

094686

094686

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M. EST
MONDAY, FEBRUARY 6, 1978

STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE
SUBCOMMITTEE ON MANPOWER AND PERSONNEL
SENATE ARMED SERVICES COMMITTEE

SEN Noos of

ON

[ADDITIONAL COST OF THE ALL-VOLUNTEER FORCE]

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE APPRECIATE THE OPPORTUNITY TO DISCUSS OUR REPORT "ADDITIONAL COST OF THE ALL-VOLUNTEER FORCE" PREPARED AT THE REQUEST OF THE COMMITTEE. THIS REPORT IS BEING RELEASED TODAY.

WHAT HAS THE ALL-VOLUNTEER FORCE COST AS COMPARED TO THE CONSCRIPTED METHOD OF BUILDING U.S. ARMED FORCES? THIS QUESTION HAS BEEN ASKED WITH INCREASING FREQUENCY SINCE THE NATION RETURNED IN 1971 TO THE VOLUNTEER CONCEPT. FOR THE PRECEDING 30 YEARS, THE FORCES WERE STAFFED WITH DRAFTEES, DRAFT-INDUCED VOLUNTEERS, AND TRUE VOLUNTEERS. THE CHANGE CAUSED MUCH DEBATE, A LARGE AREA OF CONTROVERSY BEING THE COST OF STAFFING A VOLUNTEER FORCE.

~~709699~~

094686

ASSUMPTIONS AND APPROACH
TO GAO'S COST STUDY

TO ANSWER THIS QUESTION, WE EXAMINED THE COST OF IMPLEMENTING THE AVF AS REFLECTED IN THE BUDGET. IN OUR OPINION, THE BUDGETARY APPROACH IS AN ACCURATE WAY TO MEASURE THE COSTS ASSOCIATED WITH CREATING AND ESTABLISHING THE ALL-VOLUNTEER FORCE. OUR ANALYSIS WAS BASED ON:

- CONGRESSIONAL TESTIMONY OF ADMINISTRATIVE OFFICIALS;
- STATISTICS;
- AGENCY BUDGET JUSTIFICATIONS, AND POLICY AND PROGRAM DIRECTIVES; AND
- THE RELATIONSHIP OF A COST ELEMENT TO ANY OF THE FOREGOING.

WE DID NOT ATTEMPT TO MEASURE FUTURE FINANCIAL IMPLICATIONS DUE TO THE UNAVAILABILITY OF DATA AND BECAUSE ESTIMATES OF THE CONSEQUENCES OF FUTURE EVENTS ARE NECESSARILY IMPRECISE. IN ADDITION, WE DID NOT REVIEW THE EFFECTIVENESS OF THE AVF AS CONTRASTED WITH THE FORCE UNDER THE DRAFT. THIS WAS OUTSIDE THE SCOPE OF THE REQUESTED REVIEW.

GAO ASKED THIRTEEN KNOWLEDGEABLE INDIVIDUALS TO REVIEW OUR AUDIT APPROACH AND FINAL REPORT. ALTHOUGH WE CONSIDERED THEIR COMMENTS AND SUGGESTIONS, THIS REPORT REPRESENTS THE ANALYSIS, FINDINGS, AND CONCLUSIONS OF GAO.

WE RESEARCHED OTHER COST STUDIES ON THE ALL-VOLUNTEER FORCE. THIS WAS DONE NOT ONLY TO GATHER IDEAS ON APPROACHES, BUT ALSO TO INSURE OUR COST MODEL WAS AS COMPLETE AS POSSIBLE. NONE OF THESE STUDIES INCLUDED ALL OF THE COST ELEMENTS AFFECTING MANPOWER. MOST OF THE STUDIES DEALT WITH COSTS RELATING TO ONE SERVICE, ONE PART OF THE MANPOWER SYSTEM SUCH AS RECRUITING, OR ONE OR TWO SPECIFIC COST ELEMENTS.

ADDITIONAL COST OF
THE ALL-VOLUNTEER FORCE

USING THE BUDGETARY APPROACH, WE ESTIMATE THAT FROM FISCAL YEARS 1971 THROUGH 1977 ANNUAL COST INCREASE ATTRIBUTABLE TO THE ALL-VOLUNTEER FORCE WERE ABOUT \$.09 BILLION IN 1971; \$1.5 BILLION IN 1972; \$3.0 BILLION IN 1973; \$3.3 BILLION IN 1974; \$3.4 BILLION IN 1975; \$3.3 BILLION IN 1976; \$.8 BILLION IN THE 1976 TRANSITION QUARTER; AND AT LEAST \$3.1 BILLION IN 1977 (THE 1977 DATA WAS INCOMPLETE).

THESE YEARLY COSTS ARE NOT AMOUNTS WHICH CAN BE SAVED IF THE DRAFT WERE TO BE REINSTITUTED. WE BELIEVE THAT AMOUNT WOULD DEPEND PRIMARILY ON WHAT CHANGES, IF ANY, THE CONGRESS WOULD LEGISLATE IN THE COMPENSATION AND BENEFITS OF JUNIOR OFFICERS AND ENLISTED SERVICE PERSONNEL.

WE REVIEWED 37 COST ELEMENTS AFFECTING PERSONNEL AND CATEGORIZED THEM AS PREMILITARY SERVICE, MILITARY SERVICE, AND POSTMILITARY SERVICE. WE ATTEMPTED TO DETERMINE, WHERE POSSIBLE, INCREASES OR DECREASES IN COSTS ATTRIBUTABLE TO THE ALL-VOLUNTEER FORCE.

COSTS WERE NOT IDENTIFIED WITH THE AVF FOR SOME OF THE ELEMENTS EXAMINED BECAUSE PROGRAM CHANGES COULD NOT BE ATTRIBUTED TO THE AVF OR FINANCIAL DATA WERE NOT AVAILABLE.

PREMILITARY SERVICE

PREMILITARY SERVICE COSTS INCLUDE COSTS ASSOCIATED WITH BRINGING PERSONNEL INTO THE ACTIVE OR RESERVE COMPONENTS OF THE UNIFORMED SERVICES. ELEMENTS THAT WE IDENTIFIED RELATING TO PREMILITARY SERVICE WERE:

- SELECTIVE SERVICE,
- ENLISTMENT TERMS AND STANDARDS,
- NON-MONETARY INCENTIVES,
- ENLISTMENT BONUSES,
- RECRUITING OPERATIONS,
- ADVERTISING, AND
- ARMED FORCES EXAMINATION AND ENLISTMENT STATIONS AND MILITARY ENLISTMENT PROCESSING COMMAND OPERATIONS.

FROM FISCAL YEAR 1971 THROUGH 1977, WE IDENTIFIED OVERALL INCREASES IN PREMILITARY SERVICE COSTS OF ABOUT \$1.4 BILLION WHICH WERE ATTRIBUTABLE TO THE AVF. MOST OF THESE COSTS RESULTED FROM INCREASES IN ENLISTMENT BONUSES, ADVERTISING, AND RECRUITING OPERATIONS, OFFSET BY A DECREASE IN SELECTIVE SERVICE OPERATIONS.

MILITARY SERVICE

MILITARY SERVICE COSTS INCLUDE ALL COSTS ASSOCIATED WITH PERSONNEL DURING THEIR PERIODS OF ACTIVE DUTY IN THE SERVICES OR IN THE GUARD OR RESERVES. WE IDENTIFIED FOUR MAJOR ELEMENTS AND RELATED SUB-ELEMENTS RELATING TO ACTIVE MILITARY SERVICE.

COMPENSATION AND BENEFITS

THE FIRST MAJOR ELEMENT, COMPENSATION AND BENEFITS, INCLUDED

- BASIC PAY,
- BASIC ALLOWANCE FOR QUARTERS,
- OTHER PAY-RELATED ITEMS,
- MONETARY AND EDUCATIONAL INCENTIVES FOR HEALTH PROFESSIONS,
- MORALE, WELFARE, AND RECREATION PROGRAMS,
- COMMISSARY STORE ACTIVITIES,
- MONETARY RE-ENLISTMENT INCENTIVES, AND
- UNIFORMS.

COST INCREASES ATTRIBUTABLE TO THE AVF TOTALED ABOUT \$15.1 BILLION DOLLARS FROM FISCAL YEAR 1972 THROUGH 1977 IN THE AREAS OF BASIC PAY AND PAY-RELATED ITEMS, AND INCENTIVES FOR HEALTH PROFESSIONS. THE MAJOR PORTION OF THESE COST INCREASES WAS CAUSED BY PUBLIC LAW 92-12 WHICH SUBSTANTIALLY INCREASED THE PAY AND RELATED BENEFITS OF SERVICE PERSONNEL WITH LESS THAN TWO YEARS OF ACTIVE SERVICE.

DEVELOPMENT

THE SECOND MAJOR ELEMENT IDENTIFIED AS A PART OF ACTIVE MILITARY SERVICE WAS PERSONNEL DEVELOPMENT WHICH INCLUDED

- ASSIGNMENT POLICIES,
- RELOCATION OF UNITS,
- CIVILIANIZATION PROGRAMS,
- FORCE STRUCTURE, AND
- WORK HOURS.

WE IDENTIFIED NET COST INCREASES TOTALING ABOUT \$177.9 MILLION FROM FISCAL YEAR 1971 THROUGH 1977 RELATING TO CIVILIANIZATION PROGRAMS WHICH WERE IMPLEMENTED AS AVF INITIATIVES. (THE INCREASED COSTS WERE CAUSED BY ADDING CIVILIANS TO THE WORK FORCE WITHOUT CORRESPONDING REDUCTIONS IN THE SIZE OF THE MILITARY FORCE.)

MANAGEMENT

THE FOURTH AND FINAL ELEMENT IDENTIFIED AS A PART OF THE ACTIVE MILITARY SERVICE WAS MANAGEMENT WHICH INCLUDED

- LIVING CONDITIONS,
- CAREER COUNSELORS,
- U.S. CODE OF MILITARY JUSTICE,
- INDIVIDUAL RIGHTS,
- DISCIPLINE,
- MAN-MACHINE SUBSTITUTION, AND
- EQUIPMENT MODERNIZATION.

INCREASED COSTS OF ABOUT \$1.2 BILLION FROM FISCAL YEAR 1971 THROUGH 1976 WERE CAUSED BY CHANGES IN LIVING CONDITIONS AND INCREASED USE OF CAREER COUNSELORS WHICH WERE ATTRIBUTABLE TO THE AVF.

POSTMILITARY SERVICE

POSTMILITARY SERVICE BENEFITS COMPRISE ALL PAY, BENEFITS, AND PRIVILEGES DUE THE UNIFORMED SERVICES MEMBER AFTER COMPLETING A GIVEN TERM, WHICH IS AS LITTLE AS 1 DAY IN SOME INSTANCES. THE POSTMILITARY SERVICE BENEFITS THAT WE IDENTIFIED INCLUDED

- SEPARATION PAY,
- DEATH GRATUITIES,
- SURVIVOR AND HEALTH BENEFITS,
- SOCIAL SECURITY BENEFITS,
- VETERANS ADMINISTRATION BENEFITS,
- DEPARTMENT OF LABOR UNEMPLOYMENT COMPENSATION AND TRAINING, AND
- MORALE, WELFARE, AND RECREATIONAL SERVICES BENEFITS.

WE IDENTIFIED COST INCREASES ATTRIBUTABLE TO THE AVF TOTALING ABOUT \$189.5 MILLION FROM FISCAL YEAR 1971 THROUGH 1977 IN THE AREAS OF SEPARATION PAY, SURVIVOR BENEFITS, AND UNEMPLOYMENT COMPENSATION.

DEPARTMENT OF
DEFENSE'S COMMENTS

THE DEPARTMENT OF DEFENSE RESERVATIONS WITH RESPECT TO OUR REPORT WERE THAT

--IT DOES NOT ANSWER THE QUESTION OF HOW MUCH MONEY WOULD BE SAVED IF THE NATION RETURNED TO THE DRAFT.

--ESTIMATES BASED ON CONGRESSIONAL TESTIMONY FOCUSES ATTENTION ON COSTS AND NOT ON SAVINGS.

--OUR BUDGETARY APPROACH DOES NOT CONSIDER FUTURE COSTS AND SAVINGS.

--CERTAIN SECTIONS ASSOCIATED WITH THE CAREER FORCE SHOULD NOT BE ATTRIBUTED TO THE AVF.

I WOULD LIKE TO EXPRESS OUR VIEWS ON DOD'S COMMENTS AND CONCERNS.

SAVINGS FROM A
RETURN TO THE DRAFT

DOD STATED THAT THESE COSTS DO NOT ANSWER THE QUESTION: HOW MUCH MONEY WOULD BE SAVED BY A RETURN TO THE DRAFT? DOD ESTIMATED THAT THE SAVINGS FROM A RETURN TO THE DRAFT WOULD PROBABLY BE NO MORE THAN \$500 MILLION PER YEAR (1978 DOLLARS). THIS SAVINGS WOULD RESULT FROM REDUCED ACTIVE AND RESERVE RECRUITING PROGRAMS, AND ENDING THE ENLISTMENT BONUS PROGRAM. DOD STATED THAT THE HIGHER PAY AND BENEFITS EARNED BY JUNIOR PERSONNEL UNDER THE AVF ARE FULLY JUSTIFIABLE UNDER THE FEDERAL POLICY OF "PAY COMPARABILITY."

WE CONSIDER THE \$500 MILLION SAVINGS A CONSERVATIVE ESTIMATE. DOD ASSUMES THE DRAFT WOULD BE USED ONLY TO MAKE UP THE DIFFERENCE BETWEEN VOLUNTEERS AND TOTAL MILITARY PERSONNEL REQUIREMENTS. IN MAKING ITS COMPUTATIONS, DOD ASSUMED THAT IT WOULD RECRUIT 70 PERCENT, RELY ON A DRAFT SYSTEM FOR LESS THAN 10 PERCENT, AND THE REMAINING 20 PERCENT WOULD CONSIST OF DRAFT MOTIVATED VOLUNTEERS. THIS MEANS DOD WOULD CONTINUE TO REQUIRE A SUBSTANTIAL RECRUITING AND ADVERTISING EFFORT TO ENLIST TRUE VOLUNTEERS. AS DOD IS FORCED TO RELY MORE HEAVILY ON THE DRAFT, THE ESTIMATED \$500 MILLION SAVINGS WOULD INCREASE.

ADDITIONAL COST SAVINGS WILL RESULT BY RELYING MORE ON THE DRAFT AND CONTROLLING THE TIMING OF INDUCTIONS. THIS SHOULD INCREASE EFFICIENCIES IN THE BASIC TRAINING BASE AS LOADING WOULD NOT BE SUBJECT TO VAGARIES OF RECRUITING FLUCTUATIONS.

WE ALSO QUESTION WHETHER LESS THAN 10 PERCENT OF THE MILITARY PERSONNEL REQUIREMENTS SHOULD BE DRAFTED. BASED ON

DOD MANPOWER STATISTICS, AN AVERAGE OF 23 PERCENT OF ALL INDIVIDUALS ENTERING THE MILITARY BETWEEN 1960 AND 1965--IN A PEACETIME DRAFT ENVIRONMENT--WERE DRAFTED. FIFTY-TWO PERCENT OF THE INDIVIDUALS ENTERING THE ARMY WERE DRAFTED. BASED ON THIS RECORD, WE BELIEVE THE 10 PERCENT ESTIMATE APPEARS VERY LOW.

THE DOD SAVINGS ESTIMATE ALSO ASSUMES THAT DOD NEEDS ABOUT 380,000 NEW PEOPLE ANNUALLY. WE BELIEVE THAT REQUIREMENTS FOR NEW PEOPLE CAN BE REDUCED BY LESSENING FIRST TERM ATTRITION AND INCREASING RETENTION. THESE ACTIONS WOULD RESULT IN ADDITIONAL SAVINGS.

ATTRIBUTING COST AND SAVINGS TO THE AVF

THE DEPARTMENT BELIEVED OUR BUDGETARY APPROACH WAS OVERSIMPLIFIED BECAUSE WE ATTRIBUTE COSTS AND SAVINGS PRIMARILY ON THE BASIS OF CONGRESSIONAL INQUIRY AND DOD TESTIMONY. THE DEPARTMENT SAID THAT SUCH TESTIMONY WOULD BY NATURE INDICATE COST INCREASE AND NOT REFLECT SAVINGS.

IT IS OUR OPINION THAT WE ARE JUSTIFIED IN RELYING ON COST ESTIMATES PREPARED BY THE DEPARTMENT IN JUSTIFYING REQUESTED FUNDS FOR PROGRAM SUPPORT. IN ITS TESTIMONY, THE OVERRIDING THEME CENTERED ON THE NEED FOR FUNDS TO INSURE SUCCESS OF THE ALL-VOLUNTEER FORCE.

FURTHERMORE, THE JUSTIFICATIONS IN TESTIMONY WHICH WE RELIED ON WERE NOT BASED ON AN ISOLATED HEARING, BUT INCLUDED TESTIMONY GIVEN BY DOD OFFICIALS OVER A PERIOD OF TIME. AS POINTED OUT IN

THE REPORT, THE COSTS SHOWN ARE ANNUAL OR HISTORICAL IN NATURE. WE BELIEVE JUSTIFICATION GIVEN YEAR-AFTER-YEAR ON THE BASIS OF SUPPORTING THE ALL-VOLUNTEER FORCE PROVIDED SUFFICIENT EVIDENCE FOR USE IN MAKING OUR ANALYSIS. MOREOVER, OUR DEFINITION OF COSTS INCLUDED BOTH INCREASES AND DECREASES TO PROGRAM FUNDS OVER TIME.

FUTURE COSTS AND SAVINGS

THE DEPARTMENT SAID THAT THE REPORT MEASURES ONLY PAST BUDGET COSTS AND SAVINGS AND DOES NOT CONSIDER FUTURE FINANCIAL IMPLICATIONS. THEY CONTEND THAT CERTAIN ACTIONS TAKEN IN IMPLEMENTING THE AVF, SUCH CHANGES IN THE G.I. BILL, HAVE SHORT-TERM COSTS BUT SIGNIFICANT LONG-TERM SAVINGS.

WE HAD RECOGNIZED THAT THERE WERE LIMITATIONS, NOT ONLY ON OUR BUDGETARY APPROACH, BUT ON ANY APPROACH TO COST THE ALL-VOLUNTEER FORCE. IT WAS OUR OPINION THAT THE BUDGETARY METHOD, REPORTING COSTS ON A HISTORICAL BASIS, WAS A REASONABLE WAY TO ASSESS COSTS SINCE THE AVF'S INCEPTION. AS MENTIONED EARLIER, IT WAS ON A BUDGETARY BASIS THAT DOD JUSTIFIED ITS NEEDS FOR FUNDS. MOREOVER, FUTURE FINANCIAL IMPLICATIONS ARE CONJECTURAL AND DEPEND UPON PREDICTIONS OF FUTURE EVENTS WHICH MAY OR MAY NOT OCCUR. CONSEQUENTLY, THEY ALSO ARE NOT AS YET REFLECTED IN THE BUDGET.

CAREER FORCE INITIATIVES

DOD BELIEVES THAT OUR STUDY IGNORES THE FACT THAT OUR MILITARY CAREER FORCE HAS ALWAYS BEEN VOLUNTARY, AND THAT IN GENERAL, THE COST OF INITIATIVES TAKEN IN SUPPORT OF THE CAREER FORCE SHOULD NOT BE ATTRIBUTED TO THE AVF DECISION SINCE THEY WOULD ALSO HAVE BEEN NECESSARY UNDER THE DRAFT. DOD COMMENTED FURTHER THAT A CASE IN POINT IS FAMILY HOUSING, WHICH HAS A REPORTED COST OF \$560 MILLION. DEFENSE SAID THAT ATTRIBUTING THIS INCREASE TO THE AVF IS WRONG BECAUSE FAMILY HOUSING IS PRIMARILY FOR THE CAREER FORCE AND THEREFORE, IS NOT A FUNCTION OF AVF VERSUS A DRAFT, AND BECAUSE MUCH OF THE INCREASE IN NEW CONSTRUCTION COSTS DURING THE AVF WAS A RESULT OF DEFERRED CONSTRUCTION DURING VIETNAM.

WE DO NOT AGREE WITH DOD'S REASONING FOR NOT ATTRIBUTING ANY OF THESE COSTS TO THE AVF. FOR EXAMPLE, DURING CONGRESSIONAL TESTIMONY AN OFFICIAL IN THE OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE (INSTALLATION AND LOGISTICS) STATED:

"AS WE HAVE SAID, THE DEPARTMENT OF DEFENSE IS DEEPLY COMMITTED TO THE HOUSING NEEDS OF THE SERVICEMAN AND WE WILL CONTINUE TO DEVELOP AND RECOMMEND PROGRAMS WHICH WILL ACHIEVE OUR GOAL OF ADEQUATE HOUSING FOR ALL MILITARY FAMILIES. TO THIS END, THE OBJECTIVE OF THE MILITARY FAMILY HOUSING PROGRAM ARE CLOSELY ALIGNED AND DOVETAILED WITH THE OBJECTIVES OF THE ZERO DRAFT AND ALL-VOLUNTEER FORCE CONCEPT."

AT JOINT HEARINGS IN JUNE AND JULY 1971 BEFORE THE SUBCOMMITTEE ON MILITARY CONSTRUCTION, SENATE COMMITTEE ON ARMED SERVICES AND APPROPRIATIONS, DOD OFFICIALS MADE THE FOLLOWING

STATEMENTS REGARDING THEIR FAMILY HOUSING PROGRAMS.

THE FORMER ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS) STATED:

"WE CONSIDER THIS INCREASED PROGRAM VITALLY NEEDED IN ORDER THAT OUR SERVICE PERSONNEL AND THEIR FAMILIES MAY BE ADEQUATELY HOUSED AND OUR INVENTORY OF FAMILY HOUSING MAY BE CONTINUOUSLY UPGRADED TO ELIMINATE OBSOLESCENCE. EFFORTS TO ACHIEVE THESE GOALS ARE ESSENTIAL AS WE MOVE FORWARD TO THE TIME WHEN WE WILL HAVE AN ALL-VOLUNTEER FORCE."

THE COMMANDER, NAVAL FACILITIES ENGINEERING COMMAND, TESTIFIED ON THE NAVY AND MARINE CORPS MILITARY CONSTRUCTION PROGRAM. REGARDING FAMILY HOUSING HE STATED:

"IT IS A FACT THAT TODAY ABOUT 95 THOUSAND NAVY AND MARINE CORPS FAMILIES ARE INADEQUATELY HOUSED, WHEN WE TAKE INTO CONSIDERATION THOSE MARRIED MEN IN THE LOWEST ENLISTED PAY GRADES FOR WHOM WE DO NOT CONSTRUCT GOVERNMENT QUARTERS UNDER CURRENT POLICY."

HE FURTHER STATED:

"AS WE MOVE TO AN ALL VOLUNTEER FORCE, WE MUST RECOGNIZE THE REALITY THAT LARGE NUMBERS OF OUR LOWER PAY ENLISTED MEN WHO NOW ARE PRESUMED TO BE WITHOUT DEPENDENTS, DO IN FACT HAVE FAMILIES. THESE FAMILIES ARE NOT INCLUDED IN OUR CONSTRUCTION PROGRAMMING BASE AT PRESENT. THEY DO NOT RECEIVE TRAVEL AND TRANSPORTATION ENTITLEMENT TO ASSIST THEM IN HAVING THEIR FAMILIES WITH THEM. YET, ATTITUDES TOWARD A NAVAL CAREER ARE BEING DEVELOPED DURING EARLY PERIODS OF SERVICE. REDUCING DEPRIVATION AND FAMILY SEPARATIONS DURING THIS PERIOD WOULD ENHANCE THE IMAGE OF CAREER SERVICE, AND THUS CONTRIBUTE TO RECRUITMENT AND RETENTION OF THE BEST OF THESE YOUNG MEN. WE MUST RECOGNIZE THAT ALL PERSONNEL WILL PERFORM WITH GREATER DEDICATION AND MORE EFFICIENTLY IF THEY CAN BE WITH THEIR FAMILIES IN DECENT HOUSING WHEN ASHORE. WE ARE GOING TO PUT MORE EFFORT ON SURFACING AND GETTING INCREASED CONSIDERATION OF THE FAMILY HOUSING AND RELATED NEEDS OF THESE MEN."

THE DIRECTOR OF INSTALLATIONS, OFFICE, DEPUTY CHIEF OF STAFF FOR LOGISTICS, U.S. ARMY, TESTIFIED REGARDING THE ARMY PORTION OF THE MILITARY CONSTRUCTION AUTHORIZATION REQUEST. HE STATED:

"EMPHASIS HAS BEEN PLACED, IN THIS YEAR'S PROGRAM, ON FACILITIES WHICH BENEFIT THE WELFARE OF PERSONNEL: QUARTERS, MEDICAL FACILITIES, AND COMMUNITY SUPPORT FACILITIES. THE CONTINUING EFFORT OF THE ARMY TO IMPROVE THE LIVING CONDITIONS OF OUR PERSONNEL HAS TAKEN ON PARTICULAR IMPORTANCE THIS YEAR WITH OUR SPECIAL EFFORTS TO DECREASE OUR RELIANCE ON THE DRAFT. OVER 43 PERCENT OF OUR REQUEST FOR CONSTRUCTION IS IN THESE CATEGORIES."

IN REPLY TO OUR REPORT, DEFENSE SAID THAT FAMILY HOUSING WAS INTENDED FOR THE CAREER FORCE AND SHOULD NOT BE ATTRIBUTED TO THE AVF WHICH IS A FIRST TERM FORCE. HOWEVER, IN RESPONSE TO OUR REPORT "THE MILITARY SERVICES ARE CONSTRUCTING UNNEEDED FAMILY HOUSING" (CED-78-8), DEFENSE STATED THAT ITS CURRENT REGULATIONS PROVIDED THAT ONBASE HOUSING BE ASSIGNED ON THE BASIS OF NEED, THAT THE POLICY WAS REAFFIRMED MAY 25, 1976, AND THAT THE SERVICES WERE EXPECTED TO COMPLY WITH THAT POLICY. WE FOUND THAT THIS REGULATION IS CONTAINED IN DEPARTMENT OF DEFENSE INSTRUCTION 4165.44 "ASSIGNMENT UTILIZATION, AND INVENTORY OF MILITARY FAMILY HOUSING." THEREFORE, WE CANNOT ACCEPT DEFENSE'S CONTENTION THAT FAMILY HOUSING IS PRIMARIL FOR THE CAREER FORCE. IN OUR OPINION THE INCREASE IN FUNDS IS ATTRIBUTABLE TO THE AVF.

IN ADDITION THE FAMILY HOUSING NEED FOR JUNIOR MARRIED SERVICE PERSONNEL WAS RECENTLY EXPRESSED BY THE CHIEF OF STAFF OF THE U.S. ARMY. WHILE APPEARING BEFORE THE PRESIDENT'S

COMMISSION ON MILITARY COMPENSATION ON DECEMBER 21, 1977, HE SAID THAT:

"JUNIOR SOLDIERS APPEAR TO BE ATTRACTED AND RETAINED BY ADEQUATE COMPENSATION, OPPORTUNITIES FOR EDUCATION AND SELF-GROWTH, CHALLENGE, AND TO A DEGREE BY THE SUPPORT PROVIDED THROUGH IN-KIND BENEFITS. THOSE WHO ARE MARRIED REQUIRE ADDED COMPENSATION AND ARE MUCH CONCERNED WITH ISSUES SUCH AS HOUSING."

HE SAID THAT:

"ON-POST HOUSING FOR MOST OF OUR SOLDIERS OF ALL GRADES WOULD NOT ONLY PROVIDE A SOLUTION TO THE REGIONAL DIFFERENCES IN COMPENSATION BUT WOULD REINFORCE THE ARMY COMMUNITY WHICH ASSISTS US IN ACHIEVING THE DESIRED COMMITMENT."

DOD'S OVERALL
CONCLUSION

DOD COMMENTED THAT THE NET EFFECT OF THE FACTORS PREVIOUSLY CITED IS TO GREATLY OVERSTATE THE COSTS AND UNDERSTATE THE SAVINGS ATTRIBUTED TO THE AVF. KEY ITEMS WHICH DOD STATED REDUCE THE COST ATTRIBUTED TO THE AVF DECISION ARE:

- INCREASED TAX REVENUES ASSOCIATED WITH THE 1971 PAY RAISE (\$2.5 BILLION),
- DELETION OF FAMILY HOUSING COSTS (\$0.6 BILLION),
- SAVINGS IN REENLISTMENT BONUS PROGRAM (\$0.5 BILLION),
- COST-AVOIDANCE UNDER THE FOOD STAMP PROGRAM DUE TO THE 1971 PAY RAISE (\$0.1 BILLION), AND
- ELIMINATION OF DOUBLE COUNTING (\$0.1 BILLION).

WE DISAGREE WITH THE COST REDUCTIONS CITED BY DOD.

DELETION OF FAMILY HOUSING COSTS RECOMMENDED BY DOD WERE DISCUSSED PREVIOUSLY. OUR VIEWS REGARDING THE OTHER COST REDUCTIONS CITED BY DOD ARE AS FOLLOWS:

DOD REASONED THAT INCREASED TAX REVENUES RESULTING FROM THE 1971 PAY RAISE SHOULD ALSO BE CONSIDERED. DOD ESTIMATED THAT INCREASED TAXES SHOULD OFFSET AT LEAST \$2.9 BILLION OF THE COST OF THE AVF ATTRIBUTED TO THE 1971 PAY RAISE.

WE BELIEVE THAT \$2.9 BILLION EXCEEDS THE UPPER LIMIT FOR ANY INCREASED TAX REVENUE THAT MIGHT BE ATTRIBUTED TO THE 1971 PAY RAISE. OUR ANALYSIS IDENTIFIED THE FOLLOWING FACTORS WHICH OVERSTATE TAX REVENUES IN DOD'S COMPUTATION.

--DOD COMPUTED THE AMOUNT OF THE NOVEMBER 1971 PAY RAISE BY TAKING THE DIFFERENCE BETWEEN JANUARY 1971 AND JANUARY 1972 BASIC PAY. THIS INCLUDED A JANUARY 1972 PAY RAISE OF 7.2 PERCENT WHICH WAS NOT ATTRIBUTABLE TO THE AVF AND WHICH INCREASED DOD'S ESTIMATE OF TAX SAVINGS.

--DOD USED WITHHOLDING RATES TO DETERMINE THE AMOUNT OF CHANGE IN FEDERAL INCOME TAX BEFORE AND AFTER THE 1971 PAY RAISE. MORE REALISTIC ESTIMATES ARE OBTAINED FROM TAX RATES AND THEY ARE SUBSTANTIALLY LOWER THAN THOSE PRODUCED USING WITHHOLDING RATES USED BY DOD.

--IN SELECTING WITHHOLDING RATES, DOD ASSUMED THAT ALL MILITARY PERSONNEL WERE SINGLE. IN RECENT TESTIMONY

THE ARMY CHIEF OF STAFF SAID THAT ONE-THIRD OF THE 430,000 PERSONNEL IN GRADES E1 THROUGH E4 ARE MARRIED. FURTHER, ONE-HALF ON THE E4'S ARE MARRIED AND ABOUT ONE-THIRD HAVE ONE OR MORE YOUNG CHILDREN. BECAUSE TAX WITHHOLDINGS INCREASE AS EXEMPTIONS DECREASE, DOD'S ASSUMPTION THAT ALL PERSONNEL WERE SINGLE INCREASED THEIR ESTIMATE OF TAX SAVINGS.

--DOD CALCULATED A 22 PERCENT TAX RATE INCLUDING 5.2 PERCENT FOR SOCIAL SECURITY TAXES, WHICH AMOUNTS TO \$695.6 MILLION. HOWEVER, DOD'S PREVIOUS CALCULATIONS OF COST INCREASES IN 1971 RAISE DUE TO SOCIAL SECURITY WAS \$536 MILLION. THEREFORE, DOD'S TAX OFFSET IS OVERSTATED OR THE COST OF THE AVF IS UNDERSTATED.

WHILE WE AGREE THAT SOME TAX REVENUES WOULD BE GENERATED BY THE 1971 PAY RASE, WE BELIEVE THAT (1) \$2.9 BILLION EXCEEDS THE UPPER LIMIT, AND (2) ESTIMATES OF TAX SAVINGS FROM THE 1971 PAY RAISE WOULD BE CONJECTURAL BECAUSE OF THE MANY VARIABLES AND ASSUMPTIONS INVOLVED AND THE DIFFERENT WAYS IN WHICH TAXPAYERS CAN ALTER TAXABLE INCOME.

SOCIAL COSTS

IN REGARD TO SOCIAL COSTS--WELFARE, FOOD STAMPS, AND OTHER TRANSFER PAYMENTS---DOD OFFICIALS STATED THAT

***WITHOUT THE 1971 PAY RAISE (P.L. 92-129), AN ADDITIONAL 25,000 MILITARY FAMILIES WOULD HAVE BEEN ELIGIBLE FOR FOOD STAMPS IN 1977 ALONE. THE TOTAL 1972-77 SAVINGS IN THE FOOD STAMP PROGRAM REPRESENTS

A \$75 MILLION OFFSET TO COSTS OF THE 1971 PAY RAISE. OTHER SOCIAL COST AVOIDANCES ARE MORE DIFFICULT TO DETERMINE AND ARE NOT INCLUDED IN THIS ANALYSIS."

WE RECOGNIZE THAT BEFORE ENACTMENT OF PUBLIC LAW 92-129 MANY SERVICE PERSONNEL WERE ELIGIBLE FOR FOOD STAMPS AND THAT WITHOUT THIS AND SUBSEQUENT PAY RAISES THE NUMBER OF ELIGIBLES WOULD PROBABLY HAVE INCREASED. WE BELIEVE, HOWEVER, THAT ANY ATTEMPT TO CALCULATE FOOD STAMP AND OTHER SOCIAL COSTS AFFECTED BY PUBLIC LAW 92-129 IS CONJECTURAL DUE TO THE LACK OF RELIABLE DATA.

FOR EXAMPLE, THE DOD ESTIMATE WAS NOT BASED ON ACTUAL USE BUT ROUGH ELIGIBILITY CALCULATIONS THAT DID NOT INCLUDE TOTAL INCOME, INCLUDING THAT OF SPOUSES, OR THE LOCATION OF THE INDIVIDUALS. IGNORING THESE VARIABLES RESULTS IN INACCURATELY STATING THE AMOUNT BY WHICH THE COSTS OF THE AVF SHOULD BE OFFSET. MOREOVER, SINCE THIS DATA IS NOT READILY AVAILABLE, WE CANNOT CALCULATE WHAT THE OFFSET SHOULD BE, ALTHOUGH WE RECOGNIZE THERE IS AN OFFSET.

OTHER ELEMENTS
OF COMPENSATION

DOD ESTIMATES THAT THERE HAS BEEN A REDUCTION OF ABOUT \$460 MILLION IN BONUSES AND SHORTAGE SPECIALTY PAY SINCE THE IMPLEMENTATION OF THE SELECTIVE RE-ENLISTMENT BONUS PROGRAM IN FISCAL YEAR 1975, WHICH THEY ATTRIBUTE TO THE AVF.

IT IS ARGUED THAT RE-ENLISTMENT BONUS PROGRAMS WOULD HAVE BEEN CONTINUED WITH OR WITHOUT THE AVF, BUT BECAUSE OF THE

AVF, RE-ENLISTMENT BONUSES NO LONGER WERE NEEDED FOR ALL CAREERISTS AND SHORAGE SPECIALTY PAY WAS SUBSTANTIALLY REDUCED. THEREFORE, THE SELECTIVE RE-ENLISTMENT BONUS REPLACED REGULAR AND VARIABLE RE-ENLISTMENT BONUSES.

WE ANALYZED THE BASIS FOR DOD'S \$460 MILLION ESTIMATE AND FOUND THAT IT WAS 100 PERCENT OF THE DIFFERENCE BETWEEN BONUSES PAID ANNUALLY FROM FISCAL YEARS 1975 THROUGH 1977, USING 1974 AS A BASE. ACCORDING TO OUR ANALYSIS THIS CHANGE IN BONUSES WAS CAUSED BY (1) DIFFERENCES IN THE MANAGEMENT OF THE EARLY BONUS PROGRAMS AS TESTIFIED TO BY DOD IN REQUESTING AUTHORITY FOR THE NEW BONUSES, (2) THE REDUCTION IN FORCE SIZE OF ABOUT 200,000 SERVICE PERSONNEL, AND (3) THE CHANGES TO THE AVF. HOWEVER, WE WERE UNABLE TO DETERMINE WHAT PERCENTAGE OF THE \$460 MILLION WAS ATTRIBUTABLE TO EACH OF THESE. WE ACKNOWLEDGE THAT A COST OFFSET SHOULD BE TAKEN; HOWEVER, WE CANNOT DETERMINE THE AMOUNT OF THE OFFSET ATTRIBUTABLE TO THE AVF.

DOUBLE COUNTING

DOD STATED THAT ABOUT \$0.1 BILLION SHOULD BE ELIMINATED FROM THE REPORT AS A RESULT OF DOUBLE COUNTING. ACCORDING TO DOD, ATTRITION COSTS SHOWN IN THE REPORT INCLUDED TRAINEE PAY AND ALLOWANCE COSTS RELATED TO THE 1971 PAY RAISE WHICH WERE INCLUDED IN INCREASED COMPENSATION AND BENEFITS AND TRAINEE DISCHARGE PROGRAM LOSSES WHICH WERE COUNTED UNDER SEPARATION PAY. DOD ESTIMATED THAT THE COST OF THE AVF SHOULD BE REDUCED BY \$60 MILLION TO REMOVE THIS DOUBLE COUNTING.

IN ADDITION, DOD RECOMMENDED THAT \$7.1 MILLION BE ELIMINATED AS A RESULT OF THE INCREASED COST OF DEATH GRATUITIES DUE TO THE 1971 PAY RAISE BEING INCLUDED UNDER COMPENSATION AND BENEFITS AND UNDER SURVIVOR BENEFITS.

AS A RESULT OF DOD'S COMMENTS, WE ELIMINATED \$7.1 MILLION IN DEATH GRATUITIES FROM THE COMPENSATION AND BENEFITS COSTS INCLUDED IN THE REPORT. HOWEVER, OUR CALCULATIONS SHOWED THAT ONLY \$41.1 MILLION HAD BEEN DOUBLE COUNTED IN ATTRITION COSTS FOR TRAINEE PAY AND ALLOWANCES AND SEPARATION PAY INSTEAD OF THE \$66 MILLION ESTIMATED BY DOD. WE REDUCED THE ATTRITION COSTS INCLUDED IN THE REPORT BY \$41.1 MILLION.

THIS CONCLUDES MY STATEMENT.