

A PERFECT STORM for Pentagon Reform

By TRAVIS SHARP

DOD (Chad J. McNeeley)

In each of the past several years, experts have concluded that U.S. defense spending could grow no more. Despite the fact that the defense budget is now at its highest inflation-adjusted level since World War II, this anticipated leveling off has yet to materialize. Lawmakers, presented with war funding requests still labeled “emergency” after 7 years of war, and motivated by a desire to be seen as pro-defense, have been ready and willing to give the Department of Defense (DOD) everything it asks for and more.

With the United States suffering through economic conditions not seen since the Great Depression, however, the era of \$700 billion annual defense budgets may soon be coming to an end. “Any crisis of this nature is going to affect—must affect—other Federal spending,” former chief Pentagon budget official Tina Jonas said about the struggling economy in September 2008. “You cannot look at defense by itself. It is a subset of our macro financial picture.”¹ In a much discussed report, the Defense Business Board concluded recently that “[b]usiness as usual is no longer

an option. . . . [T]he current and future fiscal environments facing the [Defense] Department require bold action.”² Secretary of Defense Robert Gates in September added, “I certainly would expect [defense budget] growth to level off, and my guess would be we’ll be fortunate in the years immediately ahead . . . if we were able to stay flat with inflation.”³

The impending decline in defense dollars has been evident to Pentagon watchers for some time. The Bush administration’s future defense plan forecasts a 1.5 percent real reduction in the DOD base budget between fiscal year (FY) 2009 and FY2013.⁴ As operations in Iraq wind down and troops begin coming home, supplemental war budgets also will begin to disappear from the budgetary landscape.

A troubled economy, planned base budget reductions, and evaporating supplementals, however, are not the only forces exerting downward pressure on defense spending. Declining tax revenues and growing mandatory spending are also clouding the

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fiscal skies. The Bush administration's tax cuts helped increase the gross national debt by over 70 percent (approximately \$4 trillion) since FY2001, forcing the Government to spend more on debt interest payments despite generating less tax revenue.⁵ Federal spending on both mandatory programs (for example, Social Security) and debt interest payments, if current trends hold, will consume two-thirds of Government revenues by 2015, crowding out other spending priorities such as defense, education, and housing assistance.⁶

In short, a time is rapidly approaching when defense budgets will not only taper off as war supplementals disappear, but will also compete against ballooning mandatory spending programs for fewer and fewer tax resources—all, of course, amid economic crisis. But that is not all. The Pentagon's Office of Program Analysis and Evaluation estimated that increasing the end strength size of the Army and Marine Corps by 65,000 and 27,000, respectively, would require at least

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\$360 billion in additional spending over the next 6 years.⁷ Since there is little flexibility when it comes to providing benefits for these new troops, end strength increases would dramatically increase personnel costs and usurp resources from other DOD priorities such as research and procurement. These are the budgetary tradeoffs required to prepare for the manpower-intensive stabilization and counterinsurgency missions currently favored by top leaders at the Pentagon.

While belts will need to be tightened, defense policymakers should not despair. With a new administration in office, today's perfect budgetary storm presents an opportunity to fix a problem upon which too many words have been wasted, yet not enough action has been taken. In a time of increasingly scarce defense dollars, it is critical to optimize every penny invested in national security. The United States can only recover from the past and present, while preparing for the future, if the White House, Pentagon, and

Capitol Hill repair the broken defense acquisitions process and give taxpayers the return on investment they deserve.

The Acquisitions Crisis

Though the end of the war on terror's gilded age draws nigh, some analysts, unhappy with what they see as boom-and-bust frivolity in American defense budgeting, have drawn a line in the sand and argued that defense spending simply must not decline below a certain point. Advocates of spending 4 percent of gross domestic product on defense exemplify this school of thought.

Without going into detail, the 4 percent crowd should recognize three things about their proposal: it would add \$1.4 trillion to \$1.7 trillion to deficits over the next decade and provide more funding than is forecast to be necessary;⁸ it would allow procurement to drive strategy, rather than the other way around, something Secretary Gates decried in his recent *Foreign Affairs* article;⁹ and, most importantly, it is politically unviable in the economic and budgetary environment faced by Washington.¹⁰

Rather than pointlessly debating proposals that will never see the light of day, defense wonks' nervous energy should be spent on something more constructive. With an expanded Democratic majority in Congress and a new Democratic President, keeping abreast of developments on Capitol Hill and in the Obama administration is the key to anticipatory, proactive policymaking and advocacy. A growing body of evidence suggests that Pentagon acquisitions reform will rank near the top of this Congress' and President's defense policy to-do list.

For anyone in the know, this sounds like a stupid thing to say. After all, while lawmakers love to rail publicly against "fraud and abuse" (to borrow one of their favorite phrases) at DOD, they are all too happy to allay those concerns when it comes time to funnel millions of dollars in earmarks back to their constituents. The reason things finally may be different this time, besides the faltering economy, is that the Pentagon's acquisitions process is truly at an all-time low. Everyone realizes how flawed the process is right now, even if these problems are glossed over sometimes for political or proprietary purposes.

The five controversial major defense acquisition programs below, well known to even casual followers of defense issues, demonstrate the extent of the crisis. With

combined total costs of over \$370 billion, these programs are worth over half of what Congress approved to bail out the teetering U.S. financial system.

KC-X Air Force refueling tanker replacement: Secretary Gates delayed any decision until 2009 due to errors made during the contract award process.

DDG-1000 destroyer: The Navy tried to terminate it due to cost overruns, but a few Members of Congress managed to keep it afloat.

Future Combat Systems: Congress continues to balk on a program whose cost, according to the Government Accountability Office (GAO), has ballooned to \$163.7 billion from \$91.4 billion, a 79 percent increase since its original estimate in 2003.¹¹

VH-71 Presidential helicopter: Program delays and some \$4 billion in cost growth got the program in trouble, and then Congress cut development funding due to delay risks for the Increment 2 phase.

F-22 Raptor: The Air Force wants 381 aircraft, DOD senior leadership does not, and former Air Force Secretary Michael Wynne and former Air Force Chief of Staff General Michael Moseley are widely suspected to have been fired, at least in part, because they advocated too vigorously and too publicly for the F-22.

The DOD acquisitions crisis is also well documented at the structural level. GAO reported in March 2008 that current programs are delivered 21 months late on average, 5 months later than in FY2000. The total acquisition cost of the major defense program portfolio in FY2000 increased from the initial estimate by 6 percent; by FY2007, the cost growth percentage had more than quadrupled to 26 percent. GAO's assessment of

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There are a number of causes underlying the Pentagon's acquisitions crisis, but three of GAO's explanations are worth highlighting:

■ Sixty-three percent of the programs GAO reviewed experienced requirement changes after development began. These systems encountered cost increases of 72 percent, whereas systems with no requirement changes experienced cost increases of only 11 percent.

■ Since 2001, program managers have served an average tenure of 17 months, less than half of DOD's preferred term. Such high turnover hampers continuity and accountability. Moreover, the oversight staff at the Defense Contract Management Agency has plunged from some 25,000 employees to only 9,000.¹³

■ Of the programs assessed, 48 percent of the staffs were comprised of nongovernmental contractors. By continuing to outsource its oversight operations, DOD sacrifices institutional accountability and transfers responsibility to contractors with loyalty to nothing except their bottom lines.¹⁴

Congress has taken notice of this sorry state of affairs. In its joint explanatory statement for the FY2009 Defense Appropriations package, Congress lambasted DOD's willingness to accept "lower than reasonable proposals for programs from contractors . . . as an opportunity to get major programs started because, once started, history has proven that major programs are rarely terminated." By constantly accepting purposefully underestimated costs, the statement concluded, DOD "lengthens development schedules, costs the taxpayers additional dollars, and delays fielding critical capabilities to our Nation's Armed Forces."¹⁵

House Defense Appropriations Subcommittee chairman Representative John Murtha (D-PA) has criticized underbidding as all too pervasive. "Contractors bid low, and it's a major problem. Every weapons system's [cost] is underestimated," Murtha stated in September. Senate Armed Services Committee chairman Senator Carl Levin (D-MI) tried to attach a provision to the FY2009 Defense Authorization bill creating a new Pentagon office that would generate independent cost estimates so that DOD does not have to rely on contractors to provide them. Unfortunately, his legislation did not come up for consideration due to acrimonious end-of-session procedural wrangling.¹⁶ President Barack Obama has pledged to review each major defense program in light of current needs and future threat scenarios, hire more contract managers, end no-bid contracts, and limit the use of cost-plus contracts.¹⁷ "There clearly is going to be very close scrutiny of the budget,"



DOD (Chad J. McNeel)

Secretary Gates answers questions on fiscal year 2009 defense budget and supplemental funding requests for war on terror

Secretary Gates said in December 2008 after it was officially announced that President Obama would retain his services at DOD. "We need to take a very hard look at the way we go about acquisition and procurement."¹⁸

Finding a Solution

Based on the problems discussed above, four principles seem logical for guiding DOD's acquisitions process:

- limit requirement changes made after development has already begun and insist on knowledge demonstration early and often
- keep experienced program managers and support staff in place to provide accountability and continuity
- retain more DOD employees in program development roles so oversight is not entirely outsourced to contractors
- insist on realistic cost estimates from industry and/or start getting estimates from an independent source.

Thankfully, some incremental steps have already been taken along these lines. Congress passed legislation in 2006 and 2008 requiring DOD to certify specific levels of knowledge at decision points early in the acquisitions process instead of allowing key certifications to slip into the more involved and costly technology development and system development phases.¹⁹ In an effort to meet this requirement, the Pentagon introduced a new peer review system where the Army, Navy, and Air Force will appraise each other's programs before, during, and after contract decisions.²⁰ The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics issued a policy

memorandum in September 2007 that required program managers to develop technically mature prototypes prior to initiating system development. The Pentagon also announced in November 2008 that it would add approximately 720 oversight employees in the Defense Contract Management Agency with the specific goal of recruiting younger hires to replace older staffers set to retire soon.²¹

DOD is already considering additional initiatives to accomplish its goal of only moving forward with programs that both possess well-designed development plans and meet performance benchmarks. These efforts include a new concept decision review; panels to review weapons system configuration changes; portfolio management upgrades; more incentives, support, and stability for program managers to increase retention; and actions to strengthen the link between contract awards and successful outcomes to foster accountability among contractors.²² If enacted, these initiatives would bring the Pentagon into closer alignment with the four principles outlined above.

While these reforms are a good start, they ignore the Pentagon-Congress relationship that is such an important and time-consuming part of the acquisitions process. Some reforms are needed in this area as well. The Beyond Goldwater-Nichols program at the Center for Strategic and International Studies has recommended that Congress streamline its oversight process based on the notion that "excessive review by multiple Congressional committees, members and staffers consumed an enormous amount of senior DOD leadership time that could be more effectively spent running the Department." Beyond Goldwater-Nichols

also recommended that the Office of the Secretary of Defense restore the Service chiefs' authority over acquisition programs so it could free itself from the daily tedium of program management and congressional relations and focus more on DOD's strategic vision and architecture.²³ Taking a slightly different view, the Defense Business Board

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recommended that combatant commanders should be responsible for generating procurement requirements, as opposed to the Service chiefs under the Beyond Goldwater-Nichols plan. Both the Defense Business Board and Beyond Goldwater-Nichols advocated changing the membership of the Joint Requirements Oversight Council by adding the combatant commanders as voting members and revoking the voting privileges of the Services' vice chairmen (but retaining them as nonvoting members).²⁴ These steps require powerful bureaucratic entities to relinquish some of their control. That is never an easy thing, but it nevertheless merits serious consideration.

The United States is at a key juncture in weapons acquisitions. The all-important first step is for the Pentagon, with input from the White House and Capitol Hill, to craft and implement an overarching defense investment strategy. As GAO has recommended, DOD must develop a better procedure to balance carefully scrutinized needs with "the dollars, technologies, time, and people needed to achieve these capabilities."²⁵ This investment strategy would help the Pentagon prioritize, from the beginning, between the programs it simply cannot live without and those that must be relegated to the wish list until sustainable funding is available. If the strategy was produced internally, with limited input from industry, DOD would reclaim some of the leadership on procurement that has drifted to contractors in recent years. "I think we have to make the existing structure in the services and in [the Office of the Secretary of Defense] work better. You can't do these big programs outside the system," Secretary Gates remarked in December in response to a question about procurement and industry reform. "When it comes to some of the big modernization

and capitalization programs . . . it would be a mistake to try and bypass the system."²⁶

The wear and tear of years of war in Afghanistan and Iraq demand investments that recapitalize, repair, and restore existing platforms and assets. At the same time, the United States must invest in advanced technologies to maintain its military edge over potential near-peer adversaries and tailor American options for responding to terrorist organizations, failed states, and regional threats such as Iran and North Korea.

If the defense budget contracts, it is important for the security of the United States that it gets the most bang for every buck invested. Reforming the way the Pentagon buys weapons will maximize security and minimize waste. The taxpayer deserves no less, especially when economic times are tough and the international security environment is as unpredictable as ever. **JFQ**

NOTES

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² Bryan Bender, "Pentagon Board Says Cuts Essential," *Boston Globe*, November 10, 2008, available at <www.boston.com/news/nation/articles/2008/11/10/pentagon_board_says_cuts_essential/>.

³ "Washington in 5 Minutes: Gates Doubts Big Spending Cuts," *Washington Times*, September 30, 2008, available at <www.washingtontimes.com/news/2008/sep/30/washington-in-five-minutes-86999801/>.

⁴ Steven M. Kosiak, "Analysis of Proposals to Allocate Four Percent of GDP to Defense," Center for Strategic and Budgetary Assessments Background, September 9, 2008, 4, available at <www.csbaonline.org/4Publications/PubLibrary/B.20080909.Analysis_of_Propos/B.20080909.Analysis_of_Propos.pdf>.

⁵ Mark Knoller, "Bush Administration Adds \$4 Trillion to National Debt," September 29, 2008, available at <www.cbsnews.com/blogs/2008/09/29/couricandco/entry4486228.shtml>.

⁶ Robert Hormats, *The Price of Liberty* (New York: Times Books, 2007), 288.

⁷ William Matthews, "DOD Plans to Spend \$360B More Over 6 Years," *Defense News*, October 17, 2008.

⁸ Kosiak, 4–8.

⁹ Robert M. Gates, "A Balanced Strategy," *Foreign Affairs* 88, no. 1 (January-February 2009), 36.

¹⁰ For a complete analysis of the shortcomings of the 4 percent proposal, see Travis Sharp, "Tying

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¹³ Amy Butler, "Pentagon Plans to Shore Up Contract Oversight Staff," *Aerospace Daily & Defense Report*, November 20, 2008.

¹⁴ GAO, *Defense Acquisitions*, 5–6.

¹⁵ House Explanatory Statement on the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009, September 23, 2008, 134, available at <www.rules.house.gov/110/text/hr2638cr_hamndsamndjes.pdf>.

¹⁶ Ashley Roque, "Runaway Costs Put Procurement Reform on 111th Congress Agenda," *Roll Call*, September 25, 2008.

¹⁷ See Barack Obama, "Stop Wasteful Spending and Curb Influence of Special Interests," available at <http://obama.3cdn.net/0080cc578614b42284_2a0mvyxpz.pdf>; and Barack Obama's campaign Web site: "Defense," available at <www.barackobama.com/issues/defense/>.

¹⁸ Media Roundtable with Secretary Robert M. Gates, December 2, 2008, available at <www.defenselink.mil/transcripts/transcript.aspx?transcriptid=4325>.

¹⁹ GAO, *Defense Acquisitions: Better Weapon Program Outcomes Require Discipline, Accountability, and Fundamental Changes in the Acquisition Environment*, June 2008, 10, available at <www.gao.gov/new.items/d08782t.pdf>.

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²² *Ibid.*, 11.

²³ See Center for Strategic and International Studies (CSIS), *Beyond Goldwater-Nichols: An Annotated Brief* (Washington, DC: CSIS, August 2006), 22, available at <www.csis.org/media/csis/pubs/bgnannotatedbrief.pdf>; and CSIS, *Beyond Goldwater-Nichols: U.S. Government and Defense Reform for a New Strategic Era, Phase 2 Report* (Washington, DC: CSIS, July 2005), 93–94, available at <www.csis.org/media/csis/pubs/bgn_ph2_report.pdf>.

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²⁵ GAO, *Defense Acquisitions: Fundamental Changes Are Needed to Improve Weapon Program Outcomes*, September 2008, 10, available at <www.gao.gov/new.items/d081159t.pdf>.

²⁶ Media Roundtable.