

WHAT NOW? CONCLUDING REMARKS

Sam Kleinman: We're going to have basically the wrap-up panel now. The experience of the panel cuts across from the OSD perspective to the services to the Hill. This will give you a good sense from all angles here. We are also going to try to give enough time to get the inputs from the group because it is a wrap-up session.

We have had a lot of discussion on metrics over the last day and a half. This reminds me of a story of a missionary in China. If I'm lucky, a few of you have heard this story. The issue was a management consultant who was visiting China and he met a missionary. He was interested in how people measure performance and metrics.

He asked the missionary how many people he had converted, and the missionary had to admit that he had not converted anyone there in the three years he'd been there. The management consultants found that interesting and questioned his supporting organization. What do they ask of you, what do you tell them - what's your reporting mechanism?

He reported back "they ask me every month how many contacts I have." Then the missionary said "by the way, can I consider you a contact?" So it sort of shows you how you go from the output to the input and then you mess around a little with it. You all kind of sit around, count, looking at the number of contacts where everyone seems to have a different definition.

The conference here focused on those agencies that provide support services. In many ways, we've picked the easiest ones to look at. They are the ones that have some connection to services also provided in the private sector. One can measure them in some sense.

One could figure out the cost, at least theoretically. We should be able to figure out the cost, whether we do or not is another issue. So in one sense, we've really taken on probably one of the easiest issues. Though at times it seems like it's not that easy.

Let me summarize what I thought I heard yesterday. Listening this morning, it may not exactly apply to the health care side. From what I heard yesterday, it sounded like most of the findings are that the costs are lower today than they were 5, 10, 15 years ago for the services provided. It seemed that the general sense was that the quality of services provided were as good, if not better.

To be honest, I don't think there are too many studies that contradict that. People have seen that. The argument is that we should not return to where we were 10 or 15 years ago. Now the disconnect and the debate is that no one is really arguing we should return to 10 or 15 years ago.

The people who are really challenging the agencies are saying one of two things. One is we really have to have a stronger internal management of these agencies. There are some real fundamental problems there. Or two, we should be looking outside for alternative providers in the private sector.

Now those are the two payoffs most people take, but there is a gray area. Both paths have a little bit of the other in it. So those who want more internal management will also agree they can do more outsourcing, and those who want to privatize agree that they have to have better management mechanisms over it.

It seems that we get into a debate when you go down this road of whether things should go into the private sector or not. At least for us here, and particularly for those in the analytical community, there are a lot of issues that we could really get deeper into without the public/private issue, which gets a little sensitive.

Actually, they all blend into it. One of the key issues here is whether these services have to be vertically integrated with their operational activities. The real support activities, the derived demands -- the truth is, there's a fairly rich literature on vertical integration.

We could think through what type of services really belong with other parts and get the essence of that issue solved. There are lots of trends we could look at. There's a lot to look at here that apply to lots of different types of organizations, public and private. You go to state and local level, other countries and this issue is a fairly rich area without ever again trying to get into --the issue of which one is cheaper, public or private.

You still have the issue of where in the organization it sits; how do you set priorities and funding? At least you could get over that first part. The issue I think we should seriously think about is could we allow the operational activities and others using the support services a choice in selecting their providers.

It's clear that there are a lot of places where we do not allow choice. We should rethink why we don't. The other issue, is that most of these agencies really do two things. They set a lot of policies governing their support and they provide the support. We have to be careful having them do both things in the same place. Within the organization, separate the offices, but it's within that agency.

So just as a few thoughts about those issues. I think the mere fact that we have moved a lot of the support out of the services to the agencies has allowed us to acknowledge that we create some distance, at least organizationally, between the support and the units they support.

We could have argued whether GSA is providing services to DoD. Are they vertically integrated into the same organization? It is if you consider the federal government the

organization. If you don't, if you just think of DoD as the organization, then they are not vertically integrated.

We've at least acknowledged that the services provided by Defense Agencies could be removed in some way. So I think that that's something to consider. On the scale issues, I think we have to at least consider the possibility that there are differences between the scale economies we see in the private sector that derive from a competitive process. The scale economies we try to create by forcing the military commands to use the in-house provider so that the in-house provider has a big enough business space to gain those economies may not be realized.

It appears that we're arguing that to achieve competitive scale efficiencies, we have to eliminate competition. There seems to be some sort of an internal inconsistency in that argument. The thought that we will get to the same solution, at least I think we could question that.

The truth is, if scale is a big driver, there's no reason to stop at the DoD level. Why don't we just merge with the Department of Justice and Treasury, DFAS. If that bothers people, then we should step back and say - you know, maybe we did lose something as we moved some of these services from the people they were supporting. As you go further away, something does get lost and we have to take care of that.

I did note when looking at numbers, you get different trends depending on which numbers you look at. Even when you all agree on the trends, you've got to figure out if it's good or bad or even relevant to what you're talking about. I'll give you my shot on one of them.

It's the civilian payroll of the Department of Defense. If you look at just civilian payroll, and to make it more interesting, just like at GS and SES payroll relative to the military payroll in DoD, that's been going up for the last 15 years. I could have gone back further - I just looked to '88. Those are important years for the agency issue.

That's kind of striking. In 1988, for every dollar we spent in payroll on the active military, it was 47 cents for GS and SES civilians. In 2001, it was 71 cents for every dollar. It has gone up a lot. We then come to this other issue of is this a very interesting number.

In one sense it's more interesting than the numbers presented on employees. Clearly dollars was what we really should have been talking about yesterday and not number of people employed. It at least beats that number. Now of course - this is not just agencies, so you've got to figure out where are these people who are doing all this stuff. These are not just the agencies we talked about yesterday.

I wouldn't be surprised if this is the same phenomenon we saw in the private sector, where the white collar payroll relative to what we call the blue collar payroll. Most of the military are enlistees. The change in the mix of the workforce and what has to be done to means something.

Even if we read that this was maybe a better metric than number of people, I can't figure out if it's good, bad, or just plain irrelevant. It does fall in with this mix of making us at least say that those numbers we saw dropping off some of the agencies, you wonder where these people are and what we're paying people to do. That's a fear for those who challenge what we're doing today.

I think that if you look at some of the management improvements, people are arguing the internal management improvements. The one thing that becomes clear, and I think it came out yesterday, is that there may not be unique agency problems. There are problems in how we provide our support in-house, whether it's in the services or DoD. Whether it's a working capital fund or directly budgeted.

We have inherent problems in a big organization trying to figure out how to allocate its support services. I think that a lot of things we saw yesterday on how to improve the system really are issues addressing the whole of DoD.

I guess that kind of leads to my own biases that we should be looking more outside because in the end, competition is a very strong force to get organizations to be customer oriented. Since the final service of the department fighting wars in the defense mission cannot be competed --basically, this is not a world you compete in.

We should take seriously the opportunities to introduce choice and competition when you get to derived demands; when you see things that very much look like things out there in the private sector and to leverage the full economy.

Now I'll just have some final thoughts on maybe where we go from here. First, I'll endorse points - and Mike Donley will raise this, it was raised yesterday. Whatever we do, we look at the functions and not the agencies. Recognize they're all different and we may have different solutions for different agencies. Then within agencies, they really do lots of different things and different solutions, even for the different functions within agencies.

Second, I would review the practice of having support organizations review the outsourcing of some of their activities. We now say we do it - we go and look at it. But often the support agency itself does it. The privatization decisions and valuations, execution of it, I think should not be led by them.

This is particularly true in the public/private competitions where their in-house support is actually one of the competitors. This is always something to be concerned about. Just the appearance alone is sufficient to make those separate and an appearance of conflict.

Third, the parts of the agencies that provide support, I think, should be separated from the part of the agencies that establishes policies and standards. There is again the appearance of conflict here in two dimensions. One is the whole issue of that the policy should be there for the operational units and not to make the life of the support activities easier.

Now that may sound a little unfair and everyone feels they're doing the right thing. You do find that a lot of the things come out to make it work at the supporting activity. In a totally different world, when we used to look at ship depot work in the services, the amount of work done at a ship depot and when your ship got repaired had to do with leveling the workload at the yard. It had little to do with the needs of the war fighters.

A ship either came in this year or next year, whatever promoted level loading at the yard. If the ship needed work now, that was really a secondary issue. People kind of accepted that after awhile without realizing - they turned it upside down. We're there to fix ships. The workforce has to adjust - it goes up and down. We take care of our operating units.

Now that's outside the agencies and that's not an issue there. The requirements have to be specified in a way that doesn't appear to be biased towards the in-house team. A lot of times you hear private competitors say that the workload was basically structured around the way it was already done with sort of a bias towards the in-house team.

So there are some of the issues separating things apart. I think we should look more at choices where possible. Why create monopolies when we should have alternatives to choose from? It is a strong enforcement mechanism. I believe that we get caught up in a lot of the metrics issue because we don't want to use the most revealing metric. That is, that operational units are willing to pay for the services out of their budget to do what we had told them to do and what they're responsible to do.

Since we don't want to do that, we come along with all these other metrics that we try to struggle with where we know none of them are really that good or accurate.

Fifth is we avoid having organizations that are having some of their work competitive and some not. I would kind of break those pieces apart. It's very hard to have an organization that is a monopolist in one area and competitive in the other. You see natural cost shifting and it's just going to create a problem. So the best thing to do is to make them two separate units and they actually can't share their overhead.

Sixth, in setting the prices that represent the cost of providing the support, I think the rates do have to be adjusted more easily and rapidly. I think it was a good point that

Debbie made yesterday. The challenge is that the budgets don't easily adjust. That's really what we have to take on. That is needed to make the rates adjust. It's a fair point.

I think the bigger issue is also that the rates are loaded with totally unrelated overhead charges. That just screws up the system and challenges the whole integrity of it. I also believe that the prices have to flow down.

You just can't say that you pay it to the organization and they have to pay all of their costs out of it. It's not just the civilian payroll and material, it has to be paid to the military people who work there. Also a rent, even it's a government building, they have to cover their full costs. Otherwise, they're hiding the cost of providing service.

I also think that we should probably take a harder look at inter-operability means. It's again one of the arguments of bringing things together. My sense is that it's a lot grayer area to it than people tell you. There are different dimensions of it, different degrees of it, and different costs of getting one thing over the other.

The issue of what it means and whether needing it really means you have to do it in-house. Honestly, I'm not certain that follows. Those are my opening comments. I'm going to start with Arnold Punaro here and we'll hear the opening comments of the other members of the panel.

Arnold Punaro: I appreciate the opportunity to talk to you this morning about the defense agencies and the reform of the defense agencies.

It reminds me of a situation that happened in the Gulf War some 11 years ago. Of course, we know Saudi Arabia, a relatively conservative country. It turns out there was a force recon Marine, an Army ranger, and a Navy nuclear submariner that got caught drinking beer.

In Saudi Arabia, the punishment was death by guillotine. So they got them out in the public square and the guillotine operator says to the force recon Marine, "in Saudi Arabia, you have a choice when you're beheaded, if you want to do it face up or face down, with a hood on or hood off." Of course the Marine being the tough guy says "hey, face up, hood off."

So the guillotine operator positions him looking up at the blade, grabs the rope, the blade comes whizzing down and stops right above the Marine's neck. The operator says "hey, in Saudi Arabia, if it doesn't work, you're a free man. Go ahead, you can leave."

Next was the Army ranger and posed the same question. The ranger said "hey, I'm just as tough as that Marine. Same deal." So he positions him down there, looking up at the guillotine, grabs the chord, pulls it, blade comes the whizzing down and stops right above

his neck. The guillotine operator says "hey, in Saudi Arabia, if it doesn't work, you're a free man and you can go."

The Navy nuclear submariner gets up there, same question. He deliberates a little bit about it, but he says "hey, I'll do the same thing, face up, hood off." Guillotine operator gets him down there, positions him looking up at the blade, puts his hand on the cord and the Navy nuclear submarine officer says "hey, I think I see your problem."

The problem with reform of the defense agencies is essentially in what General David Jones, a former chief of staff of the Air Force, calls the too-hard box. The issues are so complex, the agencies are so big, there are so many people tied up in it, so many constituents, so much politics, it's just too hard to do anything about it.

That certainly has proven true to be the case. Even great organizations like the Office of Management and Budget that is supposed to go after management issues, the analysts down there have learned over the years that there's no sense beating your head up against the defense agencies because they don't change. It's just too hard. With some trepidation, I see the great minds from PA&E here from over the years - Jim Locher, Debbie, Dr. Watts, and many others.

In my personal view, PA&E has had a soft spot in its heart for the defense agencies because they are always looking at comparing them to what it would be like if the services were running it. That's the wrong way to look at it because it's just been in the too hard box.

Same thing for the Congress. The Congress, can pass some pretty tough issues. Jim Locher's book on Goldwater-Nichols and how the Congress pushed that through over the objections of the Department of Defense demonstrates that. Most people would argue that it was a pretty significant, important, and positive change.

The creation of the special operations command. Congress can do some tough things. Never touched the defense agencies because they never thought about the magnitude of what was involved. There were a lot of constituencies. Nobody from the department ever came over and said, "Hey, here's some things that you ought to look at." It was just in the too-hard box.

Reform of the defense agencies, I would say to you, is definitely not on the Olympic speed skating oval. It is an issue that generally finds itself relegated to the dustbin of history. Most of the studies that have been completed in the past, and the study I'm going to brief you on here this morning, kind of found their way to the dustbin of history as opposed to the speed skating rink.

The good news is that I'm going to give you the same brief as chairman of the defense reform task force that I gave Secretary Cohen when we completed one year's work of work looking at it. The same brief that I gave Secretary Rumsfeld and his top people as they were coming in to office and many of his top lieutenants after they got in office.

It was great. I didn't have to do any work because I didn't have to change a word since nothing had happened in the four or five years since then. Guess what? It's been a year since they've been in office, and you're going to get the exact same thing because nothing ever changes.

It's not because we don't have great, hard working people in the defense agencies. I had a command as a military commander that included people working at DFAS. You will never find better people out in Middle America than the ones who work in defense finance and accounting.

Steve Turner, the guy who runs the payroll side, he is as energetic and dynamic a young leader as you would find anywhere. Yet when you look at the bottom line of what DFAS does, its per person cost per payroll cycle is astronomical compared to what it is in the private sector.

It's not because they aren't trying hard and they wouldn't want to do it. There's just a lot of endemic things. The leadership and people of DLA are great human beings who work every bit as hard as anybody in the private sector, anybody in the military. We in the military owe them a tremendous amount or we wouldn't have beans, bandages, and bullets.

They don't wake up every morning in DLA trying to figure out how they can buy 300,000 right hand chemically protective gloves and 500,000 left hand chemically protective gloves. It just happens. For example, when the Commandant of the Marine Corps was going to buy the new utility uniform, DLA was going to buy it for him and charge him an 18 percent surcharge.

Of course, the Marine Corps said that they were not paying 18 percent surcharge. The commandant runs around and talks, bragging about "you're not going to believe the deal I got out of DLA. I knocked their surcharge from 18 percent down to 5 percent. What a bargain." I said "what a bargain for you and all they are going to do is take the difference between the surcharge and the 18 percent and charge all the other people." They're not going to cut anybody's prices because that's what we do with the defense working capital fund.

I'm going to talk to you real quickly this morning on defense reform, more as kind of a military commander who's been a sometimes victim of the defense agencies. As a taxpayer who is an absolute true victim of some of the practices in the defense agencies.

The people that were on the task force with me - Jim Locher, Mike Donley, Red Dowson, Kim Wincup from the House Armed Services Committee, Dr. Zakheim, and Dr. Chu. So the stuff you're going to see didn't come from nut cakes other than myself, who was the chairman.

So why is it that nothing gets accomplished? The main reason is because people don't appreciate the magnitude of the problems and the issues associated with the defense agencies. If our infrastructure overhead costs in the Pentagon were a gross domestic product, the Pentagon would have the 39th largest GDP in the world.

The DoD infrastructure is larger than the economy of Portugal and Denmark. That is a lot of money. That is a big bureaucracy. Dr. Chu wouldn't admit to this quote now, but this is what he said to Secretary Cohen and he also repeated it when we briefed Secretary Rumsfeld. It's managing the 39th largest economy - it's the only economy in the world that still runs on the Soviet model, because it's run through bureaucratic processes, boards, etc. It's like skiing down the mogul course in the Olympics, not the downhill ski race.

However you want to count it - and I would challenge PA&E, but they've never taken me up on this challenge because they don't want to get beat up by the services. I even asked Secretary Rumsfeld when we briefed him. I said, "Hey, sir, if you could do one thing. Get those guys in PA&E to recalculate this and get the true cost of the overhead."

They'll argue that it isn't much worse than it was in 1986. Guess what? We have 30 to 40 percent less combat forces, but the infrastructure really hasn't gone down that much. Their argument is, "Well hey, it's roughly the same percentages."

If we even grant them their own definitions, the fact that it's got 55/45, it's still too huge. The budget right now is quite large. It's gone up a lot, and yet we still have 30 percent fewer combat forces. So you have to ask your question of where the money is going.

A lot of what they say is in forces, is really not in forces. You can look at where some of it is. I argue that we tried to put these metrics so people could kind of understand what you give up in combat power when you put this in overhead. We've got over 32 division equivalents of support personnel. We've got a division's worth of auditors, inspectors, and investigators. It costs us roughly \$1.2 billion a year. That's more than we pay per year to run the Army's heaviest division at Ft. Hood, Texas.

It's ridiculous. I don't know what these people do. I know they are good people. We know they're good people, that's not the issue. It's not that each individual auditor, inspector, and investigator is not a good person. It's collectively why do we spend more than we spend on a heavy combat division?

We have had a session on medical and I'll talk about that in a second. 200,000 people, 13 divisions worth of people in logistics and supply, transportation. Intel - this is the unclassified number. It's a lot larger than that. It's a lot larger than that. I mean a whole lot larger than that.

Guess what? They are such a Cracker Jack outfit that when Secretary Rumsfeld ran the missile defense division he said the intelligence community didn't know what the threat was. And there are a lot of people in Congress and other places saying they didn't know what the threat was on 9/11, and people are going to look into that.

So you've got to ask yourself the question: is having this huge intelligence bureaucracy necessarily getting us the right answers? Does it get maps in the hands of the commanders who need them in the places they go? A lot of times, the answer is no.

I'm not going to beat up on the medical area other than to say the costs are enormous and they are just eating us alive. We've got hundreds of thousands of people we're throwing at the problem, and most of the customers don't care for the service.

So spending a lot more money and having a whole heck of a lot of doctors and nurses - and we need doctors and nurses - and I guess we've got to have these three battalions of veterinarians and one and a half regiments of administrators.

This is combat power that you could have if this was converted over. You're right, most of the infrastructure is in the military departments. The military departments, they run around and say, "Hey, if you'd only get rid of this big old bloated defense agencies...." Most of the overhead is in the military department, so the reform has to occur there.

Why do we never reform? This is the department's layers. I lose count - I can't really count that high. It's either something like 29, 32, or 34 layers. Mary Margaret worked hard on this, but you're up against the layers in the bureaucracy.

We said to Secretary Rumsfeld, "Hey, you're a Cracker Jack at business. You're tough as nails. Get rid of some of the layers." I'd put a challenge out to anybody in the room, anybody working in defense right now to find which layers have been eliminated. He's getting at it, but I don't see any yet that have kind of wandered out.

The other issue is people don't think of defense agencies as businesses. People say who are our top ten defense agencies? Lockheed Martin, Boeing - the usual suspects.

Well six of the top ten defense agencies are big business, six are our own defense agencies. DLA does more business with the Pentagon than Lockheed Martin. We don't think of them like that, and we don't have the same approaches that we have for them that

we have for a Lockheed Martin, or a Boeing. Of course my very favorite outfit is the Defense Commissary Agency.

This is a very emotional subject, because people love the commissaries. I'm sure there's somebody here from the commissary and I know you're going to put me on report. Trust me, I've had more hot lines than anybody you've ever heard from before, so it won't do you any good. But go ahead, put me on report.

Defense commissary, 1997, the world's fifth largest grocery chain. Hardly a core competency of our Department of Defense, running a grocery chain. \$5.2 billion of sales, they lost \$800 million. Now the current leader over there is a dynamic general trying to do his best. He can give you a briefing that has 500 charts of all the great business initiatives he's put in effect over the last x number of years.

What's the bottom line? Roughly a little bit higher in sales. \$5.2 billion a year and they're losing \$1.2 billion a year. So with all his business initiatives, the bottom line is he's losing more money today than he was five years ago. It's because a lot of the things they have no control over. That doesn't mean the 17,000 civil service workers that work in the commissary system aren't great workers.

You cannot run an organization like DECA like it's a business. It's got to be run like a business. My wife heard me talking to Michael Baer, who was on our task force. I said, "What are the metrics we ought to brief the Secretary on when we're talking about DECA?" When I got off the phone, she jumped all over me "I can't believe - you're going to close the commissary."

Then I went through and said, "Jan, don't you understand?" They pay \$12 million a year more for their long distance services because they buy it from the government instead of AT&T. They pay TRAMSCOM \$3,800 for a refrigerated container shipment when they could buy it for \$1,800 on the commercial. I went through all of those statistics and I knew I'd convinced her.

I was walking out of the kitchen and she gets on the phone and she calls her sister, Mary, whose husband is a Air Force colonel. "Mary -- you're not going to believe it. Arnold is going to close the commissaries."

We recommended doing a test. I will take my largest commissary, Camp Pendleton. We'll run a two-year test, have a business come in and run it and let's see if we can make a difference. Guess what? Everybody associated with the commissaries with MWR hated it. Do you know why they hated it? Mainly because they thought it might work. So it isn't happening because people are scared of the results.

That's why in the defense agencies things become so emotional. When they counter-attack my points, they always say he's going to cut a benefit. We're not talking about cutting any benefits. We're talking about reducing the amount of subsidies the taxpayers are paying to give the benefit to the troops. The troops, as long as they get the 20 to 25 percent cost savings and have good quality food, they don't care how it's run and if we could save some money running it.

There's example after example in every defense agency. Again, it's not because these aren't good, hard working people and they are trying to do the right thing. The military leaders we put in charge of them, they have no experience running big businesses. They're great combat leaders and they are great human beings and they work their best, but you wouldn't put them in charge of General Electric or Lockheed Martin - they'd lose their shirt. Yet they're running the largest defense businesses that we have. When we set into the defense reform task force, we've got to treat them as businesses and we've got to treat them as overhead and make some of the changes similar to the ones that have been recommended in the IDA study. You can see those there. We said, and again, these were pretty serious people that worked on this. We said that we ought to do a lot of consolidations and use the existing agencies as a base.

Here were some of the ways we recommended that they be consolidated. You could create a defense acquisition and you get 7 or 8 of the defense agencies there. Consolidate the intelligence and the personnel. You'd have to do it over a long period of time. It took General Electric 20 years to go from being a corporation with \$20 billion in revenues and 900,000 employees to a corporation with \$90 billion in revenues and 200,000 employees.

So it would take a period of time. You focus on core competencies; you get the Pentagon out of the business of doing things that are not their core competence. You know, we run a \$750 million a year child-care system. We run a \$2.2 billion a year school system. These are not core competencies of the Department of Defense. They are important, they are good benefits and we need them. They don't have to be run by the Department of Defense.

You can outsource, you could devolve. We basically thought you could eliminate some 13 of the defense agencies through this metric. Finally, the defense working capital fund. You had a session on this. If you don't do something about the defense working capital fund, ... You are on it, you worked on this. You've heard talk about it. It's got conflicting goals. They roll everything up in the cost and that's why you pay in Albany, Georgia \$65 an hour to operate a forklift when you could get it for maybe \$12 or \$15 on the open market.

Fortunately, I didn't have to check up on Dr. Dov, because I had to buy something in my military hat the other day through the defense printing. The government printing office charged me 7 percent surcharge and the defense printing charged me 7 percent, so I had

to pay a 14 percent surcharge for the privilege of competing my print job in the open market where I could have gone directly. So Dr. Dov I don't believe has made any changes here yet. Maybe there's some in the works.

Finally, our reform task force hopes to change this sign that you can find posted over a Pentagon desk. It says that basically faced with a 20 year threat, responds, got a 15 year plan and a 6 year program managed by 3 year personnel, developing a 2 year budget with a 1 year appropriation which is always late. Formulated over a 3 day week and approved in a 1 hour decision briefing. We can't do that with the defense agencies. The problems are too complex.

But I will say the IDA study is tremendous work. It's more balanced and objective than the comments I've made to you here this morning. Yet its conclusions are pretty much the same. We have two positive rays of light. Secretary of Defense Rumsfeld is creating the defense business environment that we recommended, bringing in people to help who are not associated with the defense agencies.

Two, if anybody can make these changes it's Secretary Rumsfeld. Most of the other Secretaries of Defense have been chewed to bits by the defense agency crocodile. I believe this is a Secretary who will be able to wrestle this crocodile to the ground. So I think there's some hope there. The track record is not good, but with the IDA study, with the great work you all are doing here at this conference this thing can be pushed forward. Thank you very much.

Sam Kleinman: Mike, do you want to follow that up?

Mike Donley: I've spent many, many years trying to protect the world from Arnold. This morning you'll hear some of the arguments I've used to try to do that. Actually, my experience with defense agencies is much along the lines as what Arnold has described.

With the new administrations coming in, new flag officers being appointed to positions of responsibility where they get to see what the Department of Defense looks like, and new appointees coming into the department, there's often a big light bulb or revelation that pops on where they discover that there are more than three components to the Department of Defense.

This happens with respect to their introduction to the joint world, and it also happens with respect to their introduction to the defense agencies, which make up more than half of the 40 or so components of the department. Often, those officials, those new appointees, those officers come in with sometimes an objective or an agenda to fix the defense agency problem. They want to take on this huge issue.

There are two things associated with it. One is that it's some kind of a management crisis that needs to be tackled. Or it's a pregnant opportunity for savings and resources that needs to be tapped immediately to meet some other unfunded requirements for the department.

My take on what I've heard the last couple of days is that this is not a crisis. We're not in a crisis with respect to defense agencies. Yes, there are problems and issues that need to be addressed. But actually I thought IDA's report was quite interesting in showing that despite the problems and issues that we've talked about, the controversies over pricing, command and control, management areas - those issues have not stood in the way of manpower and cost reductions in these support activities over the last several years.

So in a sense, that's a tribute to the Under Secretaries who have been working the problem; or if not the Under Secretaries, the managers of the agencies who have been working on these issues.

Second, treating this amorphous body of defense agencies as some kind of a crisis or pregnant opportunity may actually be counter-productive. It seems to me that it has the potential of feeding into these false impressions that new leadership sometimes brings that there are big savings to be made by rearranging defense agencies or cutting back defense agencies. Transferring, contracting out.

All these issues are certainly real issues, not to be minimized. I think one example I would use, which I find a little bit extreme, was the 1996 DSB report on the subject. That proposed a shift of no less than \$30 billion, focused on defense agencies, from support activities to forces in modernization. This is a clear sort of move from the investment community to tap into the support functions in order to invest in modernization.

I do sympathize with the management approach that says that every dollar we spend on support is a dollar we did not spend on operational readiness and capabilities. We have to have the support to back up those operational capabilities. So Arnold, if you got the 15,000 nurses or transportation people that you could create a new division with at Camp Pendleton, then they'd probably be a sicker lot and they wouldn't be going anywhere. We have to balance the operations and support issues appropriately.

We need to not let the leadership follow along with the idea that we can fund 10 or 20 years backlog investment requirements with support savings from agencies that are providing critical support and quality of life services to the operational forces. Those quick fixes just aren't there. It's important, as Jim said yesterday, not to feed those myths.

Not only that, but if you follow the language too carefully it can lead in interesting directions. I'll just use one example that Ken Krieg threw out yesterday. A little matrix

of is this something the department should be doing? Yes/No and are we doing it as well as it can be done.

In some cases, the examples of commissary and schools come to mind because, in my view, they are the furthest away from any kind of military competence related to the Department of Defense. We're not in the schools business. We're not in the grocery business.

Yet, if you look at the data, you could arrive at the conclusion that we're doing very well in those areas. That offers a very interesting set of choices about how you proceed next. It could lead you down some very dangerous paths politically. Or if you take a pure economist's point of view, it could lead you to the Chinese kind of solution where we make a decision to go into the schools business so we can fund our modernization program because we're so good at providing schools and groceries.

The third point here is that generalizations don't hold. I have violated, perhaps, the ROE for the conference, which was really focused on defense agencies that have commercial-like activities. I think Dave Chu did challenge us to think of those differently than we have in the past. He did give one a broader list of issues and potential opportunities to think about when you broaden this idea of what is a commercial activity.

It's been my experience that there is no unified field theory for defense agencies in terms of how the department manages. Nor has there ever been, in my view, a unified theory for how the department provides support functions. We've evolved to where we've evolved to - that's true - over 30 or 40 years.

Just to use a quick example to sort of exercise the brain and to stretch your thinking on it. That is logistics, which is a combination just roughly of supply, maintenance and transportation. In supply, we have responsibilities split between the services and a very large defense agency. There is very little activity in the joint world on that.

In maintenance, we have most of the responsibility in the military departments. Some is in DLA but less. Most of the money is in the military departments. In transportation we don't have an agency, we have a command. The responsibilities are split between the command and the military departments.

In each of those cases, the OSD role is quite different. The responsibility for transportation policy, for example, is buried way, way down in AT&L. So the department's senior, full time transportation official in OSD is probably a GS-15. He probably doesn't compete well against the four-star command and three military departments that are working these issues on a regular basis.

Those are just examples of how we have evolved over the years into very different models for how to provide support. There's no real unifying theme here. I certainly would offer a challenge for someone to go work out such a theory and consider how it might be applied in the department. It's been a tougher nut than I could crack, at least today.

These agencies need to be treated as individual agencies in their own right. They have vastly different mission histories and operating styles. Sooner or later, the discussion about defense agencies and what to do with them really only gets us so far. Sooner or later, we need to get down to individual agencies or small groupings of agencies that are performing similar kinds of functions like the intelligence groupings and acquisition groupings that Arnold suggested.

A number of general issues have been raised the last couple of days. Management oversight issues, metrics, incentives, cost allocation, pricing issues. Interestingly, I haven't really heard consensus on what issues or problems would be the most important to be addressed first if you're the Deputy Secretary of Defense.

Again, we have a very broad, diverse list of agencies. They have lots of different issues. If there are political or other reasons why the leadership is inclined to grab on to defense agency issues, as Ken suggested, you're going to have an SEC and they're going to look at defense agency issues. What is it that we would recommend that they look at first or work on first?

Getting past the individual agencies, I would suggest that really better than individual attention, like the SEC apparently intends to give to DFAS and DISA and DLA, would be reviews of missions or functional areas in which defense agencies are only one part.

I think the discussions over the last couple of days have really reinforced this. It's sort of a silly notion when you sit back and think about it. You would be trying to evaluate DLA in isolation without really thinking about the end-to-end supply system that the Department of Defense uses. That supply system cuts across components. It involves lots of different activities and processes, of which DLA is only one component and fits into one part. So it doesn't get you very far just to look at a single agency.

That came up in the health panel this morning. Focusing on a few big agencies is nice, but I think really in the end it's probably going to be insufficient. There are synergies across these agencies that we haven't talked about, supply, maintenance, and transportation are good examples where you're cutting across components. In one case, you involve a major unified command.

There are big issues related to how DLA's connection to maintenance and the connection of the supply system to the transportation system. Those things are definitely worth

looking at more carefully and you don't get there by just looking at one component of that. You get there by looking at the processes. I think end-to-end process reviews probably offer more promise.

Working down the list, education before decision. I hope this doesn't sound too trite or pedantic. The end-to-end process reviews are hard, but they are really necessary to expose and untangle the relationships to get at the real data that you need to fuel analysis.

Two quick examples, one that relates to this educational process. One is about competency, the other is about complexity. On the competency front, I don't know whether to tell this as a story or as an amusing anecdote. But a couple of years ago the Joint Staff decided they wanted to tackle the issue of defense agencies. So they picked DFAS - real good issue for the Joint Staff, don't you think?

They jammed up a briefing with all kinds of proposed performance measures for DFAS. Not a combat support agency last time I looked. I can't think of the staff function in the Joint Staff that would have prepared that. It doesn't quickly come to mind.

They took it to the Deputy Secretary of Defense, John Hamre. He probably was the man who knew more about DFAS than anybody else in the Department of Defense. He waved them off kindly. I think I would have kicked them in the butt. But that's a competency issue. As we raise issues, we have to stay in lanes and bring competency.

The second is complexity. Just to fall back on the SEC working the issues of DFAS, DISA and DLA. Arnold brought this up, which I think is a very interesting point. It gets back to the end-to-end process issues here. Did anybody ask about DISA's workload that is associated with their support for DLA or for DFAS or the portion of the DFAS workload that is supporting DLA and DISA?

Do we understand how the rate structures associated with these activities are intertwined? In some cases, maybe we do. In some cases, maybe we don't. I'm a little bit behind, and certainly I'm not the expert. There are a lot of interesting connections here that again, you don't get to the real down and dirty data that fuels analysis that you ought to have in front of the decision making unless you get to the process issues.

That really leads to the last point. You need the facts and data to do the education process. It's really up to the agencies and PA&E to keep developing the databases and a better understanding of how these support processes work individually and together within the department. It's by my observation, and I think Dave McNicol experienced it, that it takes a long time to develop this expertise and this capability.

PA&E did a lot of work on this in mid-'90s. I've lost track a little bit since then. I don't know exactly where we're at there. The department needs quality data on DoD

infrastructure. It's very hard to get and we need to invest in the time and the dollars to start collecting that, especially the data that sheds light on these end-to-end business processes. Just ask the question, how does a contractor's bill get paid and you'll find that it involves a lot more than DFAS.

So I think what we really need to do is sort of work the facts and data up to education. What we're really trying to do is get past the point that Ed Martin brought up at the health session this morning. You need to give analysis the opportunity to overcome politics, or give analysis the opportunity to drive the politics.

The leaders can then take real data and an understanding of how these end-to-end processes work and how these agencies operate. They can then use the facts to work the political process, rather than have the political process working on them and the staff scrambling for facts in real time.

All this sounds like too slow an approach compared to Don Shycoff's approach, which he described as when you have an opportunity to do something, do it. This is a little bit more of a take your time, work through, methodical approach. What my wife would call the typical Mike plodding approach.

I do have a quick summary conclusive judgment for Ken Krieg on at least one item. If anybody wants to contract out the defense legal services agency, I can tell you right now that private lawyers are more expensive than government lawyers. We can take that and go with that.

Sam Kleinman: We'll have comments from Jack Borsting, final member of the panel.

Jack Borsting: It's always great to be last, because everything has been said. So are there any questions? Let me just make a few quick comments. First, Arnold told a long joke. I'll tell a short joke. I can do this because I was a Republican political appointee and a Democratic political appointee. You know the short expression for the Clinton years? Sex between the bushes. It's short.

My comments are going to be rather short, although I will have some general recommendations. One, when I was the Comptroller, I had DCAA reporting to me and I didn't have much time to work with DCAA, but my deputy did. Of course it was always hard to deny auditors funding. I'm serious about that point - it really is.

A lot of defense agencies have occurred since I left the Pentagon and I think they made sense. It is rational to do the things the way we're doing centralization. Some are too big. I will have some general recommendations of what we might do to help them become more efficient because I think that's where we're at, to help things become more efficient in this group.

I like Ken Krieg's idea that he was going to look at three of the defense agencies at a high level. Mike commented about that. He also wanted to do some things with A-76 and things like that, if you remember his talk. He also talked about end-to-end thinking and about the customer. I'll come back to that in a moment.

I think several things were tossed around in this group. One thing hasn't been. The IDA study summarized all of the previous recommendations of all the panels that have reviewed the defense agencies. Were any of them implemented? Did any of them do any good? I guess I'm not supposed to ask questions as a panelist, but I'm not sure we need another study.

I'm also fairly sure that we don't need another agency or another senior person looking over the agency. I don't think more bureaucracy is the way to go. I think that was brought up yesterday. I would say no, we don't need another group.

Now we should learn from the private sector, and I'm going to come back to that. Certainly when I was Comptroller, I could have considered replacing DCAA personnel by Arthur Andersen personnel. We've got to learn from the private sector, but the private sector is not perfect by any means.

We could probably get heads of defense agencies now hired from the outside from Enron, former employees or from Global Crossing, which just declared Chapter 11. There are a lot of not very efficient things going on in the private sector, too. Let me mention what I'm doing now because it will be relevant to some of my last comments. I've been running a center for telecommunications management at the University of Southern California. I have an outside board of executives from the expanded telecommunications area that gives general guidance. We do executive education, applied research, and put on conferences.

Our board includes not just the Sprints and the AT&Ts or the Southwestern Bells, the Verizons, but includes Cisco, Oracle, British Telcom, Hong Kong Telcom. So it's expanded telecommunications, and it did include Global Crossing.

Now if you look at some of the things that have happened in the telecommunications industry, you see a lot of mismanagement. Today Qwest is under the gun because they've had to go away from the commercial paper market to fund their operations and draw down their long-term credit. The stock has gone way down.

So the commercial sector is not at all perfect, the business sector. I think the defense agencies have a lot to learn. Let me give some good examples. One of the examples that we completed was a case study four or five years ago on Marshall Industries, which is an electronic distributor or electronic parts.

What they did early on was put everything online with their suppliers, their salesmen, their customers - everything went online. Their salesmen didn't like it at first. They thought they were being cut off, but they love it now. Marshall Industries was very successful doing that.

Wal-Mart does a lot of this sort of thing. It puts the customer, the company, and all the stakeholders online. I think that's what some of the defense agencies should do. So I would like to see more use of modern IT in the defense agencies.

Now I'll ask you all, will that happen in the future? I know that a lot of the computer systems when I've been associated with defense over the years, and I've kept up my association by being a trustee of some of the FFRDCs over the years. I've also been a board member of Northrop Grumman for decades. So I've been able to keep my hands in defense.

I don't see defense modernizing very quickly with technology. Correct me if I'm wrong, because I haven't been close to the defense business. I haven't been at the Pentagon except to attend a meeting or so.

Let's see. Maybe that was about it. I'll conclude with one of the more difficult practical problems that I don't think anybody has mentioned here. I think one of the problems of the defense agencies is they worry about covering their tail. They get so conservative that they make mistakes because the press and everybody will criticize them.

I don't know how you get around that, but if we could get around that, that would help. Then in conclusion, I'd just like to see more modern IT applied to the various defense agencies. Thank you.

Sam Kleinman: We'll open it up and people can ask questions of the panel or just make general comments about what now?

Stan Horowitz: think that DLA and maybe other defense agencies have incorporated a reasonable amount of IT.

Jack Borsting: They have. I would just like to see more. Because you look at DFAS, they really consolidate all of the legacy systems and get rid of some, which is great. Now it's hard to take all of these legacy systems and re-do them. Industry has had a tough time doing this too. It's not without its problems, and they have made progress. I'd just like to see more progress made.

Stan Horowitz: It seems to me that there is one other area where progress could be made that we note in our report, but I think hasn't come out in this conference. Some people

have said, well, you've got to focus on outputs. However, inputs are important, too. We need to know what we're spending money on.

I think that movement toward activity-based costing and management could really help us know what was going on. That's something that could be instituted relatively quickly and might inform the decision making process further down the line.

Jack Borsting: Let me elaborate on that. I would agree with your comment, and I would also like to see metrics, which have been talked about in this whole conference, more tied to the budget than there have been in the various agencies. The secretary wants to revise the PBBS system. Well, in that process maybe some things could happen to tie the performance metrics of the defense agencies more toward tie them into the budget, etc. It might help.

Debbie Christie: I think that cost information definitely has to get out to the mission funded activities. Many of the people who think that they can buy something less expensive directly from the private sector do not consider their full costs.

It doesn't matter to them if the military guys work overtime regardless of the effect on quality of life. It doesn't matter to them that they don't see a lot of the costs that are inherent in what they have. We're never going to get this question settled of whether the private sector or the defense agency is cheaper if we don't know the full cost of the alternative.

Sam Kleinman: I think there's another point here. First, I think there have been a lot of advances in the last 10 or 12 years. You've got to be fair to all of the agencies. A lot more could be done. Also we should think about the issue of IT and the spreading of information.

Information doesn't flow for a lot of behavioral reasons. People don't exactly want to pass on information even when they can. We can set up a system if people aren't putting in the right data because all the incentives are not to; we're not going to get there.

A lot of times when questions get asked by OSD to the services and the response is that they can't do it, it's really, "I don't want to tell you." The incentives are there to deny them the information because OSD will do something and it may be the wrong thing that they will do. At least that's how it looks to the services.

Again, I think there's that issue of how do you incentivize? Bad information is like any other action by a department. It's incentivized in one direction or the other, and you have to figure out how to incentivize the right information.

Q: I guess I have a comment for Mr. Donley to maybe set the record straight about a DFAS study. Then three recommendations from the DRI perspective if Rumsfeld ever asked me what I thought we should do.

One, on the DFAS study. Probably like everybody else, I was surprised when I learned that the Joint Staff did these CSART studies, but it is in law. The folks that did that particular study, it was headed by a gentleman who has a finance and accounting background. They came up with a series of recommendations that were briefed to Tom Bloom first. Tom liked them.

They were sent to Hamre. Hamre liked them. They went to the Defense Management Council. One of the recommendations was actually enacted, and that was to create a DFAS board of directors. I know they met once or twice in the last administration. I don't know what its current status is.

The other was to look seriously at turning themselves into a federal corporation, which was something we had been talking to Tom about as well in the defense reform office. He was very interested, but not at a point in time where he could have really done anything about it because he was doing this tremendous downsizing and consolidation.

I understand, though, from Ken Krieg that they are re-looking that issue now in these reports to Secretary Rumsfeld. They actually did come up with something interesting, but they create as much energy in the room as suggesting that you do away with commissaries.

If I still had my defense reform office hat on and they wanted to know what I would recommend or what we would recommend for agencies next steps, I guess I would have three. One would be to first focus on what form the agencies should take.

Many of them, as was correctly pointed out over the last two days, have very commercial functions. Rather than just cutting them loose and saying we're not going to have a Defense Commissary Agency anymore, you could look seriously at other forms that they could take like federal corporations.

There are any number of tools in our tool kit right now that we never bother to look at. We always assume that A-76 is the only thing that we have in our tool kit, and that is actually not the case. I think a real hard look ought to be given to what forms these agencies should take.

Second, I would really recommend that the Secretary keep the performance contracts. Those were done or created, I guess, several years ago. The services loved them. They paid attention to them. I know because they would complain if they didn't get one of their comments put in. So it tells me they were watching them carefully.

They really felt that with the performance contracts, the customers were being asked for the first time what they wanted and what they needed. While I think the agencies have always worked very hard to do that, it didn't always trickle up to the vice chief level, who is now starting to pay attention to these kinds of things.

There is a big debate going on right now in the department about what form these contracts should take. On the one hand, you've got new, very strong-willed PSAs saying, "Well, you're making me responsible for these agencies, but yet an outside group in OSD is overseeing the contracts. I don't like that." They don't want to go through this outside agency or outside group, which is PA&E.

I would remind them that the PSA track record in overseeing the defense agencies they're responsible for is sort of spotty, which is one of the reasons they created the contracts in the first place. I think the original intent was to try to make that submission more in cycle with the PPBS process and to be sort of their submission, if you will, in the summer time frame. We haven't quite moved that way.

I would really hate to see the SEC not take an interest in these things and just devolve them directly only to the PSAs. I think you do lose something by taking the high-level service participation out of it.

Finally I would really look hard about what the role of the defense agency is in terms of DoD wide enterprise activities. You've talked about end-to-end processes and there is such a thing as end-to-end within an agency. If you're going to move towards something like e-business, which is the IT issue that you brought up, you're not going to get the efficiencies you really know are there unless it's DoD enterprise wide.

You will not go to one of the services and find the same enterprise-wide focus on acquisition or procurement or logistics or name a business function that you will in a defense agency. Dr. Hamre, for right or wrong, created the joint electronic commerce program office. He put it down at DLA. We all stood there and sort of held our breath. They formed this thing, it's a combination of DISA and DLA personnel and smarts and skills.

The track record for the activities, the e-business related things they did is super. They did some really neat stuff. Right now, they are talking about breaking it up because of the care and feeding needed. Who is going to pay attention? They really sort of answered to Dr. Hamre.

How do you do enterprise-wide e-business without some kind of really top-level leadership focus? I don't know what the answer to that is. I know a lot of people are

struggling. There have been all kinds of suggestions about setting up a PEO type structure for e-business.

I don't know what the answer is, but I don't think you're going to find an answer in the service. I think that agencies have historically been jointly focused, DoD-wide enterprise focused. Certainly in the area of e-business, I don't know if you're going to get where you need to go without them.

Jack Borsting: Let me make a comment here. There seems to me there's a possibility of doing this now with the SEC the way Rumsfeld has created it, if it really works. You've got a unique situation where you've got three defense pros as service secretaries. Also, you've got Pete Aldridge as the acquisition guy and Rumsfeld and Wolfowitz.

If they really can perform as I think Rumsfeld would like them to, you might be able to get some things going like this. All three of the service secretaries not only know defense, but they know business and they are all very good. Again, you've got the big bureaucracy and they're busy and everything. The SEC may be one way of somebody getting to them to get some of this going. I think they could make it happen.

Normally the service secretaries have not had clout. As Ken Krieg said yesterday, other people would like to be in that group of six. If I were the comptroller again, I'd certainly want to be in that group. I don't see how you could omit your chief financial officer from that group.

Rumsfeld has decided to do it to make it small, but maybe it can be effective there. Maybe it will give the service secretaries more clout to make it more of an enterprise situation. Hopefully.

Q: In all due deference to my new buddies, I would like to pick up on Mr. Donley's comment about logistics. Even though we talk about DLA as logistics - and I don't know who changed the name from supply to logistics - but DLA is in the supply business.

You're absolutely right, major customers are in the maintenance business - and that's a service prerogative up and down. I'm delighted that we didn't waste a lot of time talking about depots around here and the logistics environment.

On the other hand, I think there is an opportunity to look at the maintenance issue rather than the depot issue. Look at the end-to-end maintenance in a kind of three-dimensional thing with supply.

I guess my point is I haven't heard anything about what IDA has done in that world of maintenance.

Finally, the money in all fairness, DLA, the \$16.5 billion headline. Again, approximately \$9 billion of that is fuel, which is a relatively easy commodity - there are only about 5 or 6 stock numbers. It's a hell of a lot of money. All the energy is other than that. It's very important, but it distorts the magnitude of the corporation, if you will. Thank you for allowing me to come.

Q: I wanted to raise a dimension. In his beginning talk, Dave Chu mentioned that while there may be efficiencies associated with consolidation, it doesn't tend to support innovation. He talked about the private sector where by and large economists see that it's the medium size corporations that tend to innovate as opposed to the largest firms that are in an industry.

What David didn't mention is what the innovation process really tends to also go on in terms of birth and death of firms and entrants supplanting incumbents, you don't really expect that in the government context. I understand that in the business revolution, in some cases, there's been attempts to de-link customers from a monopolistic supplier. To give them choices and let some suppliers take, in a sense, bigger market shares if they reduce costs or have better service.

I'm wondering whether those efforts have come to anything so far, or whether the institutional constraints and inertia sort of tends to work against that. My general question is, is there any hope within the current structure short of something so radical that it would probably be unthinkable that we would get innovation by progressive organizations competing against incumbents within this whole system?

A: A-76 is one example of where competition does exist - we're forcing people to compete. I mean, we can argue all day about whether it's a good way to do it, but it's a vehicle we have available to promote that kind of competition. I think we'll continue to see competition in one form or another, even if A-76 isn't with us.

I guess more generally, when we start thinking end to end, the natural inclination of an end-to-end process is to move towards exclusive members in the club. It is going to be hard for us as we go forward. What it generally means in a commercial setting is that we have to find a substitute for competition. That substitute is generally benchmarking.

I wouldn't look to competition as the only potential source of innovation. What we're seeing when we look at firms that have been rapidly increasing their awareness of what their customers want and how they can service those customers is them saying, "To innovate, I need to know what the goals of this supply chain are. I need to have a way of measuring the performance of the supply chain as a whole."

Then one can discipline the supply chain as a whole by using benchmarking to say whether that innovation is a good thing relative to alternative sources. When I look at the

education I got as an economist, it doesn't help me much. The world has moved on. The basic notion of competition is there, but it's not through formal source selections, it's through continuous benchmark comparisons. We need to find a way of making that easier for us to do in our own supply chains.

Dave McNicol: Can I have a last question or comment?

Carl Dahlman I'd like to get to Arnold, because you've got to admire the sense of outrage he brings to the problem. I would just like to remind him that at the end of every inefficiently spent dollar in the Department of Defense, stands a willing, happy, recipient who is banking that buck.

When you talk about these 20, 25 divisions of folks up there who you say could be combat, I would remind you that they really are combat soldiers. They are very efficient combat soldiers in their own interest and they battle for every buck they're going to hang on to.

I would add to that that there are an additional 20, 25 divisions of retirees out there, all special ops capable who are fighting for their interest up in Congress. Rumsfeld is going to be efficient here. It's going to accomplish what you said, or maybe accomplish it. He's going to need cover. He'll need support in Congress, which is under constant siege by all these armies of people or divisions of people going after every buck they can. So where would you advise that he start? Right now, we have a very fractionated, very political congress. Tell Rumsfeld where to begin in Congress.

Arnold Punaro: The first thing I would do is tell him to maintain the quality and independence of PA&E. Make sure that we don't compromise their ability to provide a Secretary of Defense with objective, hard hitting, good government analysis, which has been the hallmark of that organization as far back as anybody can remember. I think that also goes for the Comptroller, part of the Department of Defense.

Sam Kleinman: One comment - it should be under the Comptroller like it is now.

Arnold Punaro: I would certainly support that.

Keep outfits like IDA, RAND, CNA and the other analysis FFRDCs so they can do the kind of good government work that a Secretary of Defense needs.

Now in the Department of the Navy alone, we had to take \$2 billion that we could have spent on ships and planes and benefits for people on active duty to the accrual funding for that health care. Most of the people who served in the military in World War II, Korea and Vietnam will never see that benefit, because you only get it if you retired from the military.

So in those kind of lobbies - and the Chiefs rolled over and played dead for it. In fact, they led the charge for that. It's outrageous. Nobody in the Congress would step up to it. If they could do one thing in the near term, I think it would be change the defense working capital fund. That is a fund that under-girds, as you point out sir, a lot of how we purchase things -- DLA, DISA.

David Chu, the guy that wrote the memo for our defense reform task force, was the one that wrote our conclusion. Dov is there right now and he could make that change today. However, it's very controversial in the department, because all the people that would lose, are the ones that are inefficiently priced, the ones who are hiding the costs of mobilization and surge and those things.

They don't want to change it because then it's going to expose what we're really paying for that. Like you say, there have been 80 studies done in this area and very few of them get implemented. So there are plenty of places for Secretary Rumsfeld. I would get rid of some of the bureaucracy. He's trying to do that. If you could change the working capital fund, keep PA&E robust, and get rid of some of the bureaucracy, you'll begin to move some of these issues forward.

Jack Borsting: One other quick comment. Rumsfeld should just order some of these things. If people in the services or other places go around him to the Hill, they should be sent to Guantanamo.

Sam Kleinman: We have a few minutes, right? I was going to say there are many metrics on which to evaluate conferences.

One is to end on time, and I think that would be one here. I guess for the PA&E staff, it's not to have any follow on tasks from their bosses over there. That would be a good metric. But for quality of information, this scored very highly. I thought it was a good conference. Final comments?

Dave McNicol: Very brief. The one substantive comment was triggered by Carl Dahlman's comment. One of my old bosses pointed out to me in the context of defense agencies that the weakest programs have the strongest political constituencies. You know that has to be, because they have continued to survive.

