

Defense Manpower

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United States Senate

MEMORANDUM

May 7, 1976

Senator Nunn,

I asked the Defense Manpower staff to provide a little background on the work they did on recruiting. Attached is a paper they prepared in that regard. They make some interesting points.

Frank Sullivan

RECRUITING MALPRACTICE IN THE MARINE CORPS

The recruiting programs for the four Services in varying degrees faced recruiting problems in the period immediately following the transition to All Volunteer Force procurement policies. While the Air Force never had severe malpractice problems, the Army, Navy and Marine Corps, on the other hand, enlisted significant numbers of recruits who did not meet entry standards. This situation continued throughout 1973 and into 1974, when both the Army and the Navy began to improve the quality of their accessions and significantly reduce the number of recruits who did not meet minimum entry standards. In general, most Service leaders agreed that the Army began to "turn the corner" in the fall of 1974, with the Navy following suit in late 1974/early 1975. On the other hand, the Marine Corps in calendar year 1975 continued to recruit significant numbers of less-than-minimally qualified individuals. Since then, little information concerning the level of malpractice in the Marine Corps recruitment programs has been made available. The purpose of this paper is to discuss ways and means of working with the Marine Corps in order to determine current levels of malpractice.

In undertaking this exercise, several fundamental statements concerning recruiting operations and malpractice should be kept in mind. These are:

1. There always has and will be some level of malpractice in all Services. The key question is whether large numbers of normally good men are forced to malpractice by system pressures.

2. The extent of malpractice cannot be accurately determined for past or present periods. At best, strong indicators can be identified and evaluated. Also, valid comparisons between Services can be developed.

3. There is a large gray area in the recruiting process between honest differences in judgments and deliberate malpractice actions.

4. The vast majority of alleged malpractices by recruiters are never recorded, processed or investigated as such. Instead, all Services choose to administratively discharge all but flagrant cases. Such actions are much quicker, cheaper and less burdensome.

5. As malpractice allegations only arise upon recruit dissatisfaction or bad performance, some unknown number of young men and women who enter the Services because of malpractice, but subsequently perform marginally or satisfactorily, can never be documented.

6. Malpractice cases do not necessarily have to involve recruiting/service personnel. Unqualified individuals can "beat the system" on their own.

7. Whereas the adherence to higher entry standards by recruiters will improve the quality of accessions, the raising of standards during periods of high malpractice without corresponding corrective actions will only raise the level of malpractice cases.

BACKGROUND

General "ranges of malpractice" within each Service can be developed by a combination of several analytical actions and first-person observations and discussions.

The starting point in this analysis should be the available Service data on malpractice cases and referrals. However, as most allegations of

malpractice are not processed as such, the basic malpractice data must be supplemented by additional information. Certain available statistical data can provide the basis for this supplementary analysis.

Test Score Differences

Perhaps the major analytical tool for determining the general "range" of malpractice are the test score differences between the results of entry/ classification tests given during the recruitment process and those given at basic training.

During 1973-1975, both the Marine Corps and the Navy re-tested recruits at basic training. Although different test instruments were used, correlations between the two tests were developed. During the same period, the Army and Air Force did not conduct re-testing programs, although both Services regularly checked recruiting test scores by a selective re-test of limited numbers of new recruits. While the Navy adopted this spot-check program during 1975, the Marine Corps has continued to re-test all individuals at the Recruit Training Depots. At present, Marine recruiters utilize the Armed Forces Vocational Aptitude Battery (ASVAB) while the recruit depots administer the Army Classification Battery (ACB). The Corps plans to utilize the ASVAB for re-test purposes beginning later this year.

The evolution of current testing programs in the Marine Corps commenced in FY 1974. In that year, the Marine Corps determined that the Armed Forces Qualification Test (AFQT) for various reasons was no longer a valid test for accession testing. The most significant reason for replacing the AFQT was that it has been in use over the past 20 years and the general public achieved a familiarity with it to the extent that its usefulness was

questioned. An equally significant reason for replacing the AFQT was the disparity between the percent of Mental Group IV's (MG IV's) as determined by the AFQT at AFEES to the percent MG IV's as determined by the General Technical (GT) aptitude area score obtained from ACB testing at the recruit depots (see Enclosure 1). On 1 July 1974, the Armed Services Vocational Aptitude Battery (ASVAB) replaced the AFQT as the Marine Corps' principal accession testing instrument.

After four months of monitoring the quality of the accessions as measured by the ASVAB mental group score and the ACB GT score, it was determined that the new ASVAB test had not significantly reduced the disparity between the testing at the AFEES and the testing at the depot. As a result, the Marine Corps decided to develop and utilize scrambled versions of the ASVAB. The scrambled versions of the test were introduced into the recruiting process in Winter/Spring 1975. Subsequent data on the impact of the new versions on the disparity between the testing at the AFEES and the testing at the depots has been developed by the Management Information Systems Division of Headquarters, U.S. Marine Corps, but has not been distributed.

In general, the test scores from both the recruiting and recruit depot tests should be about the same. While there could be environmental/motivational differences, the extent of divergence in test scores should not exceed a few points, up or down, unless there has been compromising of the tests or test processes. Thus, when there are widening patterns of divergence in the test scores, there is a clear indication of test compromising, and as the testing at recruit training depots is well controlled and monitored, the "villians" become the recruiters or recruits.



In terms of the four Services, there was initial divergence in the test scores in the months following the end of the draft. Conversely, current spot checks in the Air Force, Army and Navy indicate that test compromising is no longer a major issue.

The Marine Corps, on the other hand, remains an unknown quantity. Data made available by the Marine Corp's Recruit Training Depot, Parris Island, South Carolina, indicates that their problem was continuing in 1975 and getting worse. As Enclosure 2 indicates, the test compromising had reached the degree where there were 30 point differences in the two test scores. In layman's language, this meant that about 35% of the USMC accessions were in Mental Group IV and V rather than the less than 5% reported by Headquarters, U.S.M.C. and reflected in OSD briefings and press releases.

Malpractice and Administrative Discharge Procedures

The second analytical exercise which will help determine the current range of malpractice in the USMC concerns the records of the Recruit Depot Aptitude Boards (DAB). In general, most of the less-than-minimally qualified recruits reporting to basic training will be processed by these administrative discharge boards for quick release.

The Depot Aptitude Board (DAB) at each Recruit Training Depot is required to review the records and interview all candidates for discharge and then make appropriate recommendations on the disposition of their cases to the Commanding General. The Board consists of three officers, including one psychiatrist/psychologist from the medical department, a field grade officer, and a company grade officer. Case files are established for each candidate

for discharge. A DAB REFERRAL, (6ND-MCRD-1910/31) is prepared for each candidate. This summary form contain information on AFQT and GT test scores, education level and summary narrative comments concerning problem areas from drill instructors, commanders and often medical/psychiatric officers. Further, many of the recruits in their personal appearance before the DABs make allegations of recruiter malpractice. On occasion, these allegations are noted in the files, or referred for malpractice investigations. Because of faulty quality control in the accessions process in the past, many enlistees who reported to recruit depots have been so far below acceptable standards that they have had to be discharged and sent home. Unfortunately, the Corps' ability to rid itself of all substandard recruits at the very outset had been constrained by certain actions which began in 1971.

As the armed forces decreased numerically with the removal of the American forces from Southeast Asia, the Commandant initiated a "house cleaning" program whereby Marines who failed to measure up to post-Vietnam standards were to be separated immediately. Accordingly, the Marine Corps established a 10% target for recruit attrition. Recruit discharges decreased from a high of 22% in FY 1971 to 12% in FY 1972, 10% in FY 1973, 11% in FY 1974 and 15% in FY 1975. For FY 1976, General Wilson, the new Commandant, has removed all recruit attrition ceilings.

Administrative discharges at training depots have traditionally consisted of three identifiable groups. First, medicals, which have held fairly consistent over the months and years. These are the cases that were not determined at the AFEEs exam and require discharges for conditions that were discovered at basic training. This level has been fairly low and fairly

steady. The second area are those requiring undesirable or bad conduct discharges for offenses conducted during recruit training, and this level again is low and steady. The largest group of those being discharged for unsuitability and it's in this area that recruiting error or malpractice has caused a substantial increase (see Enclosure 3). In FY 1973, 5.7% of all accessions were discharged for unsuitability; the rate climbed to 7.5 by FY 1974, 8.1% during the first half of FY 1975 (data for Parris Island only).

There are two ways in which the DAB proceedings and records can help establish the general range of malpractice. First, an audit of the individual case files for a period of time would establish the general level of those being processed who should not have been enlisted. Second, it would be of value to compare the general quantity/quality of men/women being processed and the reasons for their discharges on an inter-Service basis.

Secondary Data Analysis

There are two additional sources of data, the analysis of which would help to clarify the extent of recruiting malpractice in the USMC. First, records are kept of discrepancies between reported numbers of high school graduate accessions and those with high school diplomas who report to MCRTD, Parris Island (see Enclosure 4). Second, comparative data of AWOL rates, non-judicial punishment and court-martials also is readily available (see Enclosure 5 for a comparative summary of Service rates through FY 1975).

First-person Observations

The various analyses of data discussed above would be greatly strengthened by a programmed series of personal observations at recruit training centers for the USMC and other Services. Attendance at DABs or their equivalents in other Services would be particularly important. Off-the-record discussions with DAB members, drill instructors and recruiters from all Services also would be significant. It would be an added plus if this investigation could be conducted by individuals who have conducted similar investigations in past periods of Marine Corps recruiting problems.

RECOMMENDED COURSE OF ACTION

The following actions are recommended in order to determine the current "range of malpractice" in the USMC:

Data Collection

1. Obtain current Service levels and records of malpractice allegations and case dispositions.
2. Obtain data on the current and historical test score differences for the Army, Navy and the Air Force.
3. Charge Headquarters, USMC, with up-dating Enclosure 1.
4. Charge MCRTD, Parris Island, with up-dating Enclosures 2, 3 and 4.
5. Charge MCRTD, San Diego, with developing the data as displayed in the up-dated versions of Enclosures 2, 3 and 4.
6. Obtain a FY 1976 update of Enclosure 5.
7. Charge MCRTDs, (Parris Island and San Diego) with preparing statistical summaries of recent DAB actions.

8. Obtain from MCRTDs copies of individual DAB REFERRAL forms processed during April 1976 and April 1975.
9. Obtain similar sets of forms for same periods from other Services.

Personal Observation

1. Compare recruit quality overall and recruits being processed for administrative discharge at the two MCRTDs.
2. Compare recruit quality overall and recruits being processed for discharge at at least six other Service recruit training centers.
3. Discuss malpractice problems "off the record" with DAB members, training personnel and recruiters of all Services.

Analysis

1. Conduct historical and inter-Service analyses of reported malpractice cases.
2. Conduct historical and inter-Service analyses of test score differences.
3. Conduct qualitative/quantitative and historical inter-Service evaluation of administrative discharge candidates.
4. Conduct historical and inter-Service analyses of secondary data.

Summary

Marine Corps leaders believe that the Marine Corps now has "turned the corner" in recruiting and that the degree of malpractice is rapidly being

brought under control. This change is attributed primarily to the change in Marine Corps leadership and the rededication of the top echelon and recruiting personnel to the task at hand. There also have been continuing management and operational improvements in the Marine Corps recruiting programs.

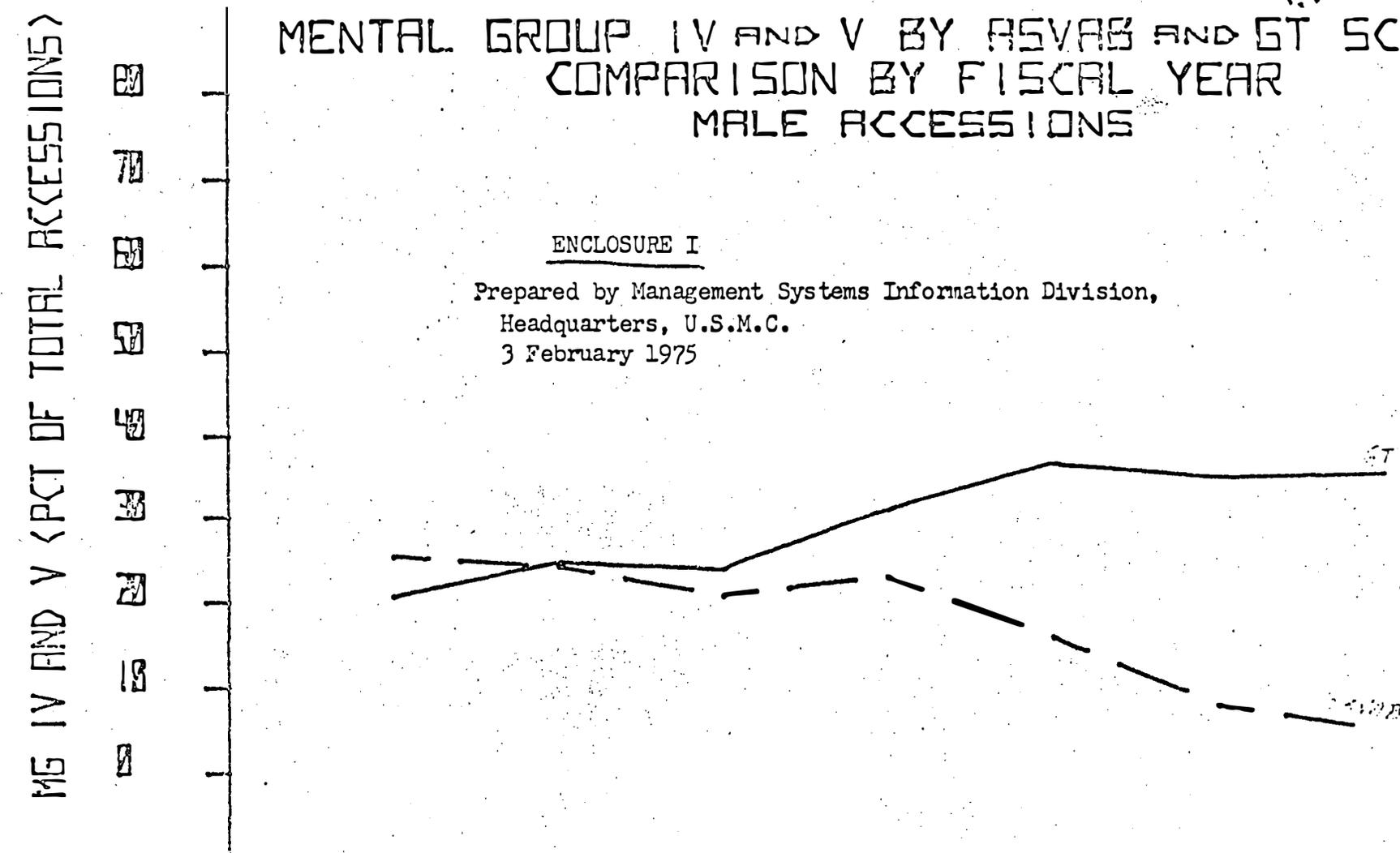
During the All Volunteer Force years, the Marine Corps has devoted extraordinary resources to its recruiting program and has received substantial assistance from the poor civilian job market. Despite this, the complete success of Marine Corps recruiting in 1976 still remains in doubt - even though more than one year has passed since the last of the other Services has "turned the corner". If a full-scale investigation of Marine Corps recruiting is conducted, it is possible that a realization of inter-Service differences in their recruiting programs will prompt the question of whether the Marine Corps can expect to recruit "enough good men" in the current All Volunteer Force environment in order to sustain their general force level and mission responsibilities. While the investment of additional resources to recruiting programs and operational "fixes" can improve current recruit quality input, the existence of malpractice within the Marine Corps today at a level significantly above that of the other Services portends a bleak future - particularly as the civilian job economy improves. On the other hand, if the Marine Corps has improved their recruiting programs to the degree that malpractice and low quality are memories of the past, then it's likely that the future can be met with the same relative success/failure as the other Services, and that the basic conclusion of the investigation would be that the Marine Corps also has "turned the corner" -- albeit later than the other Services.

MG IV AND V (PCT OF TOTAL ACCESSIONS)

MENTAL GROUP IV AND V BY ASVAB AND GT SCORE COMPARISON BY FISCAL YEAR MALE ACCESSIONS

ENCLOSURE I

Prepared by Management Systems Information Division,
Headquarters, U.S.M.C.
3 February 1975



FY	69	70	71	72	73	74	75 ¹
PCT BY GT	20.61	24.59	23.83	30.78	36.52	31.30	35.32
PCT BY ASVAB	25.43	24.19	20.76	22.87	15.93	8.81	5.84

PCT BY GT SOLID LINE

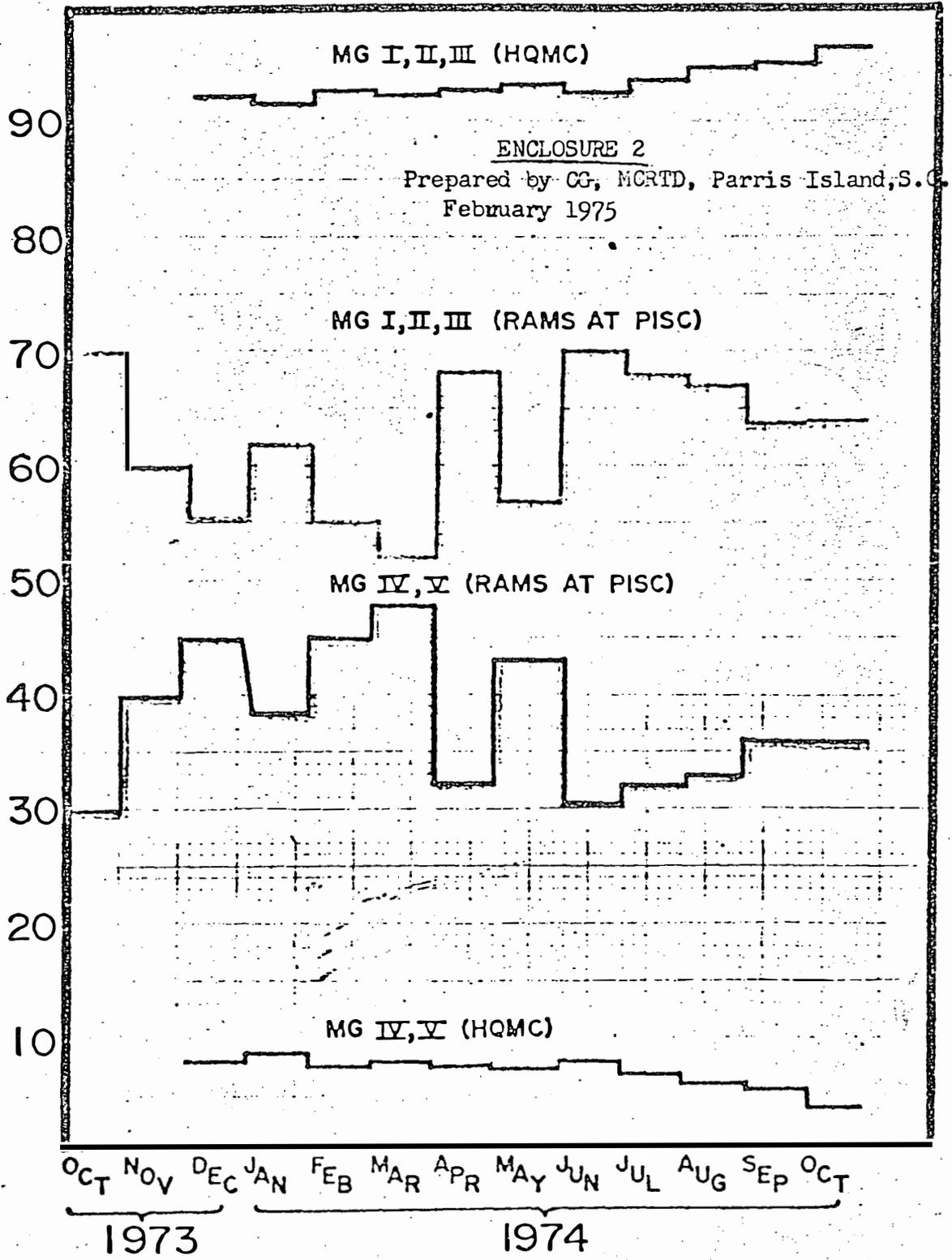
PCT BY ASVAB-DOTTED LINE

* INCLUDES ACCESSIONS THROUGH JAN 75

3 FEB 1975

COMPARISON OF REPORTED QUALITY OF INPUT HQMC ASVAB/AFQT VS RAMS GCT

PERCENTAGE OF TOTAL INPUT



RECAPITULATION OF DISCHARGE TYPES FY73 - FY75

ENCLOSURE 3

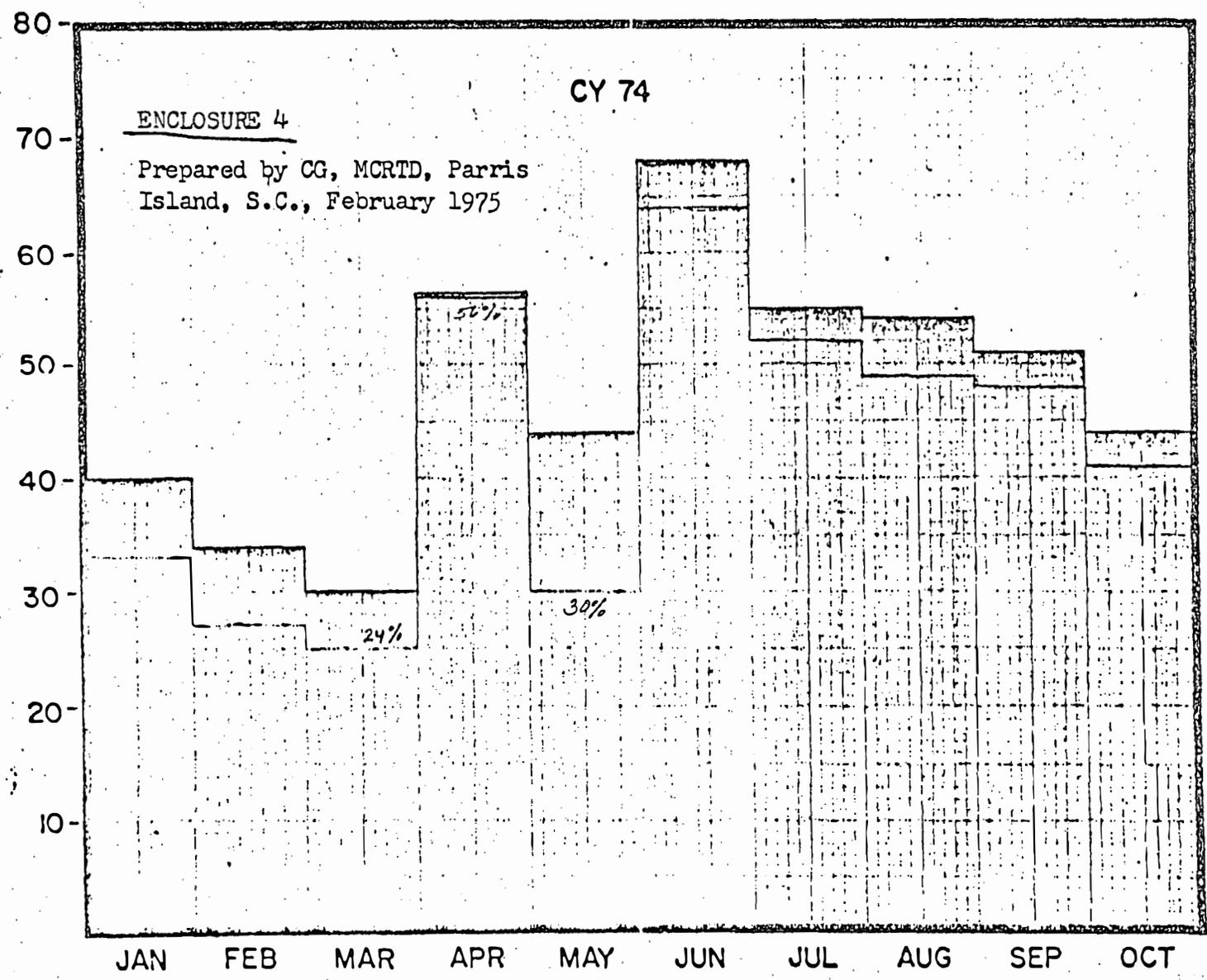
Prepared by CG, MCRTD, Parris Island, S.C.

February 1975

	FY73	FY74	FY75
ACCESSED	28438	23230	16114
DISCHARGED	3316	3331	1535
PCT OF DISCHARGES			
UNSUITABLE	49.0	52.5	61.0
MEDICAL	39.9	28.5	30.8
UD/BCD	7.1	4.6	5.3
OTHER	4.0	14.4	2.8
PCT OF ACCESSIONS			
UNSUITABLE	5.7	7.5	8.1
MEDICAL	4.6	4.1	4.0
UD/BCD	0.8	0.7	0.7
OTHER	0.5	2.0	0.4
ATTENTION RATE	11.6	14.3	13.2*

*COMPARED TO 12.6% FOR JUL - OCT FY74

PCT OF TRUE HS GRADS REPORTED BY RECRUITING SVC NATIONWIDE VS. PCT RECEIVED AS INPUT TO MCRD, PISC



ENCLOSURES (\$)

···· NATIONWIDE RECRUITING RESULTS
 ——— PISC INPUT PERCENTAGES

DEPARTMENT OF DEFENSE

ENCLOSURE 5

MILITARY ABSENTEES

Fiscal Years 1967-1975

Submitted to the House Armed Services
Committee by OSD (M & RA), 1 March 76

MILITARY SERVICE	PERIOD	NUMBER OF ABSENTEE INCIDENTS	Aver. Enlisted Monthly End Strength RATE PER 1000	NUMBER OF ABSENTEE INCIDENTS OVER 30 DAYS	Aver. Enlisted Monthly End Strength RATE PER 1000
ARMY	'67	96,803	78.0	24,404*	21.4
	'68	118,753	89.7	39,234	29.1
	'69	149,695	112.3	56,608	42.4
	'70	165,709	132.5	65,643	52.3
	'71	189,869	176.9	79,027	73.5
	'72	135,410	166.4	50,993	62.0
	'73	113,796	159.0	37,215*	52.0
	'74	87,807	130.0	27,788	41.2
	'75	64,018	95.4	17,966	26.8
NAVY	'67	14,810	22.4	6,416	9.7
	'68	9,589	14.4	5,621	8.5
	'69	9,035	13.54	4,897	7.34
	'70	11,198	17.5	6,352	9.9
	'71	10,826	19.0	6,063	11.1
	'72	9,569	18.3	4,414	8.8
	'73	10,890	21.7	6,856	13.6
	'74	25,948 ^{1/}	53.8 ^{1/}	10,208	21.2
	'75	34,698	73.0	10,659	22.4
MARINE CORPS	'67	NOT AVAILABLE		6,841	26.8
	'68	" "	" "	8,419	30.7
	'69	" "	" "	11,587	40.2
	'70	47,000	174.3	16,109	59.6
	'71	35,174	166.6	11,852	56.2
	'72	30,793	170.0	11,817	65.3
	'73	42,979	234.3	11,600	63.2
	'74	50,200	287.5	15,582	89.2
	'75	52,719	300.9	18,396	105.0
AIR FORCE	'67	3,155	3.6	375	0.42
	'68	3,194	3.6	393	0.44
	'69	3,902	4.4	538	0.63
	'70	4,890	5.9	984	0.80
	'71	7,027	9.4	1,117	1.5
	'72	12,421	17.2	2,036	2.8
	'73	11,281	16.1	1,560	2.2
	'74	11,585	17.3	1,667	2.4
'75	6,679	13.00	976	1.9	

^{1/} A change in the manner of reporting occurred. Prior to FY 74 absentees over 30 days and absentees less than 30 days were reported independent of the opposite category. In order to be consistent with other services Navy also began to include absentee incidents over 30 days in the reporting of absentee incidents of less than 30 days.

NOTE: $\frac{\text{Cumulative Annual Incidents}}{\text{Average of Enlisted Monthly end Strengths (Thousands)}} = \text{"Rate"}$

NUMBER OF COURTS-MARTIAL AND NON-JUDICIAL PUNISHMENTS
IN THE ARMED FORCES

		<u>FY 71</u>	<u>FY 72</u>	<u>FY 73</u>	<u>FY 74</u>	<u>FY 75</u>
General Courts-Martial:	Army	2,571	1,867	1,493	1,696	1,462
	Navy	302	218	162	163	157
	Air Force	175	172	246	242	193
	Marine Corps	636	682	517	387	451
	TOTAL	3,684	2,929	2,418	2,488	2,263
	Rate/1000	1.28	1.16	1.04	1.13	1.05
Special Courts-Martial:	Army	25,914	15,239	12,802	13,644	9,424
	Navy	6,967	3,675	3,935	5,213	5,384
	Air Force	1,702	2,082	2,146	2,375	1,527
	Marine Corps	6,449	5,755	5,760	7,429	7,112
	TOTAL	41,032	26,451	24,643	28,661	23,447
	Rate/1000	14.19	10.53	10.60	13.00	10.94
Summary Courts-Martial:	Army	14,013	12,134	6,627	4,825	3,727
	Navy	5,975	4,695	4,496	3,810	3,585
	Air Force	208	164	82	67	37
	Marine Corps	7,572	6,141	6,283	4,719	4,505
	TOTAL	27,668	23,134	17,488*	13,421	11,854
	Rate/1000	9.57	9.21	7.53	6.08	5.53
	GRAND TOTAL	72,384	52,514	44,549*	44,570	37,564
	Rate/1000	25.03	20.92	19.18	20.19	17.52
Non-Judicial Punishments: (Art. 15, UCMJ)	Army	271,976	217,245	190,272	175,292	162,217
	Navy	65,291	60,049	79,783	112,766	107,150
	Air Force	25,971	34,713	35,845	37,556	30,052
	Marine Corps	56,230	50,728	60,101	72,237	64,331
	TOTAL	419,468	362,736	366,001*	397,851	363,750
	Rate/1000	145.1	144.5	157.6	180.27	169.65

*Revised
July 74

**Federal & State
Felony Convictions**

Army		
Navy	1,697	1,700
Air Force	1,027	1,350
Marine Corps	282	194
TOTAL	1,328	1,456
Rate/1000	4,334	4,700
	1.96	2.19

OASD(M&RA (MPP)

October 1975

NUMBER OF COURTS-MARTIAL AND NON-JUDICIAL PUNISHMENTS
IN THE ARMED FORCES

		<u>FY 63</u>	<u>FY 64</u>	<u>FY 65</u>	<u>FY 66</u>	<u>FY 67</u>	<u>FY 68</u>	<u>FY 69</u>	<u>FY 70</u>
General Courts-Martial:	Army	1,843	1,763	1,553	1,476	1,902	2,375	2,482	2,628
	*Navy	553	440	339	355	553	832	929	1,317
	Air Force	492	421	406	258	291	291	301	253
	TOTAL	2,888	2,624	2,298	2,089	2,746	3,498	3,712	4,178
	Rate/1000	1.1	0.98	0.86	0.68	0.81	0.98	1.07	1.37
Special Courts-Martial:	Army	26,448	23,102	24,813	23,121	34,735	43,769	59,597	41,348
	*Navy	15,724	13,816	13,174	14,647	17,523	15,940	16,239	15,362
	Air Force	2,809	2,707	2,287	1,825	1,871	1,816	1,733	1,935
	TOTAL	44,981	39,625	40,274	39,593	54,129	61,525	77,569	58,615
	Rate/1000	16.6	14.7	15.1	12.8	16.0	17.3	22.38	19.12
Summary Courts-Martial:	Army	32,316	16,055	17,090	14,016	13,306	11,541	14,241	15,023
	*Navy	22,756	10,785	11,052	11,934	13,355	12,190	13,078	13,307
	Air Force	9,549	4,423	2,128	1,232	947	895	755	462
	TOTAL	64,611	31,263	30,270	27,182	27,608	24,626	28,074	28,794
	Rate/1000	23.9	11.6	11.4	8.78	8.17	6.94	6.10	9.39
GRAND TOTAL		112,480	73,512	72,842	68,864	84,483	89,649	109,355	91,567
Rate/1000		41.6	27.3	27.4	22.2	25.0	25.2	31.56	29.87
Non-Judicial Punishments (Art. 15, UCMJ)	Army						265,725	301,001	318,250
	*Navy						131,527	129,204	134,953
	Air Force						29,890	29,119	23,686
	TOTAL						427,142	459,324	481,889
Rate/1000							120.4	132.6	157.2

NOTE: The sharp decline between FY 63 and FY 64, particularly in the number of Summary Courts-Martial, is attributable largely to the "new" Article 15, UCMJ (Non-Judicial Punishment) which became effective on 1 February 1964. Comparative statistics on Article 15 actions are available only for FY 68 from a statistical report which was established effective at the beginning of FY 68.

* Navy figures include Marine Corps.

DISCUSSION PAPER:
DEFENSE MANPOWER COSTS

I. THE ISSUE

Defense manpower, always a key issue in defense planning and budgeting, has become even more important in the post-Vietnam era. Manpower costs have risen dramatically in recent years, and the size of the force has been reduced. To illustrate: the defense budget has increased by 60 percent in the past 10 years, but manpower costs have more than doubled. At the same time, and at least partially because of these rising manpower costs, force strengths have been reduced markedly below their pre-Vietnam levels.

Although manpower costs are thus clearly a major defense issue, much of the attention focused on manpower has been misdirected. In particular, cost increases have not been entirely unanticipated; nor has any single factor, such as the volunteer force, been responsible for them. Today's cost situation is largely a result of conscious policy decisions in the past--decisions that were often made without dealing with the fundamental issues or the long-term cost effects.

This paper therefore addresses the following questions:

- o Why have manpower costs increased so much?
- o What are the alternatives--both general management approaches and specific solutions--for controlling costs in the future?

A two-page summary is provided in Section IV (pp. 19-21). Supporting data are given in the Figure and Tables at the end of the paper (pp. 22-30).

A. MANPOWER COSTS

The manpower cost issue is difficult to analyze properly since it has many different components and must be examined in the broader context of the total defense budget. In particular, there is no obvious benchmark against which to judge manpower costs (i.e., no formula exists for measuring the appropriateness of manpower costs); manpower costs are influenced by more than manpower policy alone (e.g., operations and maintenance policy); and many manpower-related costs never appear in the

*Senator Nixon -
This is the RAND
paper I mentioned to you.
Don Rice would like to
discuss it further with
you at your convenience.
Frank*

manpower cost total, thus obscuring some of the basic issues. Recognizing these difficulties, the discussion below will attempt to identify some of the basic cost issues and put them into a broader management framework.

Since 1956, total defense manpower costs have tripled; and in the past ten years they have more than doubled (see Table 1).¹ In 1960, manpower costs totaled \$18.3 billion, or about 44 percent of the total defense budget; by 1974, these had increased to \$43.9 billion, or 57 percent of the defense budget. Yet, these defense budget costs are only part of the total picture. For example, adding the costs of the GI Bill and the implicit "tax advantage" accruing to military personnel to the DoD budget results in a 10 percent increase in manpower costs (see Table 3).²

One consequence is that this cost growth has been accepted largely at the expense of the military procurement, with the result that constant-dollar procurement expenditures were about 40 percent less in 1975 than they were, on the average, in the 10 years preceding the Vietnam War (Fig. 1).

The manpower cost growth has come in four major areas:

- (i) Military personnel make up the single largest component of manpower costs. Military personnel costs have nearly doubled since 1964, while the number of active-duty personnel has fallen by nearly 20 percent. Thus the increase in cost per man is dramatic. (See Tables 2 and 4.)
- (ii) DoD civilians represent one of the fastest growing elements of manpower costs. The reasons are many, including the significant increases in the average grade that have occurred during the past 10 to 15 years. The end result is that both total and average costs for civilians have increased markedly (Tables 2 and 4).
- (iii) Military retirement cost is projected at \$8.4 billion in FY1977, nearly 20 times as large as the FY1956 budget cost (\$477 million). Moreover, the problem is going to get worse over the next 20 years. By 1990, military retirement costs are projected (under current policy) to make

¹By way of comparison, the consumer price index doubled between 1956 and 1976, and increased by 79 percent between 1964 and 1976 (see Table 2). Thus, the rate of increase of manpower costs substantially exceeded the rate of increase in the price level, even though force strengths now are 20 percent below their pre-Vietnam levels.

²Other manpower related costs, such as parts of base operating support, would add further to these totals.

up about 12 percent of total defense spending if the defense budget increases by just enough to keep pace with inflation. (This compares with the current 8 percent and the 1 percent in FY1956.)

- (iv) Military training consumes about 20 percent of all military personnel costs, for a total of \$7 to \$10 billion per year. The proportion of the force engaged in training (students, instructors, and staff) is actually larger now than in the pre-Vietnam years (see Table 4).

The result is that out of the \$27.0 billion increase in manpower costs between 1956 and 1974, about 30 percent is due to civilian personnel, about 40 percent to active duty personnel, and about 20 percent to retirement costs (see Table 5).

At the same time, we must be careful not to focus on the wrong set of issues, such as the proportion of the defense budget devoted to manpower. The increases in the percentage of the defense budget devoted to manpower are less than many suspect, particularly if we look at non-retirement manpower costs. For example, these costs (i.e., manpower costs less retirement costs) increased from 46 percent of the defense budget in FY1956 to 50 percent in FY1974, an increase of only four percentage points (see the last column of Table 1).¹ Thus, the problem is not so much that the percentage of the defense budget spent on manpower has increased, but rather that there have been few mechanisms for controlling cost growth and that the cost implications of alternative policies have not been fully considered before the policies have been implemented.

In summary, no single factor--including the All-Volunteer Force²--is responsible for the large increases in manpower costs over the past 20 years, so that effective cost control in the future will therefore depend on how well each of the elements is being controlled. Control, in turn, will depend on how well the cost implications of alternative policies (such as the Retirement Modernization Act) are analyzed and understood before the policies are implemented.

¹The corollary to this, of course, is the importance of the growth in retirement costs cited earlier (e.g., one percent of the budget in FY1956, but eight percent in FY1976).

²In 1974, the AVF is estimated to have added about \$1 billion to the manpower cost total--about two percent of total manpower costs that year.

B. MANPOWER COSTS: HOW MUCH OF A PROBLEM?

Implicit in the discussion of manpower costs is the assumption that these costs are larger than they should be. The problem, of course, is that there is no obvious benchmark against which to judge their appropriateness. In other words, what should manpower costs be? Although we cannot provide an answer to this troublesome question, we can make two important observations regarding the expected trends of manpower costs in the future.

The first is that military (and DoD civilian) wages can be expected to increase *faster than* the rate of inflation in the future, because of productivity and real wage increases in the civilian economy,¹ whereas the costs of capital equipment would generally be expected just to keep pace with increases in the general price level. Therefore, if the military maintains constant end strengths (military and civilian) and attempts to maintain a constant force capability, then we would expect the percentage of the defense budget devoted to manpower to increase over time. (See the hypothetical example shown in Table 6.) That is, capital costs would be expected to remain the same in constant dollars, but constant dollar manpower costs would increase.

The second observation is that this effect can be at least partially offset if the military (and Congress) substitutes (relatively) less expensive nonmanpower resources for more expensive manpower. The result will be that the same defense capability can be maintained for a smaller increase in the defense budget.² Moreover, if the substitution is such that a 1-percent increase in the ratio of the cost of manpower to the cost of equipment leads to a 1-percent change in the ratio of the amount of equipment to the amount of manpower, then the percentage of the defense budget devoted to manpower will remain constant over time. (Again, see the hypothetical example in Table 6.)

The practical importance of these observations is that manpower will continue to be a "problem," in the sense that manpower costs will continue

¹That is, to continue to compete with the civilian economy, the military will have to offer similar increases in the wages to uniformed and DoD civilian employees.

²That is, growing manpower costs will mean larger defense budgets (if capability is to be held constant). The amount of these increases can be reduced if the appropriate substitutions are made.

to increase and that growing manpower costs will lead to further reductions in defense capability, unless (1) the defense budget grows by enough to absorb future increases in manpower costs that can be expected, or (2) the military tries to substitute in favor of (relatively) less expensive resources.

C. UNDERLYING ASSUMPTIONS

1. Constant capability

In general, we have posed the manpower cost issue in terms of cost effectiveness. This means addressing the issue of minimizing the costs of achieving some specified level of military capability, given that national security and defense objectives are specified beforehand.¹

2. The manpower issue

This discussion is directed at the *manpower* issue, even though the overall problem involves not only manpower in the narrow sense, but also the fundamental issue of the way the entire operations and maintenance activity is structured and carried out. For example, more than 40 percent of all enlisted personnel are engaged in maintenance and repair activity and another 30 percent are administrative and supply clerks (see Table). Clearly, any change that can significantly reduce the numbers of these individuals can lead to major cost savings.² Significant changes are possible because the size of many of these activities is *policy-driven*, not requirements-driven.

¹Note that this does not mean a constant number of personnel since, to the extent that some types of personnel are more productive than others, the number of personnel can be reduced, *while holding force capability constant*, by substituting more productive personnel (e.g., more experienced) for less productive personnel (e.g., more junior personnel).

²There are a number of indications that this might be done in some areas without significant reductions in combat capability.

II. LONG-TERM APPROACHES

This section discusses long-term approaches for controlling costs. They may not yield major cost savings in the short run, but are essential if *substantial* cost savings are ever to be realized.

A. MANAGEMENT APPROACHES FOR THE LONG TERM

Effective long-run cost control requires an overall management framework that (1) encourages efficient resource allocation and management and (2) provides methods for reviewing, evaluating, and monitoring ongoing and proposed defense manpower programs. Such an overall approach is particularly important because fundamental changes in the way the defense establishment uses and manages its manpower resources will be required for long-run controls.¹

1. Budget structure

The current budget structure does not provide the incentives necessary for efficient management. There are problems with the structure itself, with treatment of cost over time, and with accountability.

Despite the use of PPB inside the DoD, today's budget structure is in many ways a remnant of the budget developed in the early 1900s with a primary emphasis on the accountability for funds: resources are not grouped according to use. Consequently, the Services may not have the proper incentives to make *tradeoffs* among cost elements. For example, the current budget incentives do not encourage the military to automate certain functions, even if such automation would reduce costs without reducing capability, because manpower and equipment fall into separate budget accounts. Similarly, military personnel have their own budget category, but direct-hire civilians are buried in the O&M budget--and it is virtually impossible to find the costs of either indirect-hires or contract-hires.

¹ It was noted earlier that much of the cost increase has been the result of past policy decisions. The problem is that the management framework often did not respond to these decisions by altering the way defense personnel are used and managed. For example, the AVF substantially increased the costs of first termers; yet, the Services still rely on a very junior personnel mix in the enlisted ranks.

Regarding time treatment, the budget records most manpower costs when they are paid rather than when the liability for the costs is incurred. This distorts the time profile of (i) elements of manpower costs (e.g., pay versus retirement), and (ii) manpower versus equipment costs. An accrual accounting system would probably lead to more efficient resource allocation and management, since the military would be forced to trade off payments in the current year with expected payments in future years.

Current accountability procedures provide no guarantee that the Services can reap any of the benefits if they can effect cost savings (e.g., reduce the size of headquarters), nor do they ensure that the Services will be held accountable for unnecessary expenditures (e.g., unnecessary reenlistment bonuses). Thought should be given to the development of a system with incentives for cost savings, should they occur, and penalties for overruns, should they occur.

2. Congressional committee structure

For the most part, the Congressional committee structure is a mirror image of the budget structure. As a result, Congress may not be structured to address changes that would effect large potential savings. For example, long-run cost savings may be possible from equipment-manpower substitution, but separate subcommittees of the Armed Services Committees deal with the manpower and procurement budgets and the Defense Appropriations subcommittees treat them separately. Similarly, there are large potential savings in the way operations and maintenance are conducted. Yet, changes in overall operations and maintenance policy are likely to require changes in manpower and procurement policy, as well as O&M policy, each of which is dealt with separately. There is thus no integration of overall resource allocation in the Congress.

3. Management review and the budget/committee structure

In addition to developing an appropriate incentive structure, the Congress needs to have an ongoing review of resource allocation and management-- in short, Congress needs the capability to effectively monitor what is going on.

One way to accomplish this task may be the establishment of a separate subcommittee in each house with responsibility for monitoring defense-wide

resource allocation.¹ That is, the basic problems with the current system arise precisely because *there is no single measure or set of measures that adequately reflect resource management*. Indeed, the difficulty is that many factors must be considered simultaneously and this can only be done by a single overseer, not by separate subcommittees dealing with seemingly separate issues.

B. ILLUSTRATIONS OF POTENTIAL LONG-RUN MANPOWER COST SAVINGS

The current military manpower management system has been used for the past 25 years; yet the conditions that influence the effective management and utilization of defense manpower have changed markedly, particularly since the end of the draft and the large pay raises that took place prior to the volunteer force.

Dealing with this new environment will obviously require new approaches, concepts, and tools. Therefore, it is necessary to undertake a fundamental review of the entire management and utilization of defense manpower.² Perhaps more important, such a review needs to *integrate* overall defense manpower planning. The current system is largely a patchwork quilt of old legislation and regulations. For example, any revision of pay and/or retirement policy requires corresponding changes in career management policy. Similarly, making the most efficient use of a more career-intensive enlisted force would probably require changes in both retirement policy and career management policy.

1. Manpower requirements

Manpower requirements are a key issue in the determination of overall manpower costs, even within the narrow confines of not altering the basic structure of operations and maintenance activity. In particular, overall

¹The recently instituted Budget Committees in both houses are a potential vehicle for such an approach, but their overall responsibilities are likely to be so broad such that adequate consideration cannot be given to the above issues. Thus, perhaps consideration ought to be given to a defense budget subcommittee.

²The Defense Manpower Commission is currently dealing with some of these issues. However, the problems and issues in defense manpower are not a one-time occurrence so that, at best, the DMC can only review some of the major issues.

manpower costs and the ability to meet defense mission requirements can be substantially affected not only by the number of personnel but also their mix according to experience, educational attainment, and mental aptitude.

Manpower costs in the long run are going to be largely driven by the numbers and mix of (i) personnel and equipment, and (ii) particular types of personnel. However, currently the DoD and the Services tend (with the help of Congress) to think of manpower requirements in input-output terms, i.e., in terms of manning factors. This means that when new systems are to be manned or new tasks performed, the manning requirements are based on historical experience with other systems or functions. There is little incentive to experiment with new management schemes. The standard approach is defensible, and it is hard to reap the rewards for innovation.

Congress could take the lead in changing current practice. For example, it is clear that different technological and operational configurations have different manpower requirements imbedded in them. Therefore, procedures should be developed for requiring the DoD to explicitly display the manpower implications of alternative configurations for the design, deployment, and utilization of new systems before they are adopted (e.g., what are the most cost effective strategies for maintaining and operating high performance systems?).

Similar procedures could be adopted for examining different mixes of personnel. There appear to be significant opportunities for savings here. For example, recent research suggests that the military could substitute career enlisted for first-term enlisted personnel on an approximate one-for-two basis and still maintain mission effectiveness. If career enlisted personnel are less than twice as expensive as first-term enlisted personnel (as they appear to be), then *substantial* cost savings could be achieved by some substitution of careerists for first-termers (instead of the current mix of 60 percent first-termers and 40 percent careerists, which is roughly what it was before the large AVF first-term pay raises, a 40/60 mix might be more appropriate).¹

¹To illustrate, if careerists are approximately twice as productive as first-termers (consistent with some recent estimates) and if careerists are

To achieve the proper mix of personnel by length of service, each occupational specialty group must be examined separately. For example, combat arms are likely to benefit from a junior mix of personnel, but high-skill and technical areas could likely benefit substantially from a more career-intensive mix.

2. Pay

Pay is clearly the other main determinant (besides requirements) of gross manpower costs. Three issues with respect to military pay deserve particular attention: the amount of pay, the composition of the pay package, and the "rent" paid to military personnel.

Under current law, the amount of military pay is set according to the so-called "comparability" principle. Although originally intended to keep Federal pay (military and civilian alike) competitive with the private sector, in order that the government could attract and retain a high quality work force, the comparability principle has meant that Federal pay is adjusted over time according to a wage index of private sector salaries (specifically, the PATC wage index constructed by the BLS).

However, this limited notion of "comparability" may not be the appropriate long-run policy. First, the standard of comparison is incorrect because current calculations do not, as noted by the recent Federal Pay Panel, take account of the numerous fringe benefits accorded to Federal employees. At a minimum, then, Congress should rework the original comparability legislation so that all elements of the compensation package are included in the comparability calculations.

More important, the comparability principle, as it has been rigidly interpreted, ignores the conditions that take place in the market. A preferred approach would be to base pay on some sort of "competitiveness" principle rather than on the "comparability" principle. That is, pay what is necessary to attract and retain a high quality work force. Specifically, it seems desirable to introduce some flexibility into the current pay

about 50 percent more expensive per man (also consistent with some recent estimates), then switching from the current 60/40 mix of first-termers/careers to a 40/60 mix could lead to about a 10-percent cost savings (roughly \$2 billion in FY1976 dollars) if force levels were adjusted accordingly.

adjustment mechanism. This might be accomplished, for example, by guaranteeing that military pay would increase by the *minimum* of private sector wage increases and the price index increases, rather than the current system of guaranteeing that government salaries keep pace with some index of private salaries.¹

The second major issue with respect to pay is the composition of the pay package. Numerous studies suggest that military personnel do not value all the numerous hidden and not-so-hidden benefits that make up the pay package as much as these elements cost the government. Accordingly, the government ought to consider revising the composition of the package so that the individual recipients value what they receive (i.e., basic pay, allowances, tax advantage, PX privileges, medical care, retirement, and so forth) at least as much as they cost the government. Whether or not this means a "salary" system per se, or what, is not clear. Yet, it is clear that a fundamental review of the pay package is called for, one that systematically evaluates and compares the *cost effectiveness of all elements of the pay package*.

The third major issue is the economic rent being paid to military personnel, i.e., some individuals are being paid more (perhaps considerably so) than the wage for which they would voluntarily serve. The current pay structure leads to the payment of rent both (i) because all occupations are paid essentially the same amount (excepting, of course, bonuses) and (ii) because of the substantial longevity pay increases. With respect to the former, bonuses are probably one of the most effective elements of the pay package, since they enable the Services to put money where it is likely to have the greatest effect while, at the same time, not having to pay everyone.² With respect to the latter, the current pay system provides for sizable pay increases for those in their 10th to 20th years (because of both promotion and longevity increases);

¹This could be coupled with a provision that would enable the President, with the concurrence of at least one house (as under the current system), to impose pay "caps."

²In this regard, DoD's elimination of proficiency pay was probably very cost effective. Because of the uncertainties as to who would receive it, probably few individuals reenlisted because of this pay. Instead, it was awarded after the fact. Bonuses, on the other hand, increase reenlistments because the individual knows beforehand whether he will receive a bonus.

despite the fact that these same individuals qualify for a large retirement annuity beginning on their 20th anniversary. Indeed, military pay rises as rapidly during this period as wages rise in the civilian sector, even though most civilian pay systems require individuals to work at least until their late fifties or early sixties before receiving their pension. The result of these two factors is that DoD may be paying considerably more than is necessary to attract and retain the work force that it now has.

3. Retirement

Retirement costs have skyrocketed over the past twenty years (see Table 8). However, there are no simple solutions. Remedies such as increasing the career length or reducing promotion opportunities will have, at best, marginal effects on long-run retirement costs. Fundamental change is needed if future retirement costs are to be substantially reduced.

The basic problem is that the retirement system is based on a series of conditions that no longer prevail, such as a small standing military, low pay, etc. Indeed, in the original hearings "retirement" pay was viewed more as "deferred" pay than retirement in the standard meaning of the word. Now that these conditions no longer prevail--e.g., military pay is fully comparable to civilian pay--is the retirement system still appropriate?

Probably not. For example, if the military retirement system is viewed in terms analogous to most private sector plans (as it must if we are to compare military and civilian compensation packages), the actuarial cost of the military retirement system can be calculated as the percentage of each future retiree's annual basic pay that would have to be set aside each year during his active duty career in order to "fund" his post-service retirement annuity. Recent work shows that this actuarial cost is about 70 percent of the annual basic pay for those who stay on to retirement eligibility, as opposed to about 10 or 15 percent of salary for a standard private retirement program. In other words, in addition to their regular military compensation (RMC), these future retirees actually receive another amount equal to about 70 percent of their basic

pay every year during their active duty careers in the form of an *implicit contribution* toward their future retirement benefits. Thus, those individuals remaining until retirement are really paid (counting the implicit contribution) one and a half times as much as RMC.¹

But under current policy, the Services (or DoD or Congress, for that matter) have no incentive to economize on retirement costs, first because retirement costs never enter into the Services' budget accounts,² and second because retirement costs enter the budget when they are paid rather than when the liability is incurred (see Table 8).

It is time to make a comprehensive review of military retirement. Opportunities do exist for reducing future costs and increasing force effectiveness.

4. Career management

Central in each of the above issues is the system that governs the management and utilization of military personnel during their military careers. The Services have all developed comprehensive personnel planning systems and sophisticated computer models to support the management of these systems. These changes have made significant improvements in operating the current management system. However, because the models accept current assumptions, factors such as promotion opportunity and reenlistment rates, while important, too often become goals in themselves rather than means for achieving the broader objectives.

Major management improvement requires an investigation of some of the basic premises of current personnel policies. A recent survey shows that nearly 50 percent of enlisted members would prefer to remain as a technical specialist in their field rather than become supervisors. This suggests that DoD ought to investigate the feasibility of developing something like a two-track management system: those who want to remain as specialists could do so, while those who would prefer and have the talent could be given supervisory assignments.

¹ Furthermore, the entire amount is paid by the government since the system is non-contributory.

² Retirement costs are entered into the budget at the DoD level; the military services do not budget these costs.

5. Military training

Military training has recently become a major issue in DoD and in Congress. Yet the current concern seems somewhat misdirected. The focus tends to be on training loads rather than on the fundamental issues involved in training. Broadly stated, these fundamental issues include the development of basic *strategies* for determining the type, timing, and amount of training. The objective should be to evaluate the benefits of training against the cost. Should DoD follow the general policy used by the Marine Corps before the Vietnam War of delaying advanced skill training until after the reenlistment point? Should more training be tied to longer enlistment tours? And so on.

The result of failing to deal with these fundamental issues is that the proportion of the total force engaged in training activity was actually larger in 1974 than it was during the draft year of 1964.

III. SHORT-TERM SOLUTIONS

Approaches of the kind discussed above are necessary to achieving any long-term changes in the cost of military manpower. However, it is equally important to develop approaches for dealing with nearer term cost problems.

A. GENERAL APPROACHES

Because of the difficulties in achieving major cost savings in the short run, efforts to reduce manpower costs generally focus on options that can only achieve small cost savings. Yet, these efforts may actually cause more difficulty than they are worth. For example, the current proposal to eliminate post-reenlistment travel benefits (to return home) for new reenlistees is projected to save \$15 million--three one-hundredths of a percent of total manpower costs. In reality, the ill will caused by removing this relatively inexpensive benefit for those who have just reenlisted (and probably been paid a bonus four to ten times as large) may more than offset the budget savings.

Given the magnitude of current problems, efforts to reduce costs in the short run ought to be focused on the big payoff areas, and the minor "fine tuning" deferred until more comprehensive long-run changes are made. In addition, it is desirable to implement short-run programs that will complement the desired long-run changes in the management and utilization of defense manpower. At a minimum, the short-run proposals should not perturb the desired long-run position. For example, Section II suggests that a more career-intensive enlisted force may be desirable. Therefore, short-run cost saving efforts ought not to be such that they encourage the military to increase the proportion of seemingly cheaper first-termers.

B. SPECIFIC CONTROL MECHANISMS

As noted in Section II, the complexity of the manpower cost problem is such that specific criteria, such as average man-year cost ceilings or training end strengths, are not likely to achieve the desired effects.

An average cost ceiling, for example, though conceptually appealing, could encourage the Services to move toward a cheaper cost per man, but a less career-intensive force--the opposite of the probable desired long-run objective.

Three fundamental problems arise with approaches of this sort: (1) there is no measure of defense output, (2) the current budget accounts do not reflect all the costs properly associated with defense manpower and (3) there is a tendency to "game" the system. The fact that there is no ready measure of defense output means that there is no obvious criterion against which to judge cost. To the extent that output is a function of something other than end strengths, minimizing average cost per man-year is inappropriate. Similarly, the fact that not all manpower costs fall into the Service budgets means that appropriate tradeoffs between categories will be missed and many potential cost savings ignored. Given the complexity of the system, it is highly unlikely that any simple constraints of this sort will be effective.

C. POSSIBLE SHORT-RUN COST SAVINGS

There are several ways that manpower costs can be *significantly* reduced in the short run, without constraining long-run solutions.

1. Pay

One potentially attractive (at least in terms of cost, if not politics) way of reducing cost *substantially* in the short run is to continue the use of pay "caps" for the next few years. Maintaining a 5-percent pay cap for the next two years would reduce defense manpower costs by more than \$1 billion in FY1977 and more than \$2 billion in FY1978, not counting the additional savings that would result from lower retirement costs, etc.

In addition to the large short-run cost savings, pay caps make good sense for several other reasons. First, there is some evidence that Federal employees are currently paid more than necessary, since (1) there is an excess of applicants for both military and civilian jobs and (2) "comparability" calculations are based on equating Federal salaries with private sector salaries, even though Federal employees (both military and civilian) generally seem to enjoy far better fringe benefits.

Second, recent research suggests that *average private sector wages do not have much meaning* as a measure of private sector wages. There is considerable variability in private sector wages,¹ and simply taking an average may be a poor indicator of the job opportunities the military is competing against. This does not imply that some notion of comparability is not appropriate, but rather that comparability should not be interpreted in as rigid a fashion as it has been in the past.

Another way of reducing military pay in the short run--possibly desirable in the long run as well--would be to slow promotion opportunities for new entrants into the force. For example: Is it appropriate to promote individuals to E-2 four months after entering and to E-3 within a year as is current practice? Slowing promotion might be attractive, since it can affect costs within the near term but does not require major "save-pay" legislation.

2. Retirement

As noted in the second section, major cost savings in military retirement probably require a major restructuring of the retirement package and, because of save-pay features, the savings would probably not be realized for a number of years. However, there are two potentially attractive ways for reducing retirement costs in the short run.

The first, and most important, is the elimination of the "one percent kicker." There is no justification for allowing retired pay to increase faster than the price index. The Defense Manpower Commission has developed an adjustment formula that assures that retired pay maintains purchasing power equity (though even the desirability of this is open to question),² but does not increase faster than the price index.

¹Specifically, the coefficient of variation (standard deviation divided by the mean) of civilian wages, standardized for age, education, sex, and race, is still about 0.5. That is, the standard deviation is half as much as the mean. In other words, many individuals in the civilian economy earn much less than this average wage, so the military can justifiably pay less in at least some occupational specialties.

²For example, it might be desirable to increase retired pay by the *minimum* of the adjusted formula (e.g., the DMC formula) and the percentage increase for Federal pay. This would both limit cost increases in severe inflation and eliminate "pay inversions."

A second alternative would be to extend the average length of military careers for a year or two (by, say, requiring an individual to have two or three years in grade to be eligible for retired pay at that grade-- a power that currently rests with the Service Secretaries, and, hence, would not require new legislation). Such a proposal would delay retirement costs for new retirees by a couple of years.¹

Even though this would not reduce long-run costs (and might even increase them), it would reduce costs in the near term. For example, lengthening the average career by about two years would save in the neighborhood of \$200 to \$300 million annually in the early years. Because it might actually increase costs in the long term, however, it is crucial that such a policy change be coupled with a redesign of the entire retirement system.

3. Training

Training may be one case where so-called "arbitrary" ceilings might provide an effective management control mechanism. Current controls, however, are directed primarily at training loads. The *training support establishment* is an equally important part of the total picture. For example, in FY1974 personnel in training support activities (including instructors and staff, but excluding base operating support) actually outnumbered students: 246,100 to 232,900, respectively.

Ceilings on the numbers of personnel in training support activity may therefore provide an attractive short-run control measure.

¹Some individuals might refuse promotion and therefore retire earlier, but at a lower grade.

IV. SUMMARY

Manpower costs have become one of the key defense issues in recent years. Costs have increased dramatically, even though force strengths are markedly lower than their Vietnam levels.

1. Long-run approaches

Manpower costs are a long-run issue; substantial savings can be realized only by attacking fundamental determinants. There are two key elements in such an attack: (1) the organizational and incentive framework that drives much of manpower policy and (2) the actual ways that manpower resources are used and managed. Three suggestions for dealing with point (1) are:

- (i) Revise the budget structure to reflect the full costs of resources and to make all cost elements visible.
- (ii) Revise the Congressional committee structure so that the military services have the incentive to make trade-offs among elements that currently cut across several subcommittees.
- (iii) Specifically, establish a DoD budget subcommittee, analogous to the recently inaugurated Budget Committee for the entire Federal Budget.

Some alternatives for dealing with point (2) are:

- (i) Manpower requirements: Investigate alternative mixes of manpower and manpower/equipment configurations. For example, a 40/60 mix of first-term/career enlisted personnel (versus the current 60/40 mix) might save as much as 10 percent of enlisted personnel costs with no loss in effectiveness.
- (ii) Pay: Both the amount and composition of the pay package should be reviewed. For example, "comparability" as it has been interpreted in the past, may not be the appropriate long-run policy.
- (iii) Retirement: Current retirement policy is based on a set of assumptions about deferred pay that no longer apply. Fundamental revisions of the retirement package appear needed.

- (iv) Career management: Alternative methods for managing military personnel, such as a "two-track" system for enlisted members, ought to be investigated.
- (v) Training: Although training loads have been the focal point of much debate, the basic questions center on developing strategies for the amount, type, and timing of training and on the cost of training.

2. Near-term options

Although reducing manpower costs is fundamentally a long-run proposition, there are options for cutting costs in the near term. Three general observations are:

- (i) Short-term saving efforts should be directed to high pay-off areas. Too often, proposed programs for the near term will result in only marginal savings that may be more than offset by undesirable side effects. A good example is the elimination of the "home visit" after reenlistment.
- (ii) Short-term cost saving efforts should be complementary with the long-run desired changes. At worst, they should not exacerbate the long-run problem.
- (iii) There is no single measure or set of measures that accurately reflect the manpower cost issue. As a result, simple management controls, such as average cost ceilings, may only worsen the problem.

Consistent with the above criteria, several options can reduce manpower costs considerably in the near term.

- (i) Pay "caps". Continued use of pay caps for another few years seems to be justified and to have high pay-off (about \$1 billion in FY1977 and \$2 billion in the following year from a 5-percent cap).
- (ii) Slowing promotion opportunities for new entrants. Slowing the promotion opportunities for new entrants may be justified and may result in considerable cost savings.
- (iii) Retirement "one percent kicker". Eliminating the "one percent kicker" for military (and civilian) retirement pay would yield major cost savings and is justifiable on equity grounds.

(iv) Extending career length. Extending the average career length for retirees (say, by requiring two or three years in grade to qualify for retirement pay at that grade) would yield substantial savings in the short run. Although it would not save in the long run, and might even increase long-run costs, it would provide an effective means for slowing retirement cost growth in the interim while more thorough revisions of retirement structure were examined.

(v) Training support manyear ceilings. There are presently as many personnel in training support (instructors and staff), not including BOS, as there are students. Therefore, establishing training support manyear ceilings--in addition to current training load ceilings--could help to hold down the growing costs of training.

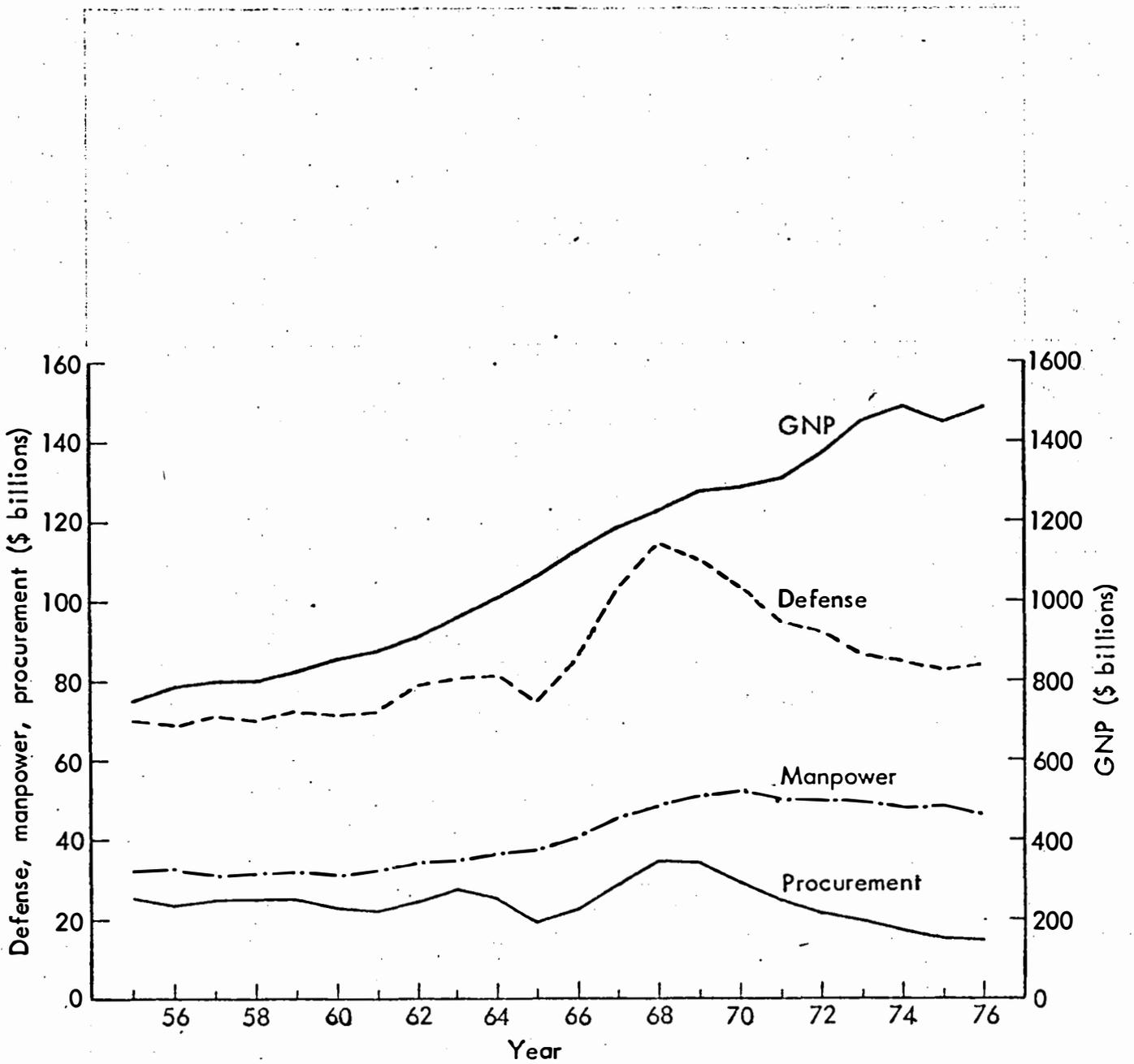


Fig. 1 — Manpower costs, defense costs, and GNP:
FY 1975 constant dollars (\$ billions)

Table 1

Manpower Budget Outlays
(\$ billions)

Fiscal Year	Military Personnel				Civilian		Manpower Total (7)	Defense Total ^a (8)	Percent Manpower	
	Active Duty (1)	Reserve (2)	Retired (3)	Family Housing (4)	Direct Hire (5)	Indirect Hire (6)			Total ^b (9)	Non- Retirement ^c (10)
56	10.9	0.2	0.5	nil	5.1	0.2	16.9	35.8	47.2	45.8
60	11.0	0.7	0.7	0.2	6.1	0.3	18.3	41.2	44.4	42.7
64	12.3	0.7	1.2	0.6	7.3	0.3	22.5	49.6	45.4	42.9
68	19.0	0.9	2.1	0.6	10.3	0.3	33.1	77.4	42.8	40.1
70	22.0	1.1	2.8	0.6	11.9	0.4	38.8	77.2	50.3	46.6
72	22.0	1.1	3.9	0.7	12.8	0.5	41.0	75.2	54.5	49.3
74	22.2	1.6	5.1	0.9	13.4	0.7	43.9	77.6	56.6	50.0
76 ^d	23.7	1.8	7.3	1.3	15.5	0.9	50.5	89.8	56.2	48.1

^a Defense outlays, excluding military assistance, atomic energy expenditures, etc. [i.e., column (8) equals the "Defense-military" subtotal in the *Budget of the U.S. Government*].

^b Column (7) ÷ column (8)

^c [Column (7) - column (3)] ÷ [column (8)]

^d Estimates (from the FY77 Budget).

Table 2

INDEXES OF AGGREGATE COSTS, AVERAGE COSTS, AND PRICE LEVELS
(Index numbers, 1964 = 100)

	Aggregate Costs					Per Man Costs ^a			Prices	
	Defense		Total	Federal		Active Duty ^b	DoD Civilian	Mfg. Wages	CPI	GNP Price Deflator
	Manpower	Procurement		Budget	GNP					
56	75	80	72	59	66	83 (100)	62 (100)	77 (100)	88	86
60	81	87	83	78	80	96 (116)	81 (131)	87 (113)	95	94
64	100	100	100	100	100	100 (120)	100 (161)	100 (130)	100	100
68	147	152	156	151	137	125 (151)	112 (181)	119 (155)	111	112
72	182	112	152	196	184	199 (240)	165 (266)	150 (195)	134	136
74	195	99	156	226	221	226 (272)	188 (303)	171 (222)	152	154
76 ^c	224	107	181	315	N.A.	N.A.	N.A.	N.A.	179	179

N.A. Not available.

^aNumbers in parentheses: index numbers, 1956 = 100. This was done to show that the timing of military and civilian pay increases differed in the early 60s and late 50s.

^bAverage Cost of military personnel not engaged in training activity.

^cEstimates.

Table 3
NON-DOD Budget Manpower Costs
(\$ Billions)

Fiscal Year	Tax Advantage (1)	"Unfunded" Civilian Retirement (2)	GI Bill (3)
56	0.3	0.4	0.8
64	0.3	0.6	nil
68	0.5	0.8	0.5
72	0.8	1.0	1.9
74	0.8	1.0	3.1
76 (est.)	0.9	1.2	4.0

Table 4

Manpower Costs and Strengths

Fiscal Year	Average Strengths (000s)					Average Cost			
	Active Duty		Reserves	Civilian	Active Duty		Reserves	Civilian	
	Total	Engaged in Training ^a			Engaged in Training ^b	All			
56	2871	457	2414	926	1183	\$3789	\$4507	\$216	\$4349
60	2499	397	2102	997	1063	4419	5259	702	5718
64	2694	439	2255	953	1040	4570	5460	735	7024
68	3463	701	2763	922	1310	5483	6873	976	7846
72	2519	505	2014	925	1105	8718	10906	1189	11557
74	2207	408	1799	925	1022	10036	12316	1730	13208

^aStudents, instructors, and staff.

^bTotal manpower costs divided by average strength not engaged in training activity.

Table 5

Aggregate Cost Increases: 1956 to 1974

	<u>Cost Increase^a</u> <u>(\$ billions)</u>	<u>Percentage</u> <u>Distribution</u>
Active duty (not in training activity)	\$ 8.7	32%
Active duty (in training activity)	2.6	10
Reserve	1.4	5
Retired	4.6	18
Family housing	0.9	3
Civilian (direct hire plus indirect hire)	8.8	33
Total	\$ 27.0	100%

^aEstimates

Table 6

HYPOTHETICAL EXAMPLE OF MANPOWER AND DEFENSE COSTS
FOR A CONSTANT DEFENSE CAPABILITY^a
(1974 Constant Dollars)

	Price Indexes ^b (1976=100)		No Substitution ^c					Substitution ^d				
			Manpower Strength Index (1976=100)	Manpower Costs (\$bil)	Non- Manpower Costs (\$bil)	Defense Budget (\$bil)	Percent Manpower	Manpower Strength Index (1976=100)	Manpower Costs (\$bil)	Non- Manpower Costs (\$bil)	Defense Budget (\$bil)	Percent Manpower
1976	100	100	100	\$50.5	\$39.3	\$89.8	56.2	100	\$50.5	\$39.3	\$89.8	56.2
1986	122	100	100	61.6	39.3	100.9	61.1	90	55.1	42.9	98.0	56.2
1996	149	100	100	75.0	39.3	114.3	65.6	80	60.0	46.7	106.7	56.2

^aHypothetical example. Based on the assumption that military capability (Q) is a function of manpower resources (M) and non-manpower resources (N). Specifically, it is based on the assumption that output is a Cobb-Douglas Production function, specified as:

$$Q = M^{.44} N^{.56}$$

^bAssumes that "real" military wages increase by two percent per annum. (Price levels stated in 1976 constant dollars.)

^cAssumes that the numbers of personnel and equipment each remain constant over time.

^dAssumes that the mix of manpower and equipment varies according to changing average costs, holding capability constant.

Table 7

Distribution of the Force by
Occupational Area: FY74^a

Officer		Enlisted	
Occupation	Percent	Occupation	Percent
Executives	1.6	Combat Arms	12.3
Tactical Oper.	40.8	Electronics	10.4
Intelligence	3.2	Comm/Intelligence	6.7
Engineer/Maintenance	15.6	Other Specialists	1.9
Scientists/Professor	6.6	Elec/Mechanics	21.6
Medical/Dental	9.4	Medical/Dental	4.6
Administrators	12.8	Admin/Clerks	18.4
Supply	6.1	Service Supply	11.0
Other ^b	3.8	Craftsmen	4.6
		Other ^b	8.6

^aBased on "primary" occupation designators.

^bTraining, Miscellaneous and Other.

Table 8

Military Retirement: Budget Outlays Versus Accrued Liability
(\$ billions)

Fiscal Year	Budget Outlays (1)	Annual Accrued Liability (2)	"Unfunded" Liability ^a (3)
1956	0.5	3.3	2.8
1970	2.8	6.2	3.4
1972	3.9	7.1	3.2
1974	5.1	7.2	2.1
1976	7.3	7.7	0.4

^aColumn (3) = Column (2) less Column (1)