It was May 8, 2010, when U.S. Secretary of Defense Robert Gates fired the **firs t salvo**
. In a speech at the Eisenhower Library marking the anniversary of the allied victory in Europe, he quoted President Eisenhower as saying, “the patriot today is the fellow who can do the job with less money.” SecDef Gates asserted that the “gusher of defense spending” that came after the 9/11 attacks “has been turned off, and will stay off for a good period of time.” SecDef Gates continued—

On one level it’s a simple matter of math. The fact that we are a nation at war and facing an uncertain world … calls for sustaining the current military force structure... This typically requires regular real growth in the defense budget ranging from two and three percent above inflation. In this year’s budget request, the Defense Department asked for, and I hope will receive, just under two percent – roughly that level of growth.
But, realistically, it is highly unlikely that we will achieve the real growth rates necessary to sustain the current force structure. … The changes we have made in the procurement arena represent an important start.

But only a start.
More is needed – much more.
The Defense Department must take a hard look at every aspect of how it is organized, staffed, and operated – indeed, every aspect of how it does business.

In each instance we must ask:
First, is this respectful of the American taxpayer at a time of economic and fiscal duress?
And second, is this activity or arrangement the best use of limited dollars, given the pressing needs to take care of our people, win the wars we are in, and invest in the capabilities necessary to deal with the most likely and lethal future threats?

As a starting point, no real progress toward savings will be possible without reforming our budgeting practices and assumptions. Too often budgets are divied up and doled out every year as a straight line projection of what was spent the year before. Very rarely is the activity funded in these areas ever fundamentally re-examined – either in terms of quantity, type, or whether it should be conducted at all.
That needs to change. … Another category ripe for scrutiny should be overhead – all the activity and bureaucracy that supports the military mission.
According to an estimate by the Defense Business Board, overhead, broadly defined, makes up roughly 40 percent of the Department’s budget.
… Almost a decade ago, Secretary Rumsfeld lamented that there were 17 levels of staff between him and a line officer.
The Defense Business Board recently estimated that in some cases the gap between me and an action officer may be as high as 30 layers. … Finally, this Department’s approach to requirements must change.
Before making claims of requirements not being met or alleged ‘gaps’ – in ships, tactical fighters, personnel, or anything else – we need to evaluate the criteria upon which requirements are based and the wider real world context.

For example, should we really be up in arms over a temporary projected shortfall of about 100 Navy and Marine strike fighters relative to the number of carrier wings, when America’s military possesses more than 3,200 tactical combat aircraft of all kinds? Does the number of warships we have and are building really put America at risk when the U.S. battle fleet is larger than the next 13 navies combined, 11 of which belong to allies and partners?
Is it a dire threat that by 2020 the United States will have only 20 times more advanced stealth fighters than China?
… Therefore, as the Defense Department begins the process of preparing next’s years Fiscal Year 2012 budget request,
I am directing the military services, the joint staff, the major functional and regional commands, and the civilian side of the Pentagon to take a hard, unsparing look at how they operate – in substance and style alike.
The goal is to cut our overhead costs and to transfer those savings to force structure and modernization within the programmed budget.
In other words, to convert sufficient ‘tail’ to ‘tooth’ to provide the equivalent of the roughly two to three percent real growth – resources needed to sustain our combat power at a time of war and make investments to prepare for an uncertain future.
Simply taking a few percent off the top of everything on a one-time basis will not do.
These savings must stem from root-and-branch changes that can be sustained and added to over time.

The Secretary called for trimming $100 billion (actually, $101.9 billion) from within the Pentagon’s budget. Readers of this website should not have been surprised at SecDef Gates’ words. We’ve been posting articles about the state of Defense spending almost since our inception. This has been a long time coming.

But notice the Secretary’s focus. It is not on contractors, but instead on the Pentagon’s overhead—what he called the “bureaucracy that supports the military mission.” SecDef Gates called for the Pentagon to lean itself down and implement sustainable measures to cut the DOD’s own overhead costs. Keep that in mind as you read further.

Six weeks later, Under Secretary of Defense (Acquisition, Technology, and Logistics) Dr. Ashton Carter met with several defense industry leaders “to discuss policy, process and workforce changes that will help the Defense Department buy things more efficiently,” according to **this article**. The Federal Times article reported that “On June 4, Deputy Defense Secretary William Lynn said a goal will be to find two-thirds of the money, about $66.3 billion over five years, from support programs.” It also noted that the senior defense industry executives were “not exactly sure what to expect,” because of the short-fuse timing of the meeting.

On June 28 and 29, details quickly emerged from the meeting. First, Dr. Carter released a Memorandum addressed to “Acquisition Professionals” entitled, “Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending.” The Memo called for “delivering better value to the taxpayer and improving the way the [Defense] Department does business.” USD (A,T&L) Carter wrote that—

Deputy Secretary Lynn expects that two-thirds of the savings … can be found within [current] programs and activities. … We need to restore affordability to our programs and activities … by identifying and eliminating unproductive or low-value-added overhead; in effect, doing more without more. The Department is spending … $400 billion on contracts issued to entities outside the Department of Defense. … Each of these contracts contains a statement of the services or products it is procuring; an arrangement between the government and the contractor for how the costs of those items will be paid; and the overheads, indirect charges, and fees that complete the business transaction and make it possible for the defense industry to be economically viable. The guidance memorandum I plan to issue will require each of you … to scrutinize these terms to ensure that they do not contain inefficiencies or unneeded overhead. … The guidance will focus on getting better outcomes, not on our bureaucratic structures. … Most of the rest of the economy exhibits productivity growth, meaning that every year the buyer gets more for the same amount of money. So it should be in the defense economy.

Accompanying the **Memorandum** was several PowerPoint slides providing additional details on the foregoing and establishing six overall objectives. Among those objectives were: "Restore affordability to defense goods and services," "Improve defense industry productivity," and "Maintain a vibrant and financially healthy defense industry." To incentivize industry and accomplish the objectives, the DOD will—

- Phase-out award-fee contracts and favor fixed-price or cost-type incentive contracts …
- Phase-out Time and Material and sole-source ID/IQ contracts wherever possible.
- Identify and eliminate non-value-added overhead and G&A charged to contracts.
- Limit B&P allowable costs in sole source contracts and encourage effective use of IRAD.
- Adopt "should-cost" and "will-cost" management to inform managing of programs to cost objectives.
- Improve consistency and quality of government audits, and focus them on value-added content.
- Mandate affordability as a [contract award] requirement by having cost considerations shape requirements and design.

What is one to make of these initiatives? Our first thought is that "everything old is new again," as much of the foregoing seems to be a rehash of prior initiatives.

For example, remember the **CAIV** initiative of the mid-90’s? In addition, the idea of limiting B&P and IR&D spending is a revisiting of pre-FASA ceilings on such costs—an idea that was repealed by Congress in order to foster innovation in the defense industry. Moreover, the idea that contract budgets can be controlled solely by contract type (e.g., fixed-price types) without focusing on better definition of requirements and specifications is provably wrong.

There will be more on this topic, yes indeed. But one final thought for this piece. Look again at SecDef Gates’ original remarks. Notice his focus was on *the Pentagon*, not the contractors. Now look at Dr. Carter’s Memorandum and the accompanying slides. Notice his focus is on *the contractors*, not the Pentagon. We wonder how that metamorphosis took place within a mere six weeks’ time. Maybe the sound bite just played better in media and in front of Congress. But somehow, instead of fixing itself, the Pentagon has decided to launch a major initiative to fix its contractors.

Stay tuned. More on this to follow, we’re quite sure.