

Department of Defense Savings

Agency: Department of Defense	Functional Code: 051				Budget Reform Criterion: 8	
<i>Savings</i>	(\$ in millions)					
	1981	1982	1983	1984	1985	1986
BUDGET AUTHORITY:						
<i>Pay</i> ^{1/}	68	2005	3330	3714	3900	4045
<i>Operations</i>	270	290	550	920	1370	1920
<i>Acquisition</i>	269	1565	1216	1698	1959	2139
TOTAL	607	3860	5096	6332	7229	8104
OUTLAYS:						
<i>Pay</i> ^{1/}	68	2005	3330	3714	3900	4045
<i>Operaitons</i>	240	280	500	800	1200	1600
<i>Acquisition</i>	40	632	956	1338	1669	1899
TOTAL	348	2917	4786	5852	6769	7544
^{1/} These pay savings are from the current services base. Pay savings from the Carter Budget are as follows:						
	1981	1982	1983	1984	1985	1986
<i>Budget Authority</i>	31	363	1831	2688	3533	4443
<i>Outlays</i>	31	386	1831	2688	3533	4443

Program Description

Savings for the Department of Defense are categorized into three major areas:

Pay — salaries for civilians, retired pay cost-of-living adjustments, and deferral of military retired pay reform

Operations —for the military establishment which covers everything from the day-to-day operations and maintenance of the military installations to paying for consultants and travel.

Aquisition —including acquisition management and the procurement of supplies and equipment.

Proposed Change

Pay adjustments — The Administration will propose major legislative changes in the way that Federal Civilian Pay is adjusted each year to maintain "comparability" with the private sector. Also annual cost of living adjustments for military retired pay will be proposed as well as withdrawal of military retired pay reform proposals made by the Carter Administration.

Operations —Savings in Defense Operations incude those from: operating efficiencies in travel, consultants, and civilian manpower utilizaiton; consolidations of functions and reductions in overhead and joint use of facilities; and contracting out of functions which private enterprise can handle more efficiently, and modification in administrative practices under the Davis-Bacon and Service Contract Acts.

Aquisition Reform —Savings in this category include improved acquisition management, elimination-of marginal systems, productivity savings, and multiyear procurement. The most substantial savings will result from acquisition management improvements.

Rationale

Pay adjustments — The Administration will propose changes in the way Federal civilian pay is adjusted each year to maintain "comparability" with the private sector. These changes include: expanding the comparability principle to include benefits as well as pay; expanding the wage surveys to include state and local government wages as well as private sector data; paying white-collar salaries on a locality basis; and paying ony 94% of comparability to offset the Federal advantage in job security, promotion opportunity, pension portability and other non-pay conditions of of employment.

The current system of adjusting retired pay twice a year by the increase in the Consumer Price Index has resulted in a situation wherein a significant majority of military retirees are receiving annuities larger than those who retire today. The disparity had been growing larger each year. The proposed change to an annual adjustment of military retired pay will slow down the growth in this disparity.

The previous Administration proposed a change in the uniformed services retirement system that is significantly more costly than the current system for the next 20 years, but would produce savings after that time. The near term cost increases occur because the reform permits the "early withdrawal" of part of each member's future retirement benefit. This proposal will not be endorsed by this Administration. This will enable us to review current retirement policy and determine if any further changes are needed.

Operations — In addition to a review of the facilities and installations in order to achieve reductions in overhead, a major effort will focus on contracting for commercial and industrial services. Government policy, as specified by OMB Circular No. A-76, is for maximum feasible reliance on the private sector for goods and services. This policy is a matter both of free enterprise philosophy and of efficiency. Savings are also expected from the Administration's review of administrative practices under the Davis-Bacon and Service Contract Acts. (See separate section on savings affecting many agencies.)

Acquisition Management — Reduce or terminate marginal programs. The Defense Department has identified programs which can be cut back or terminated amounting to \$.1 billion in 1981 and \$1.0 billion in 1982.

There is room for additional improvement and cost savings in Defense acquisition management. Among the problems most commonly cited are the condition of Defense industry and Federal regulations and policies and practices that influence it. These include over-capacity in some sectors (e.g. major airframe contractors) which drive up overhead costs, and under-capacity in other sector (e.g., nuclear ships) which limit competition and lead to production bottlenecks. The industry is also under capitalized because of poor incentives for private investment, and there is limited capability to respond to mobilization and surge requirements. Also, many Federal practices make the situation worse; i.e., too many regulations and too much paperwork.

One near term effort which can help to reduce acquisition costs is to increase the amount of price competition. Competition in procurement is generally acknowledged to help in improving the quality of any given product or service and in reducing its price. Numerous studies have shown that competition in weapon systems and spares acquisition usually reduces prices by 10-40 percent. Despite regulations and management actions by DOD in support of competitive procurement, there has been a steady decline in competitive procurement in Defense business because of the uncertainty of weapons system production levels and design.

Multiyear procurement also offers potential economies. Current procurement contracting practices require full funding of contracts on an annual basis. Procurement quantities are normally influenced more by the amount of funds which can be allocated to the program that year than by consideration of economical procurement quantities. As a result, defense contractors are inclined to plan on an annual basis. Economies resulting from procurement of larger quantities of material from subcontractors are lost and leadtimes are longer than necessary because firm planning for future year production cannot be accomplished.

Productivity investments. Additional emphasis will be given to productivity enhancing investments with high potential savings both in the Defense industrial base and in Government-operated facilities. The revisions to the Defense budget include an increase of \$90 million for these investments.

Key Facts About The Program

- The Defense Department employs 1,025 thousand civilian and 2,120 thousand military personnel costing \$60.5 B in 1982.
- Current Administration practices by the Department of Labor under the Davis Bacon and Service Contract Act in making prevailing wage determinations for workers employed by the Federal Government and service contracts result in costs to the Federal Government of approximately 6-7% of total contract costs.
- The Defense Department has 3,970 installations in the United States covering 24.5 million acres.
- Approximately \$103 B will be spent for the development and acquisition of Defense systems in 1982.