

Linda Cavalluzzo: Let me welcome the Honorable Christine Fox. She is currently the assistant director for policy and analysis at Johns Hopkins University's Applied Physics Lab. That's the largest university lab in the country, with 5,000 people. From December 2013 to just this past May, Christine served as Acting Deputy Secretary of Defense, the highest position that a woman has held in the DOD's history.

From November 2009 to August 2013, Christine headed CAPE, that's the Cost Assessment and Program Evaluation office of OSD, and in that role she actually headed up the Skimmer program, which was OSD's strategic choices and management review. Prior to going to the government, Christine was here, first as an analyst, then as the head of CNA's operations evaluation group, and finally, from about 2004 to 2009, she served as CNA's president. So, please help me welcome Christine.

Christine Fox: Well thank you, Linda, for that introduction, and it's just such a privilege, always, to be back at CNA, an organization I will always love. It's also a great privilege to be with so many of you who pioneered the all-volunteer force and to participate in a tribute to Walter Oi, who was the leading pioneer, perhaps, of that. What an amazing accomplishment, so my thanks to all of you who did that, because when the draft ended in '73, that represents such a major change to our force. I was lucky enough to get here a little early and hear the end of the last panel and the Q&A. As I hear you all reflect back on those times and I think about the military that I've had the privilege to be a part of, to serve with and support, over so many years, I just have to think about what the all-volunteer force has meant.

Let's think about it. Today, I think the all-volunteer force is highly educated, highly motivated, and highly respected. They have proven their capabilities over and over, no matter what mission we have thrown at them; and in the early days, those of you who are here know this far better than I, but the predictions were, frankly, "people won't volunteer to die." That those tough words have simply not proven true, even in the last 13-plus years of continual war, the longest period in our history. As a nation, we are appreciative. I think we're proud, and when they get hurt or worse,

I actually think we feel guilty. I think we have a great desire to pay to make up for their sacrifice and to show our appreciation.

As I heard you all refer to in the Q&A earlier, before the wars military compensation had fallen behind, and it really did take a concerted effort to catch them up. Catching them up has been a very big focus of the years that we were also recruiting to support the wars. That has left us in a state today where there is a very strong political desire to not just sustain those gains but to actually continue to support them. So, we have this extremely high-quality force. It's smaller but it still seems very capable of doing anything we throw at it, as we see in the paper as early as this morning. They are the most respected institution in the country by far. I mean, there's nothing—there's nothing that comes close, and the latest Gallup poll says that 75 percent of the public have great or quite a lot of respect for the U.S. military.

I think it's quite an interesting thing that even this sustained period of being at war has not changed either the quality of the force or the nation's respect for it as an institution. That's pretty amazing, and I heard in the Q&A some discussion about why this is, how we got here. Was it luck? I recognize that with all the economists in the room, we're going to talk a lot about the job market, and the job market is an important factor. There's no two ways about it. But let's take a little look, at least, at what some of the surveys have said, and this is consistent with surveys I had the opportunity to look at throughout my time in government. But let's just pick one. I picked the Pew survey of October 2011.

So, one of the questions is, "Is it the pay?" Well, today's recruits are actually overwhelmingly middle class, and in the Pew survey, only 25 percent said they joined because jobs were hard to find. Now, you can question whether or not you're going to ask somebody, "Did you join the military to find a job?" and they're going to be embarrassed to say, "Yes." But I don't know. A lot of the young enlisted I met wouldn't be embarrassed to say that at all. I think they would say quite honestly, "Yes, absolutely. I needed a job." That's not what they said, and contrary to the concern at the beginning, I think, which at least I read about in the Gates

Commission and those of you who were part of it can correct me if I'm wrong, but that there was a concern that the recruits might come primarily from the lower economic tiers.

The truth is that today, many in the lower economic tier don't qualify for our force. They don't qualify, they don't meet the academic standards, and they often have something in their file—criminal, even minor—it's enough today to kick them out. We have, today, a very middle-class force, underrepresented at the high economic tiers but also underrepresented at the low. So, the next question that the Pew survey asked is, "Did you join for patriotism?" Eighty-eight percent said they joined to serve their country, and this is in 2011 and they knew what they were getting into at that time. Then, another big driver according, again, to this one survey is that there's an opportunity in the military to do something that you can't do anywhere else.

Join the Navy and see the world, right? There's an opportunity to develop skills. Those percentages were anywhere from 55 percent to 65 percent depending on the specific question. So, what did we learn? And again, that's one survey but consistent with other surveys I saw over my time in the government, anyway, is that people today join to defend their country and experience things that they can't experience in any other way. I think that there is an intersection of the compensation of that force and the experience they get. Operationally that is one of my focused areas today as I talk with you, because the cost of the manpower is directly affecting the experience that they have in their service and throughout their service.

Today, there's not a decision that we take on in the Defense Department, and I can't believe it's changed in the three months since I left, that isn't driven by the cost of manpower. The size of the force, how we tackle the problems, okay? Cyber—let's just take cyber. I don't think anybody in this room thinks that cyber is not something that we should be worried about. It is a hugely manpower-intensive mission area. At least today, I would love to have automated tools that can ferret out cyber threats, but it hasn't happened. It's people, and every time we talked about how to respond to

the cyber threat, we recognized that we needed to grow the cyber force but we couldn't afford to grow the military in this budget environment.

So what did we do? We siphoned military off from other missions to grow the cyber force. That's a work-in-progress in the Department, and I think how that turns out is to be determined, because as we siphon people away from other missions into the cyber force, it's not like those other missions are going away. Again, read the paper, right? So, how we tackle problems, how we prepare them for what we throw at them, the types of training that they get, and the kind of equipment that they have. The modernization. So, I'm going to tell you what the CNO, Admiral Greenert told me.

Admiral Greenert talked to me about this very issue after he came back from ship visits, and he said that the number one thing he heard from the sailors was that they would report to a ship and find that key positions were gapped and that the deployment that they were on was stretched. So, Admiral Greenert said that there's now a real tension between quality of life and quality of service in the Navy, and that is certainly true for every one of the services. So, instead of joining the Navy to see the world, they're joining the Navy to see the engine compartment because they never get out. That's not exactly what they joined to do.

So, what's going on here? It's the budget pressures, right? It's the budget pressures and sequester. I think most people in the world think sequester's so yesterday; that was solved, right? Well the bipartisan budget agreement stops, and in 2016 sequester comes back unless Congress does something. That is all coupled with a rise in the cost of manpower at a time where global challenges abound and we have a need to deploy highly trained and capable forces. I heard a comment in the Q&A about the percent of GDP that our force costs us today. I couldn't agree more that if you look at the percentage of GDP of the Defense Department budget, relative to those times, the whole budget is a very small fraction of what it used to be. All of it has to fit into that budget.

So, let's put these costs in context. Now, this is an audience that knows this well, and I hesitate to go into statistics in this room, but I'm going to

quote some numbers that I have, okay? We can talk about them, but I believe that before military compensation started to try to actually catch up with civilian compensation, it was below the 70th percentile by a fair amount. I don't remember where it was but the goal was to get it up to the 70th percentile. It's now in the 90th for enlisted, and that's about at the 85th for officers—when you compare it to civilians with comparable education, healthcare, etc.

Healthcare is no cost for servicemembers. For family members, it's small deductibles that add up with the deductibles and co-pays to about \$100 annually. Let's compare that to us guys. That's about \$5,500 annually when you include insurance costs, deductibles, and co-pays; \$100 to \$5500 is a pretty big difference. Housing used to be 80 percent covered. Now it's 100 percent covered. That was a conscious decision that was made and a Congressional goal, and Congress is proud of it. So, we now pay 100 percent of housing, and it's escalated every year that the basic housing allowance (BAH) goes up by the cost of living, and that's not even including other services like commissaries, family programs, education benefits, extending more and more, et cetera.

So, do they deserve all of this? Of course they do, but there's still this balance point, right? So DOD has taken a stand. My friend Bobby Hale is here. Bobby pioneered this and led this every year for, what? The three or four years we submitted changes in the budget?

Robert Hale: Doing my job; change is forever.

Christine Fox: Bob did a fantastic job, and the service chiefs played a huge role leading this in the Department, working closely with Bob. We've tried very hard to slow the growth of the compensation—not to get back down to where it was but to just slow the growth. We've only had a few successes. A few, but only a few. Salaries, this year's the first year ever the Department has proposed to raise less than the employment cost index (ECI) but typically, we would propose an ECI raise and the Congress would add onto it. It is looking as though, perhaps, we'll get the 1 percent

raise this year that the Department has asked for. At least three of the four defense committees seem to be supporting that proposal.

Healthcare: again, with Bob's leadership, we've had some success in changing mail-order prescriptions, incentives to push their system pharmacy savings, and a little raise in the deductibles or in the fees of, I think, two years ago. I don't know what we're going to get this year. It doesn't look good. Housing, sticking with 100 percent of the costs, but trying to change the way we calculate the inflation, again, to just bend the curve over a little bit. And we tried to go after commissaries.

We propose not getting rid of commissaries but instead, changing the subsidy to push the Defense commissary agency to be more efficient. So we cut the subsidy down a little. Meanwhile, our ships and squadrons are undermanned, our training's under pressure, sometimes even canceled, and modernization remains a big issue.

So, where does that leave us? The all-volunteer force is fantastic but has become very expensive, and if the budget wasn't under pressure, I would say, "They deserve every dime, so they should go for it," but it is under pressure and we really can't be on a path where we have a small, unready, ill-equipped, but highly compensated force sitting in conference rooms and not operating, right?

That can't be why we have a Defense Department, why we have a military, and why they joined. You know, I think that's important to remember, that isn't why they're joining the military. So that brings me to your very timely conference, because I think there are some real questions for the analytic community and there's a real opportunity for you, as you have from the very beginning, as our celebration of Walter and the achievements of the all-volunteer force in the first place, have brought home, to view the opportunity to help DOD find a balance. So, when Bob and I were working on this in the Department and Ash Carter was the Deputy Secretary, I remember Ash Carter said, "Okay, I get it—90 percent is a little high. How much is enough? What's the right answer?"

We've got to sustain the force that we have. It's the best in the world; it needs to be the best in the world. We need to keep it strong: if the 90th percentile for comparable civilians is too high, what's right? I have not seen any definitive work that says "this is the right answer," and that's probably a bridge too far to definitely say what the right answer is. But insights into what that balance should be would be very helpful. Another area that I think we are a little bit off is the civilian/military mix. Do we have military people who cost more than civilians in jobs that civilians can do? Well, probably. That's a problem because we have a lot of pressure on the size of the civilian workforce. We put pressure on ourselves, but Congress has helped us too by giving us caps on the size of the civilian workforce.

So, you cut the civilians too much in the bases, and suddenly you've got military people doing things that civilians used to do. Maybe we can get a little help to get that balance right. Special pays—I heard mention about special pays earlier. I think special pays are really important. It can be hard to justify them to Congress. We need some more work on special pays, when to use them, how to target them, and how to justify them. Then, as I just described, we've made some very modest proposals to slow the growth in military compensation, and most of them have been very, very difficult to get through the Congress.

So, you guys, how can we do a better job making that case? Can you help us make that case? How can we get to the Congress in a way that says "No, we don't want to go back to the old days. We do value our people, and we want to keep the force strong but we're going too far."

So, again, it's a great privilege to be here, it's a great opportunity to pose those questions to this analytic community that brought the end to the draft. You know, in my experience in the Department, I see what Walter Oi did is exactly what is needed. All too often, in the halls of the Pentagon, we live in a world of fact-free emotional assertions.

I think Walter brought a fact-based, clear-eyed assessment of future possibilities, and when you do that, even with the pound-on-the-table

folks, they kind of have to say, “Darn, they’ve got the facts,” and it works. It makes a difference. You may have to say it once, twice, five times, but it can have impact, and now we need that clear-eyed, fact-based assessment to bring our force into balance at a time where it’s under tremendous pressure, both budgetary and operational.

So, we can keep the finest fighting force in the world that, thanks to Walter and many of us here in the analytic community in general, we enjoy today. So, thank you for the opportunity to be here, and I’m happy to take a few questions.

Stan Horowitz: I’m Stan Horowitz with IDA. One thing we don’t seem to think about much is that we could save money by emphasizing quality more, particularly in the form of greater experience. In occupations like information technology, where it takes a long time for people to be fully productive, emphasizing policies to increase retention would allow us to have a higher ratio of senior to junior people and would let us get the job done with fewer personnel. The higher average cost per person would be more than offset by the reduction in the number of people required. Is this something policymakers are considering?

Christine Fox: You know, we do talk about that. It always bumps up against the cost of it. I have to say, there’s nothing that comes up—no idea—where you don’t have to estimate the cost, and the more senior the force, of course, the more costly it is. But I will tell you that I think cyber is an area where that’s recognized, and I think it’s going to be encouraged, and they haven’t really got the career pipeline down for the cyber force. Another opportunity, I think, for the analytic community—but there is a recognition that it will need to be a more senior force to keep that expertise. Competes with Google, it’s tough, right? But there’s, again, selective benefits maybe, and incentive pays might work.

Another thing that we have consciously tried to do as we plan the downsize for the Army—the Army has consciously tried to do, is to sustain a slightly more senior mix in the Army so that you get what we’re calling, badly I think, reversibility, because that’s not a great term. But if you could just



bear with me, as you bring the Army down, you don't know if you've got the strategy right. We might end up in another stabilization operation, and they'll need to turn right around and grow again. So, can they keep more senior as you come down, to maintain the expertise? So, ideas of that kind—some of them are actually in the budget. I think there should be more of them. It does bump up against cost all the time, so the trick is to find the biggest bang for the buck. Where is the highest payoff in that? Again, I think there are analytic questions there.

Audience member: Of course, cyber is a place where I think there's considerable doubt that the military-intensive solution that we seem to be moving toward is correct. That really seems to be a place where civilians could play a bigger role.

Christine Fox: Absolutely, but we couldn't afford them, and there is a cap on the size of the civilian workforce. So again, we have to have help . . . again, I think you analysts need to help the Department make the arguments for more flexibility.

Stan Horowitz: Hi, I hate to take another question since I took one already and I hope this doesn't come across as snarky because it's not intended that way, but you raised a lot of questions for the analytic community that, I for one, would love to research. However, we, in the FFRDC community, can only do that research if DOD asks us to. So, there is an impetus on DOD to ask us these questions in the first place. That's the extent of the problem.

Christine Fox: So I hope this isn't a snarky answer, but DOD officials don't have a lot of time to go find the right person in FFRDC that can help. If you have ideas, don't hesitate. Throw them over. Push. I mean, I didn't appreciate this when I was here at CNA. I think the value of government experience is so helpful: as an analyst, to have gone from a world where I was sitting at CNA wishing they would call to a world where I didn't have time to call my doctor. I mean, forget it. I had no time to call anybody. It's a healthy perspective, so I just encourage you. You've got good ideas, don't be shy. Pick up the phone, call somebody. I mean, Sam Kleinman is here. He

knows everybody in Personnel and Readiness; they love him. I mean, he can put you in touch with the right folks.

Now, that doesn't guarantee you'll get your study funded, but they need good ideas and they don't know how to always find them. So, don't be hesitant. That would be my thought. Yes?

John Blayne: Ma'am, John Blayne from the Navy's N1. I find some of your comments about the challenges of the civilian/military/contractor mix very interesting, especially when you're talking about operational gaps. One of the challenges that I see on a fairly regular basis is that balance of power, but maybe in a different perspective. We made a variety of decisions about civilian substitution that have fundamentally unbalanced many of the communities that we rely on to generate that operational readiness. We're left with poor quality of service, poor quality of life, because we made fiscal decisions without understanding the consequences to the structure.

There, you get more of a statement than a question, but it is a very challenging area and we really do need a lot of analysis on it.

Christine Fox: Thank you. You nicely reinforced my point on the need for analysis. It's not just a one-way trade that we need to look at. Getting the military, civilian, and contractor force mix in balance means work in all three categories as, of course, everybody here knows. We cut too deeply into the civilian workforce, I believe. Currently, we have a real problem in the acquisition workforce. At the same time we were trying to regrow the civilian workforce and shrink the contractor force, the budget came in, and we had to slow the civilian growth, and then we got Congressional caps. I don't think the force mixture is right, and I singled out military because it's the most expensive, but that doesn't mean that there isn't an equal challenge on the civilian side.

Bob Hale is leading a charge, and I'm in firm support, on the importance of the government civilian workforce, how critically important that is, how undervalued it is. It's the first—it may be the only thing Congress can agree on—that the civilian workforce should be cut or the pay limited, no

pay raises or whatever. That's clearly not okay. So, I think getting it all in balance, contractors too, is really important.

Audience member: What is the possibility of the analytic community taking on the constraint that we keep bumping into, and that constraint is the sequester. What is the possibility of doing an analysis of the implications of the sequester on force readiness, for example?

Christine Fox: Well, anybody that can do an analysis on the implications of sequester that would help make the argument would be hugely valuable. I welcome and I encourage the analytic community to do that and would have welcomed it if I were still there. I'm sure the Secretary would welcome it as well. We did try to do a lot of analysis within the Department and were aided by authorities in the process, looking at the impacts of readiness. One of the things that I found in the job was that nobody really understands what the word *readiness* means. So, one of the things that the Department could really use a lot of help with is how to make readiness a meaningful concept. I did an interview and I used an analogy with a parent who's got a kid who's learned to drive and wants to go with some friends to Ohio in the winter.

So, I think as a parent you would probably want to make sure that they knew how to drive, that they knew how to drive in snow, and that the car was ready, and that it had the right snow tires on it, right? That's readiness, and people got that. But, it's actually too many phrases to explain, and it gets clipped down in the sell-and-buy world, so you're back to using terms like "readiness" that just don't connect. I think the impacts on readiness after the 2013 sequester, where we really cut training, did get some attention finally. I do think, however, that the Department did a bad thing by saying it was going to be awful. So, people expected to see a cliff, and of course, it was just a slow trickle that lasted the whole rest of the fiscal year.

But I do think, by the end of the fiscal year, people saw that it was bad. We're going through it all again as it comes back in 2016, so if there is a way for the analytic community to help sharpen the concept of readiness

and the implications of it, boy, I think that would be hugely valuable. Are we out of time? Aline has a question.

**Aline Quester:** For those of us who don't talk to the Congress, what is the hang-up with healthcare? I mean, it's hard to understand why you can't ask people to pay a little bit more than \$100 a year? Why you can't ask retirees that if they have health insurance from their employer, they should use that health insurance first?

**Christine Fox:** So, I don't think I'm going to have a very satisfying answer for you, Aline, but I'd like to give Bob a chance to weigh in since he talked to them a lot. But my impression is that anything that reduces military compensation and benefits is viewed as voting against the military at a time when, as I said at the beginning, we're deeply appreciative and feel a little guilty about our volunteers, who are volunteering to potentially die. So, no politician wants to vote against compensation of any kind for those people and I think it's kind of as simple as that, but let me give the mike to Bob.

**Robert Hale:** I agree with you, Christine. It's viewed as a reward for service.

**Christine Fox:** I mean, it's hard to argue against in the first place, but the point that the CNO made and that I also heard from other service chiefs and actually saw myself, is that servicemembers want an experience that's rewarding. We have a responsibility to make sure we don't ask them to do something they're not prepared for or not equipped to do and that costs money also. So, again, thank you so much for having me today. It's a great privilege to be here.