



**Testimony before the
Subcommittee on AirLand
Committee on Armed Services
United States Senate**

**Hearing on
Problems with and Improvements to
Defense Procurement Policy**

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Statement by

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**Opening Statement of John J. Hamre
Before the Subcommittee on Airland
of the Senate Armed Services Committee**

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Mr. Chairman, distinguished members of the AirLand Subcommittee, I am honored to be invited to appear before this Subcommittee on this critical issue. On a very personal note, I was once a member of the professional staff of the Armed Services Committee, and I was assigned to the Tactical Warfare Subcommittee, which at that time was chaired by the late Senator Barry Goldwater. The Tactical Warfare Subcommittee was the ancestor to the AirLand Subcommittee. As such, it is a distinct honor to be back home.

Mr. Chairman, let me commend you for holding this hearing. Frankly, the acquisition system for the Department of Defense is in deep trouble, I believe. It isn't because of ill will or inattention. I believe we are in trouble because the acquisition system we currently have is a product of a world that has passed from the scene. We need an acquisition system that is designed for today, not for the world that existed 25 years ago. Let me explain.

Goldwater Nichols Acquisition Reform in Context

I was a member of the staff of this committee when we developed the legislation that ultimately became the land-mark Goldwater-Nichols Act. The acquisition reform legislation was developed at that time on a parallel track. At the time, we had a special subcommittee chaired by Senator Dan Quayle and ranking member Carl Levin. They developed the detailed legislative proposals that were incorporated as the acquisition reform provisions of the bill.

We need to remember the context of the day. This legislation was developed during fiscal years 1985 and 1986. Those were days of high production rates from a large industrial base. In fiscal year 1985, we authorized over 900 aircraft, 50 intercontinental ballistic missiles, 23 naval ships, 2000 tanks and armored personnel carriers, over 5000 guided missiles and 72,000 unguided rockets. At the time, we had over 20 major prime contractors.

There was also controversy in the acquisition world. The Department was sharply criticized for sloppy acquisition procedures, most often characterized as \$600 toilet seats and \$427 hammers. I can recall quite clearly that there were two major controversies at the time: how do we avoid procurement scandals, and how do we keep ineffective weapon systems from entering high rate production?

This was the world that gave birth to the current acquisition system. But I believe this world has passed from the scene. Today, we have a very small number of prime contractors capable of undertaking large, complex programs, and very little actual competition for major systems. We have few new starts in our acquisition system, and relatively low production rates. We are buying little and starting new things infrequently. Yet we have an acquisition system that was built on the assumption of large production complexes, high rates of production, frequent new starts, and multiple competitors.

We designed an acquisition system that was appropriate for 1985, not 2005. The second problem we created in 1986 was to elevate above all other considerations the necessity of avoiding mistakes. The Department was severely criticized for buying \$600 toilet seats. (That was a false controversy, but the truth was not important at the time. The drama was all that mattered.) Congress demanded that those mistakes not be repeated. So rectifying the mechanical process of buying things was made the supreme objective of the reform process.

1986 Reforms Valued “Gunsmithing” Over “Marksmanship”

Congress reflected this by creating a new position, the Under Secretary for Acquisition. The Congress demanded emphasis on the mechanics of buying things. One of the unintended consequences of this legislation was the devaluing of the previous position of the Director of Defense Research and Engineering, the DDR&E. The DDR&E had been the third most important position in the civilian hierarchy of the Pentagon—behind the Secretary and Deputy Secretary, featuring such prominent scientist-policy makers as Harold Brown and Bill Perry. The position highlighted the strategic importance of technology and it ensured there was a strong institutional champion.

But the 1986 acquisition reforms diminished that role and instead elevated the role of mechanical acquisition. I draw the contrast between “marksmanship” and “gunsmithing.” The old DDR&E position was the senior marksman of the acquisition process—what should we be buying? After the acquisition reforms of 1985, the emphasis was shifted to the mechanics of acquisition gunsmithing—how are we buying things? The men who have been confirmed to be our acquisition undersecretaries did not see themselves in this role. But the priorities embedded in Goldwater-Nichols forced them to play it. Today, the acquisition system in the Department of Defense is a bewildering complex of procedures and processes. Clarity of action is now missing.

Lack of Institutional Accountability

Mr. Chairman, the final major problem I perceive with the current acquisition system in the Department is the fractured accountability that was created by the original reform legislation. I fully understand the imperative at the time to create greater professionalism in the acquisition process. But functionally, the legislation created a fault line in the Department. The acquisition system was carved out to be a segmented process, insulated from the procedures that establish requirements and develop budget

priorities. This fault line in the Department is the primary contributor to the lack of institutional accountability in our system. Yes, the acquisition community is accountable for acquisition procedures, but the Department as a whole does not have systematic accountability of action that links requirements with budgets with acquisition.

Solving the Problems

I believe that the primary problems are institutional, and that they require an institutional change. Congress is not responsible for executive operations within institutions. You are responsible for overseeing, but not conducting those operations. You are responsible for setting the institution right. And to this end I recommend the following.

Creating a Clear Advocacy for “Supply” and “Demand”

First, remove the institutional fault line created by Goldwater-Nichols. Goldwater-Nichols made a major change in the structure of the department—a very good change in my view. It created two distinct power centers in the department. The voices of “demand” for better military capabilities were strengthened by elevating the power and prestige of the Chairman of the Joint Chiefs and by strengthening the regional combatant commanders. The service chiefs were made the chief advocates of “supply” of military capability. In essence, Goldwater-Nichols created a healthy balance between supply and demand.

But there are important ambiguities in the current system. One of the major “demand” procedures—determining the joint requirements of future combat forces—is still controlled by the chief “supply” officers. The service vice chiefs comprise the Joint Requirements Oversight Council. We believe that this needs to be changed and that the JROC needs to be populated by “demand” oriented institutions. We advocate giving representation on the JROC to the combatant commanders.

Let me emphasize that the requirements determination process is not ended in the JROC. It simply represents one of the inputs that are ultimately sent to the Secretary of Defense for his decision. Fusion of supply and demand occurs only at the office of the Secretary of Defense, and that is as it should be.

Return the Service Chiefs to the Acquisition Chain of Command

Second, we need to return the military service chiefs to the chain of command for acquisition. Goldwater-Nichols made the service chiefs the primary advocates for the “supply” function of military capability. They are responsible for determining the manning levels of their respective services, the priority given to recruiting and training. They manage the long-term shaping of the service by determining requirements for new weapons and personnel. But they are excluded from the acquisition process. This is an institutional fault line that needs to be removed.

Let me say that the service chiefs do participate in the acquisition process, but they do so indirectly through budgeting and requirements determination. As such, the current system creates a deep fault line. Service chiefs need to be held accountable for the whole supply function and need the authority to carry it out.

Clean up the Responsibilities for Acquisition between OSD and the Military Departments

Third, Goldwater-Nichols created two large acquisition bureaucracies in the Department—one at the military department level and one at the OSD level. We need to rationalize this. OSD should not be running things, but overseeing procedures and decisions. I believe the staff supporting the under secretary for acquisition is far too large for this responsibility. The large staff reinforces the “gunsmithing” aspect of the job. A much smaller staff would necessarily emphasize “marksmanship.” Cutting the OSD staff substantially would contribute mightily to clarifying the roles and missions of the respective acquisition bureaucracies.

For those who want a more detailed analysis, I recommend our recent Beyond Goldwater-Nichols Phase 2 report, which is available on the CSIS website at www.csis.org.

Managing the Defense Industrial Base

Finally, Mr. Chairman, permit me to offer a few observations concerning the defense industrial base. America made a crucial decision over 80 years back that it would not build military aircraft in government arsenals, but instead would buy the most advanced technologies of the time from the private sector. I believe that was one of the most important and successful decisions of the past century. It insured that we would win the Cold War, because we would counter the massive quantitative advantages of the Warsaw Pact with a qualitatively superior military based on advanced technology.

The private sector defense industrial base is the essential partner to the Defense Department, just as critical to our security as are our armed forces. We cannot fight and win wars without our private sector partners. But we do not honor their important role by good management on the part of the government. We do not really know how to manage the defense industrial base today. We continue to use the mindset and the rules and regulations of the mid-1980s. Back then, we had ample suppliers, many opportunities for competition, high production rates and the opportunity to discipline the entire system by turning to an alternative supplier. None of this is relevant today, particularly in the platform-oriented sectors.

Today’s defense industry is an increasingly smaller part of the economy, and fragile. We have few companies capable of taking on large, complex programs, and cannot live without any one of them. We continue to regulate the platform sectors of this industry as though it were large and robust. I believe managing this part of the industrial base is much more analogous to the way governments need to regulate public utilities.

I worry that the Department of Defense is losing its capacity to manage this industrial base. We cannot just turn over the supply function to the private sector. We must manage essential government interests within the government. But I believe we are losing the technical capacity to do that. We have been experimenting with alternative concepts—such as lead system integrators—for some time. I am not sure that we have a solid framework for these alternative management approaches.

I believe the Armed Services Committee should devote considerable attention to this subject during the coming year. I would recommend that you create a special subcommittee, or ask one of the existing subcommittees to take a dedicated look at the health of the defense industrial base.

We have been studying the industrial base for some time at CSIS. My colleagues Pierre Chao and David Scruggs have considerable knowledge of and data concerning the defense industry. We stand ready to help the Committee at any time and in any way.

Conclusion

Mr. Chairman, distinguished members of the Subcommittee, I am gratified that you are holding this hearing. This is precisely what the Congress should be doing concerning oversight of the Defense Department. And your primary role—setting right the institutional structure for the Department—is the foundation of reform. I am prepared to support you in any way as you undertake this crucial task.