

**SECDEF STATEMENT  
PENTAGON BRIEFING ROOM  
MONDAY, AUGUST 9, 2010**

As you know, for the better part of two years the leadership of this department has been working on reforming the way the Pentagon does business.

These efforts have been spurred by a number of realities.

First, our country is still fighting two wars, confronts ongoing terrorist threats around the globe, and faces other major powers investing heavily in their military. It is important that we not repeat the mistakes of the past, where tough economic times or the winding down of a military campaign leads to steep and unwise reductions in defense. The current and planned base defense budgets – which project modest but steady growth – represent the minimum level of spending necessary to sustain a military at war and to protect our interests and future capabilities in a dangerous and unstable world.

Having said that, we must be mindful of the difficult economic and fiscal situation facing our nation. As a matter of principle and political reality, the Department of Defense cannot expect America's elected representatives to approve budget increases each year unless we are doing a good job, indeed everything possible, to make every dollar count.

As a first step, last year we began reforming this department's approach to military acquisition, curtailing or cancelling about 20 troubled or excess programs – programs that if pursued to completion would have cost more than \$300 billion. Additional program savings have been recommended in the budget we submitted this year.

However, it is clear to me that additional major changes are needed, consistent with the reform agenda laid out by President Obama. I believe that sustaining the current force structure and making needed investments in modernization will require annual real growth of 2 to 3 percent, which is 1 to 2 percent above current top-line budget projections. Therefore, in order to preclude reductions in the military capabilities America needs today – in addition to those required for the future – that spending difference will need to be made up elsewhere in the department.

As a result, in May I called on the Pentagon to take a hard, unsparing look at how the department is staffed, organized, and operated. I concluded that our headquarters and support bureaucracies – military and civilian alike – have swelled to cumbersome and top-heavy proportions, grown over reliant on contractors, and grown accustomed to operating with little consideration to cost. This manifested itself over the past decade in vast increases in spending and staffs – by nearly one thousand employees in the case of the Office of the Secretary of Defense alone – and in the proliferation of new organizations and senior executives to lead them. This expansion – and its associated habits and attitudes – was abetted by a near doubling of the defense base budget since 2001 and further enabled by a steady diet of supplemental war appropriations – both factors that will soon end.

To be clear, the task before us is NOT to reduce the department's top line budget. Rather, it is to significantly reduce its excess overhead costs and apply the savings to force structure and modernization.

Toward this end, starting in June, we embarked on a four-track approach to move America's defense institutions towards a more efficient, effective and cost-conscious way of doing business.

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First, and most significantly, earlier this year the military services were assigned the task of finding more than \$100 billion in overhead savings over the next five years. Unlike budget cutting efforts of the past, the services will be able to keep the savings they generate to reinvest in higher priority warfighting needs and modernization programs. This exercise is well underway, as the services are evaluating their programs and activities to identify what remains a critical priority and what is no longer affordable. They are all planning to eliminate headquarters that are no longer needed and reduce the size of the staffs they retain.

I've also authorized each of the military departments to consider consolidation or closure of excess bases and other facilities where appropriate. This is obviously a politically fraught topic. Currently, Congress has placed legal constraints on DoD's ability to close installations. But hard is not impossible, and I hope Congress will work with us to reduce unnecessary costs in this part of the Defense enterprise.

Second, we are seeking ideas, suggestions and proposals from outside the normal official channels. This includes soliciting input from experts such as think tanks, industry, and the department's external boards. Within the department, we are launching an online contest for the purpose of soliciting and rewarding creative ideas to save money and use resources more effectively. I would encourage all DoD employees to visit "defense.gov" on the web to learn more.

Third, I directed a series of assessments of how this department is organized and operated to inform the FY 2012 budget request. As part of that process, Under Secretary of Defense Ashton Carter has launched an initiative to improve efficiency and reduce costs in the contracting arena – the goal being to get better buying power for the taxpayer and warfighter in defense goods and services. We plan on providing more detail on this effort in early September and our intent is for this initiative to begin to affect ongoing programs immediately.

Fourth, even with these DoD-wide efforts underway, I have concluded that there are a number of areas where we can take action starting now and not wait for the normal budgeting and program process. Therefore, today I am announcing an initial set of decisions designed to reduce duplication, overhead, and excess in the defense enterprise, and, over time, instill a culture of savings and restraint across this department.

These initiatives vary in size and levels of savings achieved, ranging from personnel and paperwork to organizational structures and business practices. They represent an initial step of a comprehensive, department-wide efficiency and savings campaign that will be incorporated more fully into the FY 2012 budget request.

I will summarize them briefly now, and then take your questions.

First, over the last decade this department has seen a dramatic increase in the use of service support and advisory contractors of all kinds – from 26 percent of total DoD workforce cost in 2000 to 39 percent a year ago (not counting the contractors supporting the war efforts in Iraq and Afghanistan). In some cases contractors may be performing functions that should be done by full-time government employees, including managing other contractors. Last year, the department announced a plan to reduce the number of service support contractors by about 33,000 by 2015 and where necessary, "in-source" those positions with full time government employees. Based on the data available after one year, I am not satisfied with the progress being made to reduce our over-reliance on contractors.

Accordingly, to accelerate this process and achieve additional savings, I have directed that we reduce funding for service support contractors by 10 percent a year for each of the next

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three years. Furthermore, as I will explain in a moment, we will no longer automatically replace departing contractors with full time personnel.

Second, and directly related to contractors, is the issue of the dramatic growth in size and expense in the Office of the Secretary of Defense, the defense agencies, and the Combatant Command staffs. Much of this growth came from new missions that emerged since September 11<sup>th</sup>. However, there was no commensurate decrease for activities that had become less relevant and urgent – and with additional funds made available, there was not much incentive to do so. As I've said before, this department must start setting priorities, making real tradeoffs and separating appetites from real requirements. Constraining the personnel available is one way to force this painful but necessary process to take place.

Therefore, I am directing a freeze on the number of OSD, Defense Agency, and Combatant Command positions at the FY 2010 levels for the next three years. With regard to insourcing, other than changes planned for FY 10, no more full-time positions in these organizations will be created after this fiscal year to replace contractors. Some exceptions can be made for critical areas such as the acquisition workforce.

These measures are just the first step of a comprehensive re-baselining of OSD, Defense Agency and COCOM staffing and organizations. We will conduct a “clean sheet review” to determine what our people should be doing, where, and at what level of rank in keeping with the department's most critical priorities. I expect the results of this effort by November 15<sup>th</sup> of this year.

Third, the proliferation of new staff and more layers of bureaucracy is a natural consequence of the substantial increase in the most senior leadership – general and flag officers, career senior executives, and political appointees requiring Senate confirmation.

Over the past decade, the department has added to what was an already high historical baseline for senior personnel. For example, since September 2001, the total number of general and flag officers has grown by more than 100 – including now 40 four-star positions – and the number of senior civilian executive positions has increased by more than 300. As a result of the wars, this department has taken on new missions and responsibilities that have required some of these new senior military and civilian billets. But apart from meeting these genuine war-related needs, we have also seen an acceleration of what Senator John Glenn more than twenty years ago called “brass creep” – a situation where personnel of higher and higher rank are assigned to do things that could be reasonably handled by personnel of lower rank. In some cases, this creep is fueled by the desire to increase the bureaucratic clout or prestige of a particular service, function, or region, rather than reflecting the scope and duties of the job itself.

And in a post-9/11 era, when more and more responsibility – including decisions with strategic consequences – is being exercised by more junior officers in theater, the Defense Department continues to maintain a top-heavy hierarchy that more reflects 20<sup>th</sup> Century protocols than 21<sup>st</sup> Century realities. For example, unlike most other commands, four-star service component headquarters remain in Europe long after the end of the Cold War, and long after the vast majority of their fighting forces have departed.

We need to create a system of fewer, flatter, and more agile and responsive structures, where reductions in rank at the top create a virtuous cascading effect downward and outward. In addition to the number of senior positions, there is also the question of their allocation, and whether our distribution of rank – by geography or function – reflects the missions and realities our military faces today.

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Therefore I am directing a freeze at FY10 levels on the number of civilian senior executive, general and flag officer, and PAS positions. Furthermore, a senior task force will assess the number and locations of senior positions – be they of old or new vintage – as well as the overhead and accoutrements that go with them. I expect the results of this effort by November 1<sup>st</sup>. At a minimum, I expect this effort to cut at least 50 general and flag officer positions and 150 senior civilian executive positions over the next two years. These reductions would represent 50 percent of the total growth in billets since 2000.

Fourth, there are great benefits to be gained – in cost and efficiency – from taking advantage of economies of scale. The problem is that too many parts of the department, especially in the information technology arena, cling to separate infrastructure and processes. All of our bases, operational headquarters and defense agencies have their own “IT” infrastructures, processes, and application-ware. This decentralized approach results in large cumulative costs, and a patchwork of capabilities that create cyber vulnerabilities and limit our ability to capitalize on the promise of information technology. Therefore, I am directing an effort to consolidate these assets to take advantage of the Department’s significant economies of scale, thereby creating savings in acquisition, sustainment, and manpower costs. This action will allow the increased use by the department of common functions and improve our ability to defend defense networks against growing cyber threats.

Fifth, this department is awash in taskings for reports and studies. In 1970, the Pentagon produced a total of 37 reports for the Congress, a number that topped off at more than 700 in last year’s cycle. Consider that as of 2009, the department had nearly 1,000 contractors working in some capacity on producing reports for Congress, of which more than 200 were working full time.

Reports directed by Congress are effectively beyond our control. But a good deal are also internally generated, including by my own office. At this time, nobody really knows how much they cost, and thus there is little basis to determine whether the value gained is worth the considerable time and resources expended.

Therefore, I have directed that starting now, we will:

- Freeze the overall number of DoD-required oversight reports;
- Immediately cut the dollars allocated to advisory studies by 25 percent; and
- Track and publish the actual cost of preparation of each report and study prepared by DoD in the front of each document.

By October 1, we will conduct a comprehensive review of all oversight reports and use the results to reduce the volume generated internally. In addition, we will engage the Congress on ways to meet their needs while working together to reduce the number of reports.

Sixth, the department has set up numerous outside boards and commissions – 65, in the case of OSD – to oversee our activities and provide independent advice. Some of these entities provide real value, others less so. Even if their members are unpaid, these bodies still require substantial support -- \$75 million for OSD – in the form of staff and indirect costs. Therefore, I am ordering a review of all outside boards and commissions, for the purpose of:

- Eliminating those no longer needed;
- Focusing the efforts of those that continue to be relevant;
- Cutting overall funding available for studies tasked by remaining boards and commissions by 25 percent in FY 11.

Seventh, it is no great secret that since September 11<sup>th</sup> the U.S. government has seen a proliferation of new intelligence organizations and operations. This is partly due to the war on

terrorism and partly due to the massive intelligence requirements associated with fighting two wars.

Even so, in the defense arena, large and well-staffed intelligence structures now exist in the services, the defense agencies, the combatant commands, and in the war theaters. To some extent, we are still struggling to find the right balance between the value of centralizing intelligence functions versus distributing or embedding them closer to the front.

Nonetheless, we should not flinch from eliminating unnecessary redundancy and directing more resources to places where they are needed, such as certain specialties in short supply in theater. I am thus directing an immediate 10 percent reduction in funding for intelligence advisory and assistance contracts and freezing the number of senior executive positions in defense intelligence organizations. We must also take further steps to end needless duplication within the department's intelligence community. Accordingly, I have directed a zero-based review of the department's intelligence missions, organizations, relationships, and contracts to be completed by November 1<sup>st</sup>. While these steps will only apply to Department of Defense intelligence organizations, the new Director of National Intelligence, Jim Clapper, has indicated to me an interest in pursuing a parallel and coordinated effort using the same business rules for the National Intelligence organizations.

Eighth, the last decade has also seen a significant growth of new offices and organizations, including two new combatant commands and five new defense agencies. So in addition to flattening and trimming structures, we also looked to eliminate outright organizations that performed duplicative functions or outlived their original purpose.

The Office of the Assistant Secretary of Defense for Networks and Information Integration, or "NII", was set up in 2003 when the policy, oversight and advocacy function for command, control and communications split off from intelligence. The resulting arrangement for dealing with enterprise "IT" and hardware issues – which includes a similar function for the J6 on the Joint Staff – has since become redundant, costly, and cumbersome. Therefore, I have directed the elimination of the NII and the J6 organizations. Their operational functions will be assigned to other organizations, and most of their acquisition functions will transfer to AT&L. We will stand up a re-fashioned and strengthened Chief Information Officer, or "CIO", and under its umbrella responsibility for daily operations will be assigned to the Defense Information Systems Agency.

The Business Transformation Agency was formally established in 2006 to foster the reform and modernization of this department's business practices. Since its creation, "BTA" – an agency that now employs approximately 360 people and spends \$340 million per year – has shifted more of its focus to day-to-day oversight of individual acquisition programs, a function that can be performed by a number of other organizations. Furthermore, the mission assigned to "BTA" has been largely legislatively assigned to other elements of the Department. Therefore, I have directed the elimination of the Business Transformation Agency, and shifted its responsibilities largely to the Deputy Chief Management Officer.

Finally, the Joint Forces Command was originally established to infuse, and to some degree, compel jointness into everything the military does, especially through training, doctrine development and the provision of forces for operations. It was understood at the time that "JFCOM" created an extra layer in the force management process. But the benefits of improving jointness were deemed to outweigh the resulting extra bureaucracy.

Since then, propelled by decades of operational experience, the U.S. military has largely embraced jointness as a matter of culture and practice, though we must always remain vigilant

against backsliding on that front. Training joint forces, generating joint forces, creating joint doctrine, and experimenting with that doctrine are all valuable tasks. However, they do not necessarily require a separate four star combatant command which, in the case of JFCOM entails about 2,800 military and civilian positions and roughly 3,000 contractors of all kinds at an annual cost of at least \$240 million to operate.

Therefore, I am recommending the closure of JFCOM and the assignment of its force management and sourcing functions to the Joint Staff. JFCOM's remaining responsibilities will be evaluated and those determined to be essential and still necessary to protect and promote jointness will be re-assigned to other entities.

All told, as a result of closing or consolidating these three organizations, over the next six months to a year, a number of full time employees will have to find other positions or no longer work in this department. Like millions of Americans affected by this tough economic climate, I know these changes will likely mean real hardship for displaced employees and their families. Accordingly, I have asked Dr. Clifford Stanley, the Under Secretary of Defense for Personnel and Readiness, to work with the leaders of the affected organizations to do everything possible to assist their employees in what may be a difficult transition. I do so with great appreciation and admiration for the service these employees have rendered, and with the hope that we can help them find new ways to offer their expertise and experience in service to our nation.

The ultimate success of these initiatives, as well as the other reforms underway, in the end will depend on a fundamental change in culture and attitude across our defense institutions. The culture of endless money that has taken hold must be replaced by a culture of savings and restraint. Towards this end, I am directing that any new proposal or initiative – large or small, be it policy, program, or ceremony, affecting the lowest ranks or the highest – come with a cost estimate. That price tag will help us determine whether what we are gaining, or hope to gain, is really worth the cost, either in dollar terms or in the diversion of limited manpower and resources from other missions.

As I've said a number of times, the way to make sure something gets done in this building is to set short deadlines and provide visibility and oversight from the very top. To see these initiatives through from announcement to action to measurable results over the next 90 to 120 days, I have appointed a task force chaired by my chief of staff. This task force will develop action plans and oversee their implementation and eventual transition to the appropriate department leadership.

Taken together, these initiatives, in the context of the four major tracks I described earlier, represent an aggressive effort to not only to reduce costs but to also reform the culture of this department. This effort will not end this fall or with the FY12 budget submission next February. Instilling habits of restraint, of subtracting as well as adding, of elevating affordability on a par with desirability, is a project of years in the making. This will reflect itself in ways large and small, substantive and symbolic. My hope and expectation is that the efforts we have launched will lead to the kind of cultural changes that over time become part of this department's DNA and institutional memory.

In closing and in summary, I want to re-emphasize that this agenda is not about cutting the department's budget. It is about reforming and re-shaping priorities to ensure that, in tough budgetary and economic times, we can focus defense resources where they belong: in America's fighting forces, investment in future capabilities and, most important on our men and women in uniform.

Thank you.

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