



An Immodest Proposal

Making a Profit on Defense Programs

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Faced with declining budgets and the spectre of sequestration under the Budget Control Act, the Department of Defense must do much more than it has ever done in the past to get more bang for the buck. This is usually translated to mean greater quantities for the same funding. How do we do that?

In 1729 Jonathan Swift wrote a satirical essay, *A Modest Proposal for Preventing the Children of Poor People From Being a Burden on Their Parents or Country, and for Making Them Beneficial to the Publick*, which has come to be called *A Modest Proposal*. In Swift's essay, the "modest proposal" was for the Irish to raise themselves up from poverty by selling their children as food "... to the persons of quality and fortune through the kingdom." As that title was already taken, we have called this piece *An Immodest Proposal* which next to Swift's this is very much so. The other choice would have been *A Truly Modest Proposal*, which this certainly is.

If Only DoD Operated as a Business

In *Breaking the Camel's Back* (*Defense AT&L*: July–August 2009), Roy Wood and I took exception to a statement in a 2008 report from the Defense Science Board, "DoD's business practices need not be worse than the

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commercial sector's norm." It was that statement that broke the camel's back, as far as we were concerned. We wrote:

If the Department of Defense could operate more like a commercial business, weapons systems would be cheaper, on time, and meet the needs of the battlefield commanders. That is a recurring theme in the dozens of acquisition reform studies over the past several decades. Most recently, a Defense Science Board report noted almost wistfully that DoD should adopt "commonplace tenets of good management practice that abound in the commercial sector" (Defense Science Board 2008 report, "Defense Imperatives for the New Administration"). While no one we know has the chutzpah to defend many of DoD's more notorious business blunders, comparing DoD with commercial business is a faulty analogy. While "making DoD work more like a business" makes for a good sound bite, it grossly oversimplifies the situation and can inadvertently drive discussion away from realistic solutions. To apply a quote from H.L. Mencken: "There is always a well known solution to every human problem—neat, plausible, and wrong."

We went on to argue why the Department of Defense is not like a business, and should not be expected to operate as one. However, the country as a whole, and the Department in particular, are facing dire financial straits. We must now explore every nook and cranny to find ways to help ends meet. Where Wood and I had argued that the Department had no profit motive to drive its behavior, we must now create that profit motive, or something that can stand in its stead.

Making a 'Profit' from Department of Defense Programs

Let's begin with a discussion of profit. As we're in the business of acquisition, let's look to the Federal Acquisition Regulation (FAR). Interestingly enough, the FAR does not define "profit," so we must look elsewhere. According to *The Government Contracts Reference Book*, profit is "The amount realized by a contractor after the costs of performance (both direct and indirect) are deducted from the amount to be paid under the terms of the contract." For the Department of Defense, it would be something like, "The amount realized by the Government after the costs of performance (both direct and indirect) are paid." Now in the best of all worlds, that would be something to achieve. At a lesser level, if the Department could just defray even a small percentage of program costs through recoupment of expenditures, we would be much better off.

Now, "recoupment" is a word defined in the FAR. According to FAR 35.001 Definitions, "Recoupment," as used in this part, means the recovery by the Government of Government-funded nonrecurring costs from contractors that sell, lease, or license the resulting products or technology to buyers other than the Federal Government.

And that, ladies and gentlemen, is what this article is about, only more so. I would argue that where we can, we should not only recoup the nonrecurring costs, but also the recurring costs. In fact, we should go one step further, to the degree that selling, leasing, or licensing the resulting products or technology to buyers other than the Federal Government recoups all Government-funded nonrecurring costs and recurring costs, and there are additional sales, leases, or licenses, the Government should take a percentage of those and either return the money to the Treasury or use to defray the cost of other Government programs. Such bold an approach would require legislation, as the law and 32 CFR § 165.6 require, "Recovery of nonrecurring cost recoupment charges shall cease upon the recovery of total DoD costs."

Getting Our Money's Worth

At this point you are probably skeptical about the possibility of such a fantastic construct being viable. Let's explore one example and see, the Global Positioning System (GPS). (Admittedly, it may be one of the easiest examples.) At this time, the Department, through the Global Positioning Systems Directorate, acquisition office for developing and producing GPS satellites, ground systems and military user equipment, is pursuing the future of GPS. This is being done through contracts with the Boeing and Lockheed Martin. Boeing has contracts for development and production of 33 GPS IIF space vehicles (SVs). The first GPS IIF was launched on May 27, 2010. In May 2008, Lockheed Martin was awarded the first GPS III increment contract, for the development and production of two initial SVs, with options for up to ten additional SVs. All of that has got to cost a lot of money. How much? Well, according to Coleman Bazelon of The Brattle Group, Inc., "The Federal government has spent an estimated \$35 billion on the current GPS network since it began GPS operations in the mid-1970s." How do we get that back? Or pay for the next GPS constellation?

Let's look at what we might be able to achieve in the future, if we were to go about things smartly. GPS is big business, really big. Although the first thing that comes to mind about GPS is navigation, GPS is ubiquitous, even reaching into areas such as banking and invest-

ments, through computer clock synchronization. Wikipedia lists a myriad of civilian applications for GPS (i.e., clock synchronization, cellular telephony, disaster relief/emergency services, geofencing, geotagging, GPS aircraft tracking, GPS tours, map-making, navigation, phasor measurements, robotics, recreation, surveying, tectonics, telematics, fleet tracking). That's a lot of applications, and there are billions of dollars associated with those applications. Just think of the number of users for a single application. According to a June 2010 column in *Information Week*, "The number of traffic information users globally is expected to grow to more than

Twenty years ago, AM General was able to commercialize the M998 High Mobility Multipurpose Wheeled Vehicle (HMMWV), the "Humvee." Later owned by General Motors, the line included luxury 4x4 vehicles, sport-utility vehicles (SUVs) and sport-utility trucks (SUTs). Now, think about all the vehicle developments that have been going on, or are ongoing, in the Army and the Marine Corps as a result of years of war and the ongoing reset.

Or think about the ongoing development of unmanned aerial vehicles (UAVs), both fixed-wing and rotary-wing, which have



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370 million by 2015, up from 57 million this year, according to new data from ABI Research, which also found that traffic information remains the most important feature of mobile navigation services."

Now, do some simple math. Just suppose that each of those 370 million traffic information users had just \$10.00 added to the purchase price of their device, transparent to the purchaser. A relative drop in the bucket, but multiplied by 370 million is equal to \$3.7 billion. Or, a single dollar added to a monthly phone bill for each of the 327,577,529 wireless subscriber connections that CTIA-The Wireless Association says there are in the United States. (Note: That number exceeds the population of the United States.) Multiply \$327,577,529 a month by 12 months, and you get \$3.9 billion a year. Now add the two numbers we've calculated, think about potential recoupment from other application errors, and, voila, we have a new GPS constellation in no time. As Sen. Everett Dirksen is reputed to have said, "A billion here, a billion there, and pretty soon you're talking real money." This sort of recoupment could easily be administered in the same way as the excise tax on gasoline and diesel fuel or sales taxes.

Low-Hanging Fruit and Higher-Hanging Fruit

Admittedly, GPS represents a target that is easily achievable, and which would not require a lot of effort (i.e., low-hanging fruit). However, there are many trees in an orchard, and even if some of the fruit might be somewhat more difficult to harvest, it could, ultimately, be worth the effort.

come a long, long way since the original Kettering Bug in 1918. With oversight from the Federal Aviation Administration, which will eventually come, UAVs can become workhorses for commercial enterprises ranging from cattle ranching to firefighting. Just imagine a rancher launching a hand-launched UAV to explore his fence line for breaks, or a firefighter using one to keep track of her team. Similarly, the Navy's development of unmanned surface vessels and submarines might become boons to shipping and fishing.

What novice or unskilled hunter might not benefit from a highly precise scope, or better yet, smart ammunition on the opening day of deer season? What about improved equipment, including energy efficient products, for campers? Examples, and potential, abound.

The only thing now standing between this truly modest proposal and making a profit on defense programs is the will of Congress and the president. And, there will be plenty in and out of Congress who will argue that such a proposal would harm the competitive advantage of commercial enterprises in the United States. However, remember: *extremis malis extrema remedia*, what we have come to use as "Desperate times call for desperate measures." We are in those desperate times, and if we don't do something about it, all U.S. businesses will be harmed.

In the next issue of *Defense AT&L*, we fix the Social Security funding shortfall problem. 

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