



**Statement Before the
House Armed Services Committee**

***“Assessing Progress and Identifying Future
Opportunities in Defense Reform”***

A Testimony by:

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Chairman Thornberry, Ranking Member Smith, distinguished Members of the House Armed Services Committee, it is an honor to be invited back before the Committee to discuss opportunities for further reform of the Department of Defense. And it is a great pleasure to be here with two very dear friends, Under Secretary Flournoy and Under Secretary Zakheim. They have rendered great and honorable service to America, and I am proud to be with them today.

First, let me thank you and congratulate you for your efforts these past years. This is hard and difficult work. But your work is essential if we are to transform the Department into an efficient organization for fighting future wars. Please continue with this vital work.

There are two specific items from last year's National Defense Authorization Act (NDAA) that I would like to review with you. Both deal with section 901 of last year's Act.

First, let me thank you for restoring the stature of the Office of Defense Research and Engineering by making that position an Under Secretary and for making that position the third most important position in the Department, following the Secretary and the Deputy Secretary. But forgive me for saying it, the final conference report undermined the initiative to elevate innovation by creating a second Under Secretary for Defense Acquisition and Sustainment. Let me explain why.

It is now very hard to recruit talented people to serve in senior positions in the Federal government. The pay differential between private sector salaries and public salaries is becoming great. But an even larger deterrent to public service are the onerous and excessive "ethics" requirements imposed on those who serve. We will always be able to recruit a Secretary or a Deputy Secretary. These jobs are so prestigious that individuals will accept the restrictions that are choking these confirmed positions.

If we are to recruit a great talent to become the Under Secretary for Research and Engineering (USD R&E), we must make the job genuinely prestigious. It is not enough to say it is the third ranking job by order of precedence. The job itself has to be genuinely important. The fiscal year 2017 NDAA created a second under secretary job that has decision-making authority over acquisition of major weapons. This is where the real money is found in the Pentagon. Creating this second under secretary position will undermine the stature and attractiveness of the Under Secretary for Research and Engineering. We all know that the life blood of the Department is money. The individual who controls major flows of money is more important than the one who does not. Creating the second under secretary position, and giving that individual control over much flow of funds, will unavoidably diminish the USD R&E.

You were absolutely right to disestablish the old Under Secretary for Acquisition, Technology and Logistics (USD AT&L). That job had become a giant compliance machine, and during the

past 25 years we have seen greater costs, longer development time and far greater spending on overhead. It was right to disestablish USD AT&L. And you were absolutely right to elevate the Under Secretary for Research and Engineering, making that person the head of an innovation ecosystem in the Department. But you also need to give that individual control over major acquisition decisions. Otherwise you have undermined the power base for the job you created.

You may ask, “How is that different from the old USD AT&L position?” The old organization was a giant compliance organization. Someone does need to physically oversee the mechanics of acquisition, review the defense acquisition regulations, etc. Give that job to an assistant secretary who reports to USD R&E. Push the responsibility for acquisition back to the Military Departments. Shrink the size of the staff reporting to the Under Secretary, and create an assistant secretary for procurement policy. But do not undermine your initiative by creating dueling under secretaries.

The second item concerns the creation of the Chief Management Officer (CMO). I had hoped that the Congress would establish a position that would genuinely manage the business operations of the defense agencies. But section 901(c) really just restates existing responsibilities for oversight of the Military Departments. The section does not refer to defense agencies at all.

The Office of the Secretary of Defense (OSD) has one executive—the Secretary. Everyone else is a staff function supporting the Secretary. We have three line organizations in the Department—the Department of Army, Navy, and Air Force. The defense agencies and field operating activities are mini-line organizations, overseen by various under secretaries and assistant secretaries in OSD. But those OSD positions are staff positions, not line-operating positions. No one is managing the defense agencies. I had hoped that the Chief Management Officer would have line responsibility to run the defense agencies. In that capacity, he would hire or fire the operating heads of the agencies, approve their annual operating plans, prioritize and approve their modernization plans, and establish performance objectives.

Section 901(c) simply restates existing oversight authorities. If that is what the Congress wants, okay. But I know from conversations with members last year that they hoped to create a real manager, not a management oversight office.

Again, the Secretary will have great difficulty recruiting anyone of stature to take this job because it has no real authority, despite the words written in the section.

This brings me to the other purpose of the hearing today, and that concerns the report last year by the Defense Business Board (DBB) that there are \$125 billion in savings that can be harvested from within the Department.

I have seen periodic reports like this going back to the days when President Reagan commissioned the so-called Grace Commission to find savings in the federal government. The DBB report was a statement of convictions, but not a roadmap or a blueprint.

I will state for the record that I think there are enormous inefficiencies within the Department. We could get far more “output” from the dollar inputs we are making, but we have to remove those inefficiencies. I believe the Congress would need to give more flexibility and authority to the Secretary, and not tie his hands with excessive reporting requirements, or roadblocks to making changes in specific organizations or locations. The Secretary needs more flexibility to hold honest competitions between the private sector and the public sector for work activities. The old A-76 process allowed objective competitions between government workers and outsourced workers. This was eliminated but should be restored.

Real efficiencies come from changing business models. I remember when I was the Comptroller. I learned that 90% of all Department contracts were for amounts less than \$2500. We could eliminate all of that by using government purchase cards. But the full potential of government purchase cards has been stifled by regulations. We need to revisit these regulations. Real efficiencies would come from consolidating the transportation function with the warehousing functions in the Department. That is what every major corporation has done over the past thirty years. But we continue to live with stovepipe organizations that require business processes to bridge across from one stove pipe to another.

We need to look honestly at the price of labor—uniformed service labor, civil service labor, and contractor-provided labor. We do not honestly show the fully burdened costs and compare them objectively.

We need to remove the artificial barriers that force work into government depots and shipyards, no matter their inefficiency.

We need an objective BRAC-like process to look at the Department of Defense laboratories. We need a rigorous and objective assessment of the real talent and capabilities of these government labs. Are these labs producing breakthroughs that we need, or are we just feeding research establishments?

We have too many congressionally-mandated restrictions on force structure. Congress mandated that the Air Force keep A-10 aircraft when the Air Force wanted to retire the venerable aircraft. We have inefficient C-130 squadron force structure that should be consolidated into more efficient organizations.

We need a new approach to managing real property. We are the largest “renter” in the world except for the General Services Administration, but we get virtually no benefit from scale because of how we rent property.

The Defense Business Board was right to highlight the possibility of improved efficiency in the Defense Department. But we need specific recommendations that will entail very hard choices—politically painful decisions. We need to do this, but the Congress has to be willing to let the Secretary make those decisions and not tie his hands when the decision involves some sacrifice in a district or state.

Mr. Chairman, Mr. Ranking Member, distinguished Members of the Committee, your work is essential. Americans want a strong military, but they are questioning whether we are effective stewards of the enormous sums we give the Defense Department. Your work here will not only help make the Department more efficient, it will also reassure the American people that we are worthy of managing these enormous resources on their behalf.

Thank you for inviting me to appear today. I stand ready to answer any questions the Committee might have.