

Background

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Congress Should Not Permit Negative GAO Report to Curtail Weapons Programs

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On March 31, the U.S. Government Accountability Office (GAO) released its annual assessment of inefficiencies in the Defense Department's acquisition of major weapons.¹ Predictably, the GAO's report decries the problem of cost overruns in the 72 weapons programs assessed, alluding to many contributing factors but focusing its criticism on bad management practices at the Department of Defense and by defense contractors.

Specifically, the GAO recommends that the Defense Department adopt a "knowledge-based acquisition approach" to purchasing major weapons.² This approach is designed to take program risk out of the acquisition system: "In essence, knowledge supplants risk over time."³ However, the GAO also found that none of the 72 programs it reviewed met its best practices, so it is unclear that its proposed approach would produce an effective tool for discriminating between good and bad defense programs.

While knowledge is clearly preferable to risk in weapons procurement, it is impossible to eliminate risk altogether. An attempt to eliminate risk can itself carry both direct and opportunity costs. Today, the defense acquisition system has layers of checks to diminish the risks of programs falling behind their time, performance, and cost goals. The question is whether additional layers of checks will result in costs that outweigh the remaining risks. Among these costs are lengthening timelines for acquiring new weapons and incentives to cancel programs outright early in the acquisition process. Furthermore, the GAO's

Talking Points

- The Government Accountability Office has criticized the Department of Defense and defense contractors for poor management of major acquisition programs and recommends an additional layer of bureaucracy to review acquisition programs under a "knowledge-based acquisition approach."
- This course, if adopted, could exacerbate the Defense Department's overly cautious, risk-averse approach and lead Congress to consider a "procurement holiday" of the sort taken in the 1990s, which would harm national security.
- Congress could improve the defense acquisition system by encouraging the Defense Department to overcome its risk-averse mentality, which adds bureaucratic layers to the acquisition system; increasing the defense-modernization budget; increasing the share of the modernization budget that goes to procurement over research and development; opening the defense market to new entrants; and exercising self-restraint in authorizing, funding, and overseeing acquisition programs.

This paper, in its entirety, can be found at:
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recommendation comes at a time when the portion of the overall defense budget that is devoted to modernization is significantly lower than it was in the 1980s.

The knowledge-based acquisition approach recommended by the GAO identifies three “knowledge points” that would have to be met as part of a sequential approach to defense acquisition.

- The first knowledge point occurs before the start of system development and requires a high level of technological maturity that serves to confirm that defense needs and resources match.
- The second knowledge point typically occurs at the mid-point in system development. The GAO would require that a stable product design be demonstrated at this point by completion of at least 90 percent of engineering drawings.
- The final knowledge point requires mature production processes. According to the GAO, mature production processes are demonstrated when the contractor can explain with high confidence how he will manufacture the product to meet cost, schedule, and quality goals.

There is a glaring problem with the GAO’s knowledge-based acquisition approach. Its focus is on supposedly bad management practices at the Defense Department and among its contractors, but the real problem is insufficient resources within the defense budget to procure weapons at an efficient rate and in efficient numbers.

The GAO is wrong to assert that the Defense Department’s acquisition management system is insufficiently averse to risk. In fact, the opposite is true: The Defense Department’s acquisition system is *too risk-averse*. For reasons that are not apparent in the report, the GAO is reluctant to acknowledge the problem of inadequate modernization funds in the defense budget. Rather, it asserts that the Defense Department is in a period of high invest-

ment in modernization and accepts as all but inevitable that major weapons acquisition funding will be squeezed.⁴

The failure to fully acknowledge the funding shortfall creates the risk that policymakers will conclude that the only way to improve efficiency will be to take another “procurement holiday,” as was done in the 1990s. Another procurement holiday would cause the Department of Defense to skip another generation of improved weapons systems and damage national security in the process.

An additional shortcoming is that the strictly sequential procedures of the knowledge-based acquisition approach cannot work for all major defense acquisitions. This is particularly the case for “system of systems” acquisitions, where major portions of a network must be built and fielded in order to be tested.

A retrospective example of this shortcoming is the acquisition of the global positioning system (GPS) navigation satellite network. The sequential knowledge-based acquisition approach would have required the Defense Department to demonstrate that all satellites in the constellation operate as an integrated network before the first satellite was purchased. As a practical matter, this would have been impossible, and the GAO’s approach would have blocked the acquisition and deployment of GPS because it would have identified the entire project as inconsistent with best practices.

A current example of this problem is that the GAO’s report does not provide a full assessment of the fire-control system supporting the ground-based midcourse defense (GMD) missile interceptor.⁵ The fire-control system formulates battle plans and directs components in the broader missile defense system, which consists of multiple radars, sensors, and interceptors. The fact is that the fielding of the GMD interceptor, a step that the GAO

1. U.S. Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapon Programs*, GAO-08-467SP, March 31, 2008, at <http://www.gao.gov/new.items/d08467sp.pdf> (July 2, 2008).
2. *Ibid.*, pp. 12–13.
3. *Ibid.*, p. 12.
4. *Ibid.*, pp. 10–11.
5. *Ibid.*, p. 93.

asserts does not meet best practices, permits the testing and exercise of the fire-control system.

The Modernization Funding Problem

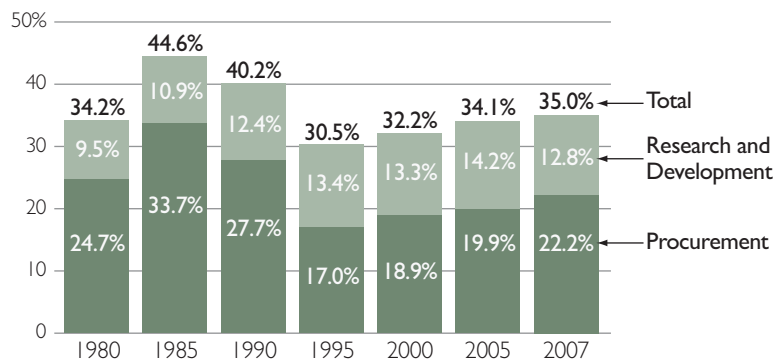
From the mid-1980s until the late 1990s, modernization, research and development, and procurement declined as a share of the overall defense budget. In fiscal year (FY) 1985, these accounts claimed 44 percent of the overall budget. By FY 1995, their share had declined to just over 30 percent (see Chart 1), although this number has edged upward since 1995. The result was a nosedive in the number of platforms procured by the Department of Defense.

Former Senator James Talent of Missouri, currently a distinguished fellow at The Heritage Foundation, has compared the annual procurement rates for helicopters and aircraft during the periods of 1975 to 1990 and 1991 to 2000.⁶ He found that the procurement rate for helicopters was 78 per year during the earlier period and seven per year in the latter period. The procurement rate for fighter and tanker aircraft was 243 per year in the earlier period and 29 per year in the latter period. These procurement rates are far too low to achieve the economies of scale needed for the efficient production of these platforms.

Exacerbating the problem is the fact that the lion's share of the relative decline in modernization funding fell on the procurement account. (See Chart 1.) The result was a mismatch between research and development and procurement. This mismatch created a perverse incentive for defense contractors, motivating them to concentrate on realizing earnings through research and development and not push their weapons programs through procurement and into the field.

Finally, the GAO report fails to acknowledge the direct costs to the acquisition process of its knowl-

Defense Modernization as a Percentage of Total Defense Spending



Note: Percentages may not add up to totals due to rounding.

Source: U.S. Department of Defense, National Defense Budget Estimates for FY 2009, March 2008, pp. 121–124, at http://www.defenselink.mil/comptroller/defbudget/fy2009/fy2009_greenbook.pdf (April 10, 2008).

Chart 1 • B 2160 heritage.org

edge-based approach. This risk-averse approach drives up acquisition costs because it results inevitably in endless layers of bureaucracy committed to ensuring that all the required boxes are checked at every juncture in the acquisition process for major weapons.

For six months in the early 1990s, Ambassador Henry F. Cooper, then director of the Strategic Defense Initiative Organization, tracked these costs to support the attainment of one decision point in a single program, which was then called the Theater High Altitude Area Defense (THAAD).⁷ Ambassador Cooper found that it took 75,000 government labor hours, 250,000 contractor labor hours, more than one ton of supporting documents, and \$22 million. On this basis, the direct cost to the acquisition system imposed by bureaucratic requirements, even before the full application of the GAO's knowledge-based approach, could be \$4 billion (in current dollars) this year.

In fact, this calculation almost certainly underestimates these costs because the bureaucratic requirements are likely even more onerous now than

6. James Talent, "More: The Crying Need for a Bigger U.S. Military," *National Review*, March 5, 2007.

7. Ambassador Henry F. Cooper, "End of Tour Report," January 20, 1993.

they were in the early 1990s. Besides, these are only the direct costs. The GAO report fails to make even a passing reference to the unquantifiable opportunity costs of the knowledge-based approach.

How the GAO Report Drives Acquisition Policy

The GAO does not undertake policy analysis and cannot be held responsible for how policymakers may draw erroneous policy conclusions from its technical analysis. Nevertheless, the policy conclusions that are now being drawn from the report are all too predictable: Defense Department program managers and contractors need to be punished by canceling major acquisition programs. In short, these conclusions recommend a repeat of the procurement holiday of the 1990s.

A prime example of this all-too-predictable policy conclusion can be found in the April 2, 2008, edition of *The New York Times*. As the editors put it, the GAO's approach "would also require the courage to scale back or cancel expensive—and heavily lobbied—acquisition programs that don't meet today's threats or tomorrow's."⁸

It is clear that Congress is also drawing the wrong policy conclusions from the GAO report. The House version of the Duncan Hunter National Defense Authorization Bill (H.R. 5658) includes an entire section on acquisition reform that is also based on the presumed need to drive program risk out of Defense Department acquisitions by imposing additional levels of bureaucracy.⁹ Among its specific provisions, the bill would establish "Configuration Steering Boards" for six major programs.¹⁰ The boards would serve as roadblocks to the production of any of the applicable systems. At the same time, the bill would narrow access to the defense market by broadening the Defense Depart-

ment's control of technical data on systems at the expense of contractors.¹¹ Increasing bureaucracy and reducing market access to the defense sector will not create a dynamic and vibrant defense industrial base.

Likewise, Senator Carl Levin (D-MI), chairman of the Senate Armed Services Committee, has proposed creating a new office at the Defense Department to track costs.¹² Senator Levin's proposal would call the head of this new office the Director of Independent Cost Assessment. This would only add redundancy to the acquisition review bureaucracy. The Defense Department already has the Cost Analysis Improvement Group, which likely performs the duties that Levin's proposed office would perform. At best, new layers of bureaucracy would contribute only marginally to improving procurement. In all likelihood, it would make the acquisition system less efficient.

Fortunately, some policymakers recognize the dangers to U.S. security that are inherent in the sort of conclusion drawn by *The New York Times*. Senator Elizabeth Dole (R-NC) recommended a different approach in *The Washington Times* on the same day the GAO report was released. "Given the major challenges that we face around the globe," she states, "we must invest generously in the future of our nation's defense."¹³ This alternative policy, in fact, could also lead to more efficient and productive acquisitions by the Defense Department.

A Better Policy for Defense Acquisition

Improving the overall efficiency and effectiveness of the defense acquisition system starts with acknowledging that the procurement holiday of the 1990s was a mistake—a mistake from which the Defense Department has yet to recover. Increasing

8. Editorial, "Wasting and Wanting at the Pentagon," *The New York Times*, April 2, 2008.

9. "H.R. 5658: FY 2009 National Defense Authorization Act Summary," May 15, 2008, pp. 33–34, at <http://armedservices.house.gov/pdfs/fy09ndaa/FINAL051508.pdf> (July 2, 2008).

10. *Ibid.*, p. 34.

11. *Ibid.*, p. 33.

12. Megan Scully, "Levin Wants Post Created to Curb Rising Weapons Costs," *CongressDaily*, June 3, 2008.

13. Elizabeth Dole, "Planning for America's Security: The High Cost of an Inadequate Defense Budget," *The Washington Times*, March 31, 2008, p. 17.

the defense modernization budget should increase the overall size of future buys and drive down unit costs. This will require the following steps:

Step 1: Overcome the risk-averse mindset at the Department of Defense. Most important, the Defense Department must break free from the risk-averse behavior patterns that undermine innovation, slow the acquisition process, and result in inefficiency. The GAO report itself serves to reinforce these behavior patterns. Program managers and defense contractors spend altogether too much time accommodating the demands of a system that targets their program for termination because it is perceived as not eliminating program risk. In this context, an acquisition system that penalizes risk-taking leads to risk-averse behavior patterns, culminating in programmatic paralysis.

Congress, with its propensity to second-guess the Defense Department in many aspects of program management and intervene in the acquisition process with funding restrictions and earmarks, is a major contributor to the problem, but the GAO report spends virtually no time on the fact that the way Congress does business contributes to the problems with defense acquisition. This is not surprising since the GAO is a creature of Congress. The GAO has a conflict of interest in terms of analyzing the shortcomings of how Congress authorizes and funds defense acquisition, particularly as it relates to excessive parochialism in Congress.

Step 2: Increase the overall modernization budget to \$200 billion by 2014.¹⁴ Such an increase would also permit the continuation of the slow growth in the percentage of the defense budget that is devoted to modernization.

Step 3: Restore the balance between research and development and procurement. Improving the defense acquisition system also requires restoring balance to the relationship between research

and development and procurement within the modernization budget. The GAO report decries the growing costs in defense research and development but fails to acknowledge that its knowledge-based approach will drive these costs up further by extending the time that weapons programs remain in the research and development phase in order to attain technological maturity. In fact, the GAO takes this requirement for technological maturity to a logical extreme by demanding technological maturity “by the start of system development.”¹⁵

A restoration of the proper funding balance between research and development and procurement would provide incentives to the contractor community to push programs out of development and into the hands of the military. Specifically, procurement should account for no less than 60 percent of overall modernization funding.¹⁶

Step 4: Open the defense market to new entrants. Contrary to the GAO’s analysis, which recommends additional levels of regulation of the defense sector to ensure best practices, the defense sector is now over-regulated. The sector was already overly consolidated during the 1990s, and this combination has created entry barriers to the defense market for non-traditional suppliers and reduces competition.

Increasing the modernization budget, along with careful steps toward deregulating the defense market, would create easier entry into the defense sector by new suppliers and increase competition. More competition is the better way to improve efficiency in the acquisition system, particularly given today’s circumstances.

Step 5: Congress should exercise self-restraint. Congress itself often contributes to defense acquisition problems.¹⁷ Congressional excesses include the propensity to micromanage defense acquisitions, the earmarking of funds in the defense budget, the irre-

14. Baker Spring, “The 2009 Defense Budget Request: The Growing Gap in Defense Spending,” Heritage Foundation Backgrounder No. 2110, February 25, 2008, p. 9, at http://www.heritage.org/Research/NationalSecurity/upload/bg_2110.pdf

15. U.S. Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapon Programs*, p. 13. Recognizing the inherent contradiction in this requirement, the GAO report attempts to qualify it by including a footnote that recommends additional steps in the research and development process that it calls “concept refinement and technology development.”

16. Spring, “The 2009 Defense Budget Request: The Growing Gap in Defense Spending,” p. 9.

sponsible exercise of oversight responsibilities, and succumbing to the temptations of parochialism in defense-related matters.

Conclusion

Public auditors play an essential role in assuring governmental efficiency, but their proper role is a limited one. The GAO report on the problems with major defense acquisitions illustrates why public auditors should not be permitted to drive government policy. In the ideal world of the auditors, everything is both thoroughly predictable and quantifiable. There is no room for different approaches that make it difficult to determine whether every penny spent will result in a quantifiable contribution to meeting a preconceived outcome, even if the additional risk could result in large gains in capabilities. It is a world where everything done tomorrow must be justified on the basis of what is tried and true today. This is why the GAO found that not a single weapons program among the 72 it examined met its best-practices standard.

As applied to defense acquisition in the 1930s, the auditors' world would opt for the Maginot Line over the concept of *blitzkrieg* every time. In their minds, defensive positions would always prevail over maneuver concepts in modern war because trench warfare in World War I proved that this is the case. The defensive fortifications could be

accounted for and budgeted precisely according to the realization of well-known payoffs in military capability.

One can imagine the French defense ministry's auditors peering over the fortifications toward Germany in the 1930s and, in the words of the GAO report, determining that the Maginot Line program "had proceeded through system development meeting the best practices standards for mature technologies, stable design, and mature production processes—all prerequisites for achieving planned cost, schedule, and performance outcomes."¹⁸ The problem is that effective military planning depends to a considerable degree on fresh and creative thinking that is not easily measured by past efforts for purposes of assessing cost and effectiveness.

While public auditors serve a useful purpose in protecting taxpayers' defense dollars, their role is not to provide visionary leadership. Congress, therefore, will serve the national interest by authorizing and appropriating the nation's defense acquisition program in a manner that compensates for the narrow perspective of GAO auditors.

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17. For a detailed description of how Congress contributes to problems in the defense acquisition system, see Baker Spring, "Congressional Restraint Is Key to Successful Defense Acquisition Reform," Heritage Foundation *Background* No. 1885, October 19, 2005, at http://www.heritage.org/Research/NationalSecurity/upload/84045_1.pdf.

18. U.S. Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapon Programs*, p. 4.