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**"Building a Ready Force for the 21st Century"**

**Remarks of  
The Under Secretary of Defense for Acquisition and Technology  
Honorable Paul G. Kaminski**

**to the  
Huntsville Chamber of Commerce  
Huntsville AL**

**January 17, 1996**

Ladies and gentlemen, it's a great pleasure to be with you this morning. Yesterday, I had an opportunity to visit Anniston Army Depot and then come to the Huntsville area and visit Redstone Arsenal. You don't have to spend too much time here to realize that Huntsville is a city with plans for its future.

The people and leaders of Huntsville can be proud of those plans, made by many of you in this room, to build the economy of this region -- you are not just surviving the defense downsizing, you are bouncing back to actively map out your future.

America will continue to count on Huntsville for its critical contributions to the world's best missile defense systems and technology. Today, I would like to share some of my views on where I think we're headed in technology development and acquisition reform in the Department of Defense.

**NATIONAL SECURITY ENVIRONMENT**

As I look broadly at the external environment that impacts our national security, I note that so many things have changed--not just in the past 20 years, but in the past year or two.

I have been in my job a little over one year now, and one of the moments that I want to share with you--one that helps in understanding the fundamental change in our relationships--was a trip that I made with Secretary of Defense Bill Perry to four of the former Soviet republics--Russia, Ukraine, Kazakhstan and Uzbekistan.

We visited an SS-19 silo near the city of Pervomaysk in the Ukraine. I think I had seen that silo before. . . but from a *different orientation*. On that day, an SS-19 missile, one previously targeted against six cities in the United States, was being withdrawn from the silo and decommissioned.

On the same trip, we toured Russia's Engels Air Force Base and saw former Soviet Bear bombers being dismantled using American equipment provided through the Nunn-Lugar program.

The use of Nunn-Lugar funds to support weapons dismantlement and defense conversion in the republics of the former Soviet Union is part of our Cooperative Threat Reduction program--it represents a fundamental shift in our approach to security relationships and is a good investment in our national security.

In the post-Cold War world, the United States no longer faces a single galvanizing threat such as the former Soviet Union. Instead, there is increased likelihood of our forces being committed to limited regional military actions--coalition operations--in which allies are important partners.

This situation can be summed up in statistical terms. I'll risk sharing this statistical description with you this early in my talk because you are an educated audience and George Bernard Shaw once observed that:

*"one of the distinguishing marks of an educated person is one who can be emotionally moved by statistics."*

I would sum up our current national security environment in statistical terms by saying that the mean value of our single greatest threat is considerably reduced. But the irony of the situation is that the variance of the collective threat that we deal with, plan for, and must counter is up.

This gives us some pause in trying to plan intelligently.

In response to reduced mean value of the threat, the United States has cut end strength by about a third from 1985 levels. But at the same time, the increase in variance has caused deployments of U.S. forces to go up by a third.

## US DEFENSE BUDGET TRENDS

During this adjustment phase, we have brought the total defense budget down while maintaining the high state of readiness needed to support increased operational tempos. We have done this by reducing our procurement at a pace that is twice the rate of the overall downturn in total obligation authority (TOA). This response is consistent with historical norms. . . procurement has traditionally been the most volatile component of the budget in a draw down because it is not necessary to purchase new equipment for a smaller force structure.

But this approach also defers long term modernization and future readiness. I

view this as a temporary condition as we complete our draw down, which is just about over. Our current level of investment--it was a little over \$39B in procurement and \$34B in RDT&E in the President's FY96 budget request--will not sustain the Bottom Up Review (BUR) force over the long term. The draw down is nearly complete with the FY96 budget, and so, from FY97 on, we will have to increase our spending to sustain modernization of the force.

However, our investment outlays--what industry actually receives--lags budget authority by two to three years due to our full funding policy. The implication is that industry is still working off of dollars appropriated for FY93 and will need to deal with a further contraction on the order of 20% over the next three years.

### **MODERNIZATION PREREQUISITES**

But now that the drawdown is nearly over, our modernization reprieve from aging is nearly over, too. So next year, we have to start a ramp-up in modernization. That is absolutely critical to the readiness of the forces -- not this year or next year, but the readiness of our forces by the end of the century.

By the year 2000, we plan for a modernization account to go up to \$67 billion in current dollars -- almost twice what it was in the fiscal '96 budget submitted to Congress. And this modernization plan will focus on building a ready, flexible, responsive force for the changing security environment in which we live.

That means we will continue to maintain technological supremacy on the battlefield, especially by seizing on breathtaking advances in information technology: advanced semiconductors, computers, software and communication systems. We will maintain strong emphasis on missile defense and put greater emphasis on fast transportation and mobility: airlift, sealift, groundlift and trucks.

Our future years modernization plan reflects these priorities. But I must be candid with you. We are making three critical assumptions about where we will get the money to make this work. And the first of these assumptions is that we will receive significant savings by closing bases.

### **BASE REALIGNMENT AND CLOSURE**

As I said earlier, the DoD budget and force structure are both down about a third from their peak levels in 1985. Guess what? Our infrastructure is only down by 18%. It is the reason why the Base Realignment and Closure (BRAC) '95 program is so important. The program we have laid out through BRAC '95 will reduce the infrastructure by an additional 11% over the next few years. It is important to bring this

infrastructure into balance with our smaller force structure. . . the savings produced are needed to plow back into our investment program.

Unfortunately, there is a 'bad news--good news' story here. The bad news piece is that it takes money to save money. When we close down facilities, we actually end up spending money in the near term. Typically, it takes between two to three years to break even before there is a net savings in this process.

We are still experiencing no net outflow due to the previous BRAC rounds. In the fiscal '99 budget, we will be saving about \$6 billion a year that will be available to plow back into our investment accounts. But we have to succeed in our plans for closing bases.

Right now, integrated organizational planning teams from the Army's Aviation and Troop Command (ATCOM) and the Army Missile Command are working to prepare for the move and realignment of the aviation management functions of ATCOM, the Army Program Executive Officer (PEO) for Aviation and the Logistics Systems Support Center (LSSC) from St. Louis MO to the Redstone Arsenal, here in Huntsville AL. If we hold to current schedules, I would expect movement of some logistics support center functions beginning next summer with all ATCOM, PEO Aviation and LSSC moves complete by the end of 1997.

## ACQUISITION REFORM

The second big assumption in our defense planning is that we will get significant savings by overhauling our defense acquisition system. The idea here is to be more efficient in what we buy; how we buy it; and how we oversee that buying process.

As I look at the defense acquisition system in detail, what I find is that the system is not broken--it fields equipment that is second to none in the world. What I find is that the system can and must operate more efficiently.

We're implementing the provisions of the 1994 Federal Acquisition Streamlining Act to increase the Department's access to commercial products. We've now completed just about one full year of FASA implementation. The act contains multiple provisions that establish a preference for commercial items while exempting those items from Government unique contracting and accounting requirements. . . in the past, these requirements served as disincentives for commercial companies to participate in DoD procurements.

Although the new federal acquisition streamlining regulations will help the Department use commercial procurement procedures, we are beginning to understand that the principal problems are not statutory or regulatory. We are finding that there is

considerable freedom in our acquisition statutes and regulations. The issue is really cultural. To make a cultural change, we need the appropriate incentives to adjust the behavior of our acquisition work force.

In fact, the whole situation reminds me of a Mark Twain story about a cat on a hot stove. Mark Twain describes 'The cat, having once sat upon a hot stove lid, will not sit upon a hot stove lid again. . . The problem is that neither will that cat sit on a *cold stove lid*.' That is the problem we have overall in our acquisition system. We have become so risk averse that we end up spending billions to make sure we do not lose millions.

We have set up a structure that discourages risk taking--it settles for very, very conservative performance at all levels. We are moving now to try to adjust that culture. The first change we made was to stop required use of military specifications -- those reams of documents that spelled out in meticulous detail how contractors must design and produce a system of supplies and services. It was "safe" to specify conformance to military specifications (MILSPECS) and standards (MIL STDS).

Instead, we are going to be using commercial and performance standards which call for the highest quality standards available in the commercial market or, if there is no commercial standard, describe how we want our equipment to perform and then challenge the supplier to meet that performance standard.

We have effectively turned our procurement system on its head. A program manager in the past had to get a waiver in order to use commercial and performance standards. Now the reverse is true. If a program manager wants to use military specifications, then he has to get a waiver in order to justify the extra cost entailed in military specifications.

At the current time, we are implementing a "block changes" policy to use best commercial practices through out a contractor's facility. . . it makes no sense to use best commercial practices on new contracts and maintain a separate set of procedures for existing DoD contracts. We are seeking to use, the same inspection procedures on military production lines that are used for commercial lines. . . for example, changing from the MIL-Q-9858A quality control standard in favor of standards like ISO 9000, used by companies world-wide.

We are looking at our own internal acquisition processes within the Department. We are beginning to achieve real success in implementing a bold, new, reengineered oversight and review process that will better serve our warfighters and conserve public funds.

DoD Directive 5000.1 and DoD Instruction 5000.2 are now being revised to define an acquisition environment that makes DoD a smarter, more responsive buyer of the best goods and services, that meet our war fighter's needs, at the best dollar value over the life of the product.

The rewrite will take us from a very detailed, centralized management approach that was widely perceived as inflexible and overly bureaucratic, to a set of more flexible policies and procedures that emphasize the use of professional judgment and common sense to streamline the acquisition process. The major themes in the new 5000 series documents are:

- **teamwork** among Program Managers, and OSD and Service staffs;
- **tailoring** acquisition process and procedures to fit individual programs;
- **empowerment** of managers and staff to reach agreements at lowest possible levels;
- **cost as an independent variable** to ensure lower cost systems to meet mission needs *and life cycle cost goals*;
- **commercial products** utilized when possible to reduce cost and time to field; and
- **best practices** modeled on sound commercial/business experience.

To make a cultural change, we are putting the appropriate incentives in place to adjust the behavior of our acquisition work force.

On May 10, 1995, Secretary Perry signed a letter directing the use of Integrated Product and Process Development and Integrated Product Teams in DoD acquisition.

The intent of the Department's IPPD-IPT initiative is to replace after-the-fact "oversight" with early and continuous "insight." The goal is to institutionalize a management approach that encourages partnership by stakeholders versus sequential, adversarial relationships between and among organizations. We want to "build in" quality rather than "inspect in" quality.

I would like to see Service and OSD staffs discover problems and help develop solutions early rather than find and report on problems at the DAB. I expect to reduce government decision cycle times using IPPD and IPT commercial practices.

Earlier, I spoke of some visible progress in acquisition reform. I've been keeping book on the acquisition process at my level. For example, the cycle time for acquisition decision memorandums--it averaged 23 days in 1994--it was 2.5 days in 1995. 17 of 23 scheduled DAB reviews in 1995 were not held--they were not needed because there were no issues as a result of our new Overarching Integrated Product Team (OIPT) process.

On the Space Based Infra Red program, we shortened the DAB preparation cycle from six to two months and supporting documentation for the DAB went from 1000+ pages to 47 pages.

The story is the same on the Joint Direct Attack Munition (JDAM) program -- a joint Air Force/ Navy program to develop an affordable, accurate, all weather guidance kit for 1000 and 2000 pound bombs in inventory.

In fact, JDAM is probably one of the first programs to benefit from the full combination of our year long implementation of FASA acquisition reform initiatives. The first JDAM RFP -- request for proposal -- was issued in August of 1993 and required 87 military specifications (MILSPECs) and standards (MILSTDs) to be enforced. As we enter engineering and manufacturing development today, the number of MILSPECs and standards required to build the system is zero. In August 1993 the number of pages in our statement of work was 137; the number of pages today is two.

I credit the combination of our acquisition reform initiatives, and a very able, aggressive program manager with reducing the unit price estimate from \$40,000 at the 40,000th unit, to \$18,000 at the first unit -- a savings of \$1.5 billion.

These savings are predictions; they will not be validated until we enter production. But they provide a quantitative indication of the range of savings that can be achieved. This is a good news story. I predict it will end up to be a good news story even if we do not achieve all of our aggressive objectives.

### LUCY AND THE FOOTBALL

The third big assumption in our defense planning is that the defense budget modernization line will stop declining and begin to go back up. This will depend ultimately on actions taken by Congresses three and four years from now.

When I think of the future investment budget, I'm reminded of the "Peanuts" cartoon in which Charlie Brown is getting ready to kick a field goal and just downfield, Lucy is kneeling on a hash mark representing the year 2001.

The football she is holding represents a procurement budget that we are counting on to grow by nearly 50 percent to pay for much-needed modernization programs across the Department. Despite having been burned so many times before, Charlie Brown wants to believe the football will be there when he tries to kick it.

(Chart On)



I am not confident that the projected increases we are counting on will be there in 2001. This chart presents an out year forecast of the Defense Budget. It compares the difference in budget authority set by the Congressional Budget Resolution with that of the President's Budget. As you can see, there is an unsustainable ramp in the near term. . . and in the long term. . . *Lucy could be planning to pull the football!*

It is a sobering state-of-affairs. But my concern here is not directed only at the Congress. The DoD must continue to reduce infrastructure and to execute our plans to achieve greater efficiency if we are to prevent Lucy from pulling the football away.

(Chart Off)

### SUMMARY

Our success in fielding superior systems will depend upon our success in reducing excess infrastructure; implementing lasting acquisition reforms and maintaining sustainable increases in our modernization accounts.

We are in the process of making the most revolutionary change in the defense acquisition system in the past 50 years. The true measure of our success in reforming our buying practices will be acceptance in the field--not policy pronouncements in Washington.

For this reason, it is important to "bubble up" the best ideas from the field--that means closing the feedback loop--in government and with industry.

I sincerely hope that you will not be shy in raising your concerns and sharing your observations this morning.

The time is ripe to go forth and leave a legacy, a foundation, for those that will follow -- for U.S. forces in 2010.

Thank you all.

# Defense Budget

