needed, but chose to slow down recruiting rather than separate serving individuals. In 2006, the service aims for further reductions in its number of military personnel. Providing lump-sum payments to encourage those people to leave rather than waiting to retire would cost money in the short term, but would save much more in the future.

The services may be reluctant to encourage people to leave, because higher turnover rates will lead to a need for more recruits. But the costs of recruiting and training additional people may pale in comparison with the high costs of retirement benefits.

Too much of the nation's spending for military personnel goes toward noncash benefits

More than 51 cents of every military compensation dollar goes not to immediate cash pay, but to noncash or deferred benefits, including retirement pensions, health care, housing provided directly by the government, subsidized groceries, child care services, and other goods and services provided in-kind.⁵⁶ The situation stands in stark contrast with the private sector, where noncash and deferred benefits typically account for only 18 percent of total compensation, or with civilian government service, where they account for some 33 percent of compensation costs.⁵⁷ The skewed composition of military compensation can make it difficult for the military to compete as an employer in tight labor markets.

Noncash benefits can help to promote a good quality of life for the youngest servicemembers, who may not be skilled in finding apartments, seeking medical care, or obtaining other goods and services they need. Noncash benefits may also help to promote the values of the military as an institution and to create a sense of solidarity within the ranks.

But the noncash benefits provided to servicemembers by the U.S. government today have serious drawbacks. Because they are generally concentrated on large military installations and focused on families, such benefits are often inequitable to single members, reservists, and members who do not live on or near a military base.

Moreover, because they typically involve government monopolies underwritten by subsidies and tax-free status, many are economically inefficient, costing taxpayers substantially more to provide than they are worth to the individuals who receive them. Thus, they are often a source of criticism from members and families, who do not value them nearly as much as they would value the cash the government pays for them.⁵⁸ Furthermore, concentrating goods and services on military bases can wall military people off from the rest of American society—a situation that could have profound implications for an all-volunteer force that depends crucially on deep and lasting public support.

Finally, the costs of in-kind benefits are often not apparent to policy makers, because they are not displayed in a comprehensive fashion in government budget documents. Only about 53 percent of the costs of military compensation to the federal government in 2004 showed up in the Military Personnel account; the remainder of the costs were borne elsewhere—in other elements of the defense budget, in budgets for veterans’ services, or even as revenues forgone because of the tax advantages on some elements of military compensation. For leaders considering an expansion of the force or a change in personnel entitlements, making sense of the cost implications can be daunting.

Recommendation

- Convert in-kind benefits to cash
- Adopt a “cafeteria plan” for benefits
- Improve the cost effectiveness and responsiveness of government-operated businesses providing goods and services to military personnel and families
- Make the costs of in-kind benefits more transparent

The most useful change would be to convert to cash as many in-kind benefits as possible. Installation-centered benefits like family housing, subsidized military grocery stores, and on-base child care centers would be especially appropriate for such “cashing out.” In addition, servicemembers should be permitted to tailor their benefits to their individual needs through a new “cafeteria plan,” similar to plans widely available in the private sector.

To provide whatever in-kind offerings the Defense Department retains, the nation must make its government-owned and operated businesses more cost-effective and responsive to customers. One way to do that is to put them on a more even footing with private contractors, for example by making them pay taxes like civilian firms, and to open their activities to private-sector competition.

In addition, both policy makers and servicemembers need a better understanding of the costs of the benefits provided to them. The Department of Defense provides servicemembers with information about the total value of their compensation in a “Personal

Statement of Military Compensation.” Unfortunately, servicemembers typically find the statement confusing or not believable.⁵⁹ The military as an institution and its members and their families would benefit greatly from a more comprehensive effort to educate individuals about what their compensation costs and how it compares with pay and benefits in the private sector.⁶⁰

Improving the transparency of the costs of military pay and benefits may also help policy makers understand the full costs of decisions they make about expanding the size of the military or adding new entitlements for military personnel. Recently, the Congressional Budget Office and the Government Accountability Office have provided greater clarity into the total costs of military compensation.⁶¹ A comprehensive annual accounting by the Office of Management and Budget of the total cost to taxpayers of military compensation could greatly improve transparency for policy makers and make it easier for experts to track the effects of policy changes.

Delivery of benefits to families is out of step with today’s realities

Nearly 60 percent of all servicemembers have families. The Defense Department provides a wide array of goods and services to make military life attractive to families and to help them cope with the strains of military life. But the way the Defense Department delivers family benefits

is out of step with today’s realities. For example, although some two-thirds of active-duty families and virtually all Guard and Reserve families live outside of military installations, most of the support offered to families is installation-centered. Furthermore, while military operations are increasingly carried out by the services working jointly, the delivery of family support is still typically service-specific. As a result, from the point of view of family members, help can seem disjointed and difficult to access. The problem is particularly acute for the families of reservists, who may live nowhere near a large military installation, or for whom the nearest base may belong to a different service.

The services also rely on old-fashioned means of communicating and providing support. The Defense Department is developing a new system to provide information by telephone and Internet, but information dissemination still depends heavily on word-of-mouth through networks of volunteers whose spouses serve together in a military unit. Yet as in the rest of America, those spouses increasingly are not “stay-at-home moms,” but are women and men with full-time jobs outside the home.

Recommendation

- Reduce service stovepipes in delivery of family services
- Reduce the emphasis on installations
- Improve telephone- and Internet-based help systems
- Reduce reliance on volunteers

Military family support services are badly in need of a makeover. To improve coordination and reduce duplication, service stovepipes should be eliminated and replaced by a joint structure that provides family and community programs to all of the services. Support should be centered less on installations and volunteers. A modern “push” system for information and benefits would improve outreach to families; completing work on the Internet- and telephone-based employee assistance program is essential.

Pulling the rewards for service into the Twenty-First Century

In recent years, taxpayer costs for military people and retirees have risen dramatically, but the added money has resulted in only marginal improvements for the military as an institution and for the individuals who serve. It is hardly surprising that today’s pay and personnel policies do not work as well as they should in today’s environment. Many of them were created more than fifty years ago; while in step with industrial practices of the 1940s, they have not kept up with fundamental strategic, social, economic, business, or labor realities.

Outdated policies get in the way as the services try to compete in today’s labor market for the people they need. They get in the way of individuals who want more flexibility and satisfaction from their careers. Some of those individuals should become tomorrow’s military leaders, and the consequences for future military

outcomes could be grave if they become disaffected or depart. Unless things change in more fundamental ways, the services will find it increasingly difficult to attract and keep the people they need. This occasional paper offers a reassessment of the tangible rewards for service in light of the future the military faces. It identifies a range of interconnected problems and recommends specific improvements.

Reforming entrenched processes and traditions is not easy in any institution. For an institution as conservative as the military, it is especially difficult. Pay and pay equity are emotionally sensitive issues for all Americans, making the prospect of change all the more daunting. Moreover, numerous powerful claimants have important stakes in the system: members and committees of Congress, civilian leaders in the Pentagon and White House, military family and retiree associations, veterans organizations, and firms that provide goods and services to military members and families, to name a few. In addition, military pay and benefits are often treated as a political football between warring parties or candidates for office.

As in other aspects of military transformation, a comprehensive program of policy experiments, simulations, and related activities would help to fine-tune reform plans and build support for them. In addition, a collaborative process similar to the one that cemented reforms and resulted in the Goldwater Nichols Act of 1986 would help to develop a base of support among the stakeholders and push

through changes in laws and regulations. Transformation in the personnel dimension of military capability will be no easier than in other areas, but it will be crucial if other aspects of the transformation envisioned for the U.S. military are to be achieved.

Endnotes

¹ On average across the services, some 30 percent of enlisted occupational specialties were understaffed between 1999 and 2004, and some 40 percent were overstaffed; see Congressional Budget Office, *Budget Options* (Washington, D.C.: CBO, February 2005), Chapter 2, "National Defense," p. 43.

² U.S. Department of Defense News Release, "DoD Announces Recruiting and Retention Numbers for July," August 10, 2005; Thomas E. Ricks, "In Army Survey, Troops in Iraq Report Low Morale," *Washington Post*, March 26, 2004, p. 18; David Josar, "Voices on the ground: Stars and Stripes surveys troops on morale in Iraq," *Stars and Stripes* European edition, Wednesday, October 15, 2003; Dave Moniz, "Guard Reserve short on recruits," *USA Today*, June 9, 2003; Dave Moniz, "Realities push Bush back to U.N.," *USA Today*, September 3, 2003; Maj. General Raymond F. Rees, "Prosecuting the Global War on Terrorism," *2004 National Guard Posture Statement*, http://www.army.mil/publications_resources/posture_statements/2004/index.html.

³ Sarah Wood, "Chu: recruiting, retention solid; Congressional support for compensation programs key to better numbers," American Forces Press Service, July 22, 2005. As of this writing, active-duty Army recruiting is 11 percent short of its 2005 year-to-date goal; the other services are at or above their year-to-date targets for active-duty recruitment. See U.S. Department of Defense News Release, "DoD Announces Recruiting and Retention Numbers for July," August 10, 2005.

⁴ See for example Charles Moskos, "Feel That Draft?," *Chicago Tribune*, June 8, 2005.

⁵ The DoD reserve components include the Army and Air National Guard and the Army, Naval, Marine Corps, and Air Force Reserves. Of the 1.2 million reservists, about 880,000 are in the Selected Reserve and paid to train or work. The remainder are in the Individual Ready Reserve. This monograph focuses on people in uniform; it does not examine policies related to defense civilians.

⁶ See for example David S.C. Chu and John P. White, "Ensuring Quality People in Defense," in Ashton B. Carter and John P. White, eds., *Keeping the Edge: Managing Defense for the Future* (Cambridge, Mass.: MIT Press, 2001); The United States Commission on National Security/21st Century, *Road Map for*

National Security: Imperative for Change; The Phase III Report, February 15, 2001.

⁷ See for example Admiral David Jeremiah (ret.), Department of Defense News Transcript, "Special DoD News Briefing on Morale and Quality of Life," June 13, 2001; Jim Garamone, "New Personnel System Needed to Meet New Challenges," American Forces Press Service, Washington, D.C., July 18, 2003 (www.defenselink.mil/news/Jul2003/n07182003_200307181); Vince Crawley, "Proposals Aim to Extend Senior Officers' Careers," *Navy Times*, March 29, 2004, p. 18.

⁸ The material in this chapter is adapted from Cindy Williams, "Filling the Army's Ranks for the Iraq War," MIT Center for International Studies *Audit of the Conventional Wisdom*, July 2005.

⁹ Damien Cave, "Army's Top Recruiter Says 2006 May Be Biggest Test," *New York Times*, May 13, 2005.

¹⁰ Jim Garamone, "DoD Leaders Confident the Army Will Attract Needed Recruits," American Forces Information Service News Article, June 14, 2005.

¹¹ *Ibid.*

¹² Charles Moskos, "Feel That Draft?," *Chicago Tribune*, June 8, 2005.

¹³ The United States conscripted troops in 1861-1865 (both North and South, Civil War); 1917-1918 (World War I); 1940-1947 (World War II); and 1948-1973 (Cold War).

¹⁴ Bernard Rostker, "America Goes to War: Managing the Force During Times of Stress and Uncertainty" (Santa Monica, CA: RAND, forthcoming).

¹⁵ Office of the Undersecretary of Defense (Personnel and Readiness), *Population Representation in the Military Services, Fiscal Year 2003*, Table D-1.

¹⁶ Sgt. 1st Class Doug Sample, U.S. Army, "General Cites Influencers as Part of Recruiting Challenge," American Forces Information Services News Article, June 17, 2005; Damien Cave, "Growing Problem for Military Recruiters: Parents," *New York Times*, June 3, 2005.

¹⁷ Cave, "Growing Problem."

¹⁸ Washington Post-ABC News Polls of August 24, 2003, and December 16-19, 2004.

¹⁹ In 2000, blacks made up 23 percent of Army enlistees but only 14 percent of 18- to 24-year-old civilians; OUSD (P&R), *Population Representation, Fiscal Year 2000*, Table B-3.

²⁰ Black representation among Army enlistees today is below 14 percent, not much higher than in the civilian population; Askia Muhammad, "Military recruitment down: Blacks silently protest war," *Pacific News Service*, April 6, 2005.

²¹ GfK Custom Research Inc., "U.S. Military Image Study," *Report for the U.S. Army*, August 4, 2004.

²² Associated Press, "Military draft: Poll finds Americans opposed," on MSNBC.com, June 24, 2005 (www.msnbc.msn.com/id/8342995). The survey was conducted by Ipsos for AP on June 20-22, 2005.

²³ Cindy Williams, "From Conscripts to Volunteers: NATO's Transitions to All-Volunteer Forces," *Naval War College Review*, Winter 2005 (Vol. 58, No. 1), pp 35-62.

²⁴ Bill summary for HR 163 from Thomas, the legislative information service of the Library of Congress, <http://thomas.loc.gov>.

²⁵ Garamone, "DoD Leaders Confident;" Associated Press, "Army misses recruiting goal for fourth month," on MSNBC.com, www.msnbc.msn.com/id/8172384, June 10, 2005.

²⁶ While the stop-loss policy affects retention, it is intended primarily to engender unit cohesion; see Josh White, "Soldiers Facing Extended Tours," *Washington Post*, June 3, 2004, p. A1.

²⁷ Sgt. David Foley, "Policy allows deployed Soldiers to reenlist 'out of window' for tax-free bonuses while abroad," Army News Service article, February 16, 2005.

²⁸ Donna Miles, "Air Force Provides Convoy Security for Army, Marines in Iraq," American Forces Information Service News Article, February 8, 2005; Bryan Bender, "Unready for combat," *Boston Globe*, April 26, 2005.

²⁹ Bender, "Unready for combat;" Melanie Streeter, "Course trains Airmen to drive convoys for Army in Iraq," Air Force Print News, July 12, 2004.

³⁰ Laura M. Colarusso and Rod Hafemeister, "10,000 airmen to go: Pentagon wants funds available for exit bonuses," *Air Force Times*, May 30, 2005.

³¹ "Military: Blues, But Not Green," *Newsweek*, May 16, 2005.

³² "Challenging Time For Army's Recruiter In Chief;" interview with Maj. Gen. Michael Rochelle, *Atlanta Journal-Constitution*, June 25, 2005.

³³ Benchmark and current figure from Office of Secretary of Defense; 1999-2003 figures from OUSD (P&R), *Population Representation, Fiscal Year 2003*, Table D-6.

³⁴ Benchmark and May 2005 figure from Office of Secretary of Defense; 2003 figure from OUSD (P&R), *Population Representation, Fiscal Year 2003*, Table D-7.

³⁵ The ideas presented in this chapter are adapted from Cindy Williams (editor), *Filling the Ranks: Transforming the U.S. Military Personnel System* (MIT Press, 2004). The problems and solutions identified here rely heavily on the chapters in that book by Paul F. Hogan, Donald J. Cymrot and Michael L. Hansen, Bernard Rostker, Glenn A. Gotz, Carla Tighe Murray, and Joyce Wessel Raezer. In addition, the suggestions at the end of the chapter for overcoming the barriers to change draw on the chapters in that book by Diana Lien and Aline O. Quester, Arnold L. Punaro, and Stephen Peter Rosen.

³⁶ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military*

Compensation System (GAO-05-798), Report to Congressional Committees, July 2005, p. 5.

³⁷ Congressional Budget Office, *Budget Options* (Washington, D.C.: CBO, February 2005), Chapter 2, "National Defense," p. 43.

³⁸ Beth J. Asch, James R. Hosek, and Craig W. Martin, *A Look at Cash Compensation for Active-Duty Military Personnel* (Santa Monica, Calif.: Rand, 2002), p. xv.

³⁹ Beth J. Asch, James R. Hosek, and Craig W. Martin, *A Look at Cash Compensation*, p. 8-10. In the National Defense Authorization Act for Fiscal Year 2003, Congress authorized a new "critical skills retention bonus" that would allow the services to provide substantial new bonuses to members in critical areas. The new program could greatly improve pay flexibility, but the services were slow to use it and Congress was slow to appropriate the money to pay for it. See Charles S. Abell, Principal Deputy Under Secretary of Defense (Personnel and Readiness), prepared statement before the Military Personnel Subcommittee, Senate Armed Services Committee, March 27, 2003.

⁴⁰ John C.F. Tillson, "It's the Personnel System," in Donald E. Vandergriff, ed., *Spirit, Blood, and Treasure* (Novato, Calif.: Presidio Press, 2001), Chapter 4; Mark R. Lewis, "Army Transformation, The Exodus, and the Cycle of Decay," unpublished article (copyright Mark R. Lewis), December 31, 2002; interview with Lt. Gen. Richard G. Trefry (U.S. Army retired), Army Force Management School, Ft. Belvoir, Virginia, May 15, 2003.

⁴¹ For example, based upon recommendations of the Officer Personnel Management System (OPMS) XXI Task Force of 1996, the Army redesigned its officer career management system to create four career fields: operations, operational support, institutional support, and information operations. After selection for major, officers enter one of those career fields and compete for promotion in that career field from then on. For a detailed description of the Army's system, see Department of the Army Pamphlet 600-3, "Commissioned Officer Development and Career Management" (Washington, DC: Headquarters, Department of the Army, 1 October 1998). That and other changes adopted at the same time should improve specialist careers, but generalists complain that the move limits their promotion opportunities. The jury is not in yet on the effectiveness or viability of the OPMS XXI changes.

⁴² John C.F. Tillson, "It's the Personnel System;" Mark R. Lewis, "Army Transformation, The Exodus, and the Cycle of Decay;" interview with Lt. Gen. Richard G. Trefry (U.S. Army retired), Army Force Management School, Ft. Belvoir, Virginia, May 15, 2003.

⁴³ Roger Nils Folsom, "Military Personnel Without Conscription" in Robert W. Poole, Jr., *Defending a Free Society* (Lexington, Mass: Lexington Books, 1984); Edward N. Luttwak, *The Pentagon and the Art of War*, (New York: Simon and Schuster/Institute for Contemporary Studies, 1984), Chapter 6; Tillson, "It's the Personnel System."

⁴⁴ Interview with Lt. Gen. Richard G. Trefry (U.S. Army retired), Army Force Management School, Ft. Belvoir, VA, May 15, 2003.

⁴⁵ 8th Quadrennial Review of Military Compensation (QRMC), *Rewarding, Organizing, and Managing People for the 21st Century: Time for a Strategic Approach* (Ft. Belvoir, VA: Defense Technical Information Center, June 1997); the United States Commission on National Security/21st Century, *Road Map for National Security: Imperative for Change; The Phase III Report*, February 15, 2001, pp. 103-104.

⁴⁶ Testimony of General Henry Shelton, Chairman of the Joint Chiefs of Staff, before the Senate Armed Services Committee, September 29, 1998. General Accounting Office (GAO), *Military Personnel: Services Need to Assess Efforts to Meet Recruiting Goals and Cut Attrition* (GAO/NSIAD-00-146, June 2000), p. 5. Enlisted retention problems were most severe in communications and intelligence and electrical and mechanical equipment repair; see General Accounting Office, *Military Personnel: Systematic Analyses Needed to Monitor Retention in Key Careers and Occupations* (GAO/NSIAD-00-60, March 8, 2000). For officers, they were worst among pilots, scientists, engineers, and communication and computer system officers. See Beth Asch, James R. Hosek, et al., *Military Recruiting and Retention After the Fiscal Year 2000 Military Pay Legislation* (Santa Monica, Calif.: Rand, 2002), p. xix.

⁴⁷ Congressional Budget Office, *Budget Options* (Washington, D.C.: CBO, February 2005), Chapter 2, "National Defense," p. 43. For a summary of recent trends in the costs of military compensation, see Steven M. Kosiak, *Military Compensation: Requirements, Trends, and Options* (Washington, D.C.: Center for Strategic and Budgetary Assessments (CSBA), February 2005).

⁴⁸ While extra pay and benefits played a part in the turnaround, their contributions were not large compared with other factors: the economic downturn, a rise in private-sector unemployment, and possibly the boost in patriotism following September 11, 2001. See Beth Asch, James R. Hosek, et al. *Military Recruiting and Retention After the Fiscal Year 2000 Military Pay Legislation* (Santa Monica, Calif.: Rand, 2002), pp. 10, 31-34.

⁴⁹ Evidence from the military downsizing programs of the 1990s indicates that even relatively senior military personnel see surprisingly little value in deferred benefits compared with immediate cash pay; see John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence from Military Downsizing Programs," *The American Economic Review* (March 2001).

⁵⁰ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 5, 19.

⁵¹ David Wood, "Some of Army's Civilian Contractors are No-Shows in Iraq," *Newhouse News Service*, July 31, 2003. For a more comprehensive discussion

of the problems that can arise when the nation relies too heavily on contractors to carry out military jobs, see Peter W. Singer, "Corporate Warriors: The Rise of the Privatized Military Industry and Its Ramifications," *International Security*, Vol. 26, No. 3 (Winter 2001/02).

⁵² Congressional Budget Office, *Budget Options* (Washington, D.C.: CBO, February 2005), Chapter 2, "National Defense," p. 43.

⁵³ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 5, 22.

⁵⁴ John T. Warner and Saul Pleeter, "The Personal Discount Rate: Evidence from Military Downsizing Programs," *The American Economic Review* (March 2001).

⁵⁵ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 5, 25.

⁵⁶ Congressional Budget Office, "Military Compensation: Balancing Cash and Noncash Benefits," Economic and Budget Issue Brief, January 16, 2004; Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 22.

⁵⁷ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 24.

⁵⁸ Recent focus groups led by the Government Accountability Office underscore the fact that service-members consistently underestimate the costs of their compensation and how it compares with that of civilians in the private sector; see Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 33.

⁵⁹ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005, p. 28.

⁶⁰ Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military*

Compensation System (GAO-05-798), Report to Congressional Committees, July 2005, p. 28-29.

⁶¹ Congressional Budget Office, "Military Compensation: Balancing Cash and Noncash Benefits," Economic and Budget Issue Brief, January 16, 2004; Government Accountability Office, *Military Personnel: DOD Needs to Improve the Transparency and Reassess the Reasonableness, Appropriateness, Affordability, and Sustainability of Its Military Compensation System* (GAO-05-798), Report to Congressional Committees, July 2005.

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