

Stenographic Transcript
Before the

Subcommittee on Seapower

COMMITTEE ON
ARMED SERVICES

UNITED STATES SENATE

HEARING TO RECEIVE TESTIMONY ON OPTIONS AND
CONSIDERATIONS FOR ACHIEVING A 355-SHIP NAVY FROM
FORMER REAGAN ADMINISTRATION OFFICIALS

Tuesday, July 18, 2017

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Tuesday, July 18, 2017

U.S. Senate
Subcommittee on Seapower
Committee on Armed Services
Washington, D.C.

The subcommittee met, pursuant to notice, at 4:01 p.m. in Room SR-222, Russell Senate Office Building, Hon. Roger Wicker presiding.

Committee Members Present: Senators Wicker [presiding], Rounds, Tillis, Strange, Hirono, Shaheen, Blumenthal, Kaine, and King.

1 OPENING STATEMENT OF HON. ROGER WICKER, U.S. SENATOR
2 FROM MISSISSIPPI

3 Senator Wicker: Thank you very much. This Senate
4 Armed Services Subcommittee hearing on Seapower will come to
5 order.

6 We convene this afternoon to receive testimony on
7 achieving the 355-ship Navy, and we receive testimony today
8 from former Reagan Administration officials. We welcome our
9 three distinguished witnesses: the Honorable John F.
10 Lehman, Jr., former Secretary of the Navy; the Honorable
11 Everett Pyatt, former Assistant Secretary of the Navy for
12 Shipbuilding and Logistics; and the Honorable William J.
13 Schneider, Jr., former Associate Director for National
14 Security and International Affairs at the Office of
15 Management and Budget.

16 Welcome, gentlemen.

17 Our subcommittee is grateful for your decades of
18 service and your willingness to appear before us. Your
19 experience and counsel will be invaluable as we consider
20 options for increasing the size of our Navy and protecting
21 our nation's security.

22 Today's hearing represents another step in this
23 subcommittee's effort to examine the Navy's 355-ship
24 requirement. We have received a classified briefing on the
25 basis for the requirement. We have heard from shipbuilders

1 and suppliers, held a shipbuilding hearing with Navy
2 officials, and will meet with naval analysts next week. Our
3 actions this year will set a firm foundation for an
4 intelligent and responsible expansion of the fleet in the
5 future. To that end, I would note that all members of the
6 subcommittee have co-sponsored the SHIPS Act, legislation
7 which would codify the Navy's requirement for 355 ships as
8 U.S. policy. The full committee has adopted the SHIPS Act
9 into the Fiscal Year 2018 NDAA, and our House counterparts
10 have done the same.

11 The Seapower title also authorizes additional funding
12 for five ships above the Administration's budget request
13 while maintaining effective cost control measures on
14 existing programs.

15 The Navy's 355-ship requirement has received plenty of
16 attention on Capitol Hill and in the press. It is important
17 to put the desire to grow the fleet into proper historical
18 context. The United States has embarked on naval buildups
19 roughly every 30 years over the past century -- in the
20 1910s, then in the '40s and '50s, and most recently in the
21 1980s -- in response to emerging threats, technological
22 development, and the condition of the fleet. This is now
23 our time to lead.

24 Our task is to increase the fleet's size from 276 ships
25 today to 355 ships as soon as practicable, an increase of 79

1 ships. In comparison, during the 1980s' buildup, the Navy
2 added 75 ships to the fleet in eight years, from Fiscal Year
3 1981 to Fiscal Year 1988, according to the Congressional
4 Research Service.

5 I would stress that we need the optimal mix of ships.
6 Tomorrow's Navy should not replicate the one we had in the
7 past or the one we have today. In other words, this
8 subcommittee has no intention of funding shipbuilding only
9 for the sake of shipbuilding. Our witnesses took the 1980s
10 buildup from a vision to reality, proving the naysayers
11 wrong all the way. The 1980s' buildup was based on a
12 comprehensive naval strategy, thorough analysis, and sound
13 acquisition practices. Our witnesses thought outside the
14 box. Thank you.

15 For example, they supported outfitting our ships with
16 cutting-edge technology, but also brought battleships out of
17 mothballs. Perhaps most important, once the Navy
18 established the famous 600-ship requirement, the senior
19 leadership, uniformed and civilian, rallied around it.

20 The subcommittee is interested in lessons learned and
21 insights for how best to proceed with the task at hand
22 today. Specifically, I hope our witnesses will discuss the
23 importance of strategy for embarking on a buildup and the
24 necessity of getting buy-in from the White House, Secretary
25 of Defense, the Congressional defense committees, and

1 industry; clear lines of authority and accountability for
2 executing the shipbuilding program; fixed-price contracts
3 and competition; delivering ships at or below cost, on
4 schedule, with the promised capability; evaluating options
5 related to existing ships, including extending service lives
6 and reactivating decommissioned ships; and maximizing the
7 use of the commercial industrial base.

8 It should be an interesting discussion, gentlemen.
9 We're delighted to have you. I look forward to your
10 testimony.

11 Now I recognize my dear friend, the Ranking Member,
12 Senator Hirono.

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1 STATEMENT OF HON. MAZIE HIRONO, U.S. SENATOR FROM
2 HAWAII

3 Senator Hirono: Thank you, Mr. Chairman.

4 I join the Chairman in welcoming our witnesses to the
5 hearing this afternoon.

6 Last week we had a tragic loss of life for the Marine
7 Corps and the Navy family with the crash of the KC-130
8 tanker in Mississippi. My thoughts, our thoughts, are with
9 the families of the 15 Marines and one sailor who lost their
10 lives in service to our country.

11 The investigation into this tragedy should guide our
12 decisions going forward to prevent these kinds of tragedies
13 and to provide support for our sailors and Marines.

14 Over the past weeks we have held hearings on the future
15 of a number of Navy and Marine Corps programs. A major
16 subject in these hearings has been the Chief of Naval
17 Operations' new force structure assessment that points to
18 having a fleet of some 355 ships. That would amount to an
19 increase of some 80 ships from the current fleet inventory.
20 Today's witnesses will tell us about President Reagan's
21 expansion of the Navy that increased the fleet by roughly 70
22 ships by the end of the 1980s decade.

23 We hope to gain some insight from our witnesses today
24 on what happened during the 1980s to increase the Navy's
25 fleet. Reviewing that history may help us deal more

1 effectively with the challenges facing us today. Our task
2 before us is daunting enough, but we have to recognize that
3 the Budget Control Act is looming in the background and will
4 have to be dealt with. While that will not necessarily
5 raise the debt ceiling, it also imposed Draconian caps on
6 defense and non-defense programs and included sequestration.
7 Sequestration or automatic, across-the-board cuts was
8 included as a worst-case scenario to motivate Congress. The
9 mindless cuts to defense and non-defense programs were meant
10 to be so bad that Congress would be forced to find an
11 alternative way forward. We all learned a lesson in 2013
12 when sequester was allowed to take effect. In fact, some in
13 our industrial base are still working through the aftermath
14 of that fiasco. Yet here we are, six years later, living
15 with sequestration still not eliminated.

16 Funding for critical programs, both defense and non-
17 defense, is not an either/or proposition. One thing is
18 clear: if we do not deal with the Budget Control Act, we
19 will end up cutting, not increasing, the size of the Navy.
20 We all know the ongoing negative impact of sequestration and
21 yet have not mustered the political will to do something
22 about it. My hope is that at some point, sooner at this
23 point rather than later, we will come together to pay more
24 than lip service to the need to end sequestration.

25 So I look forward to working with the Chairman and

1 other committee members to balance the needs of our military
2 with critical domestic programs. The Navy has not submitted
3 a plan for ramping up to meet this new 355-ship goal.
4 Presumably, we will begin to see that plan with the
5 submission of the Fiscal Year 2019 budget. I look forward
6 to hearing your testimony this afternoon and learning from
7 your out-of-the-box experiences in the 1980s.

8 Thank you very much, Mr. Chairman.

9 Senator Wicker: Thank you, Senator Hirono.

10 Dr. Lehman, we begin with you. You are recognized.

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1 STATEMENT OF HONORABLE JOHN F. LEHMAN, JR., FORMER
2 SECRETARY OF THE NAVY

3 Mr. Lehman: Well, thank you very much. It's a real
4 pleasure, an honor to be back in these precincts. I once
5 did an analysis -- or I didn't, but my office did an
6 analysis of my calendar for the six years I was Secretary,
7 and I spent a third of my time up here on the Hill, and much
8 of that in this very room; and, of course, a lot of other
9 private time with members and staff. And so it's really a
10 pleasure to be back.

11 It's not just remembering my schedule and the amount of
12 time we spent up here, but it's often said that history
13 doesn't repeat itself, but it sure rhymes. Those days when
14 we started the quest for the 600-ship Navy have many close
15 parallels to today.

16 Then we were at the end of a period of what was called
17 then the "peace dividend" after Vietnam. Budgets were cut.
18 The Navy was really in serious condition. The shipbuilding
19 program was moribund, and everything was over running. As a
20 result, as a nation we were losing our ability to deter the
21 disturbers of the peace.

22 The same situation with very different actors is true
23 today. Our diplomacy is weak around the world because our
24 deterrence is weak. Diplomacy is the shadow cast by
25 military power and naval power, and our adversaries and our

1 allies perceive today that we cannot always be counted on.
2 And as a result, those who wish us ill are taking advantage
3 of that and pressing the envelope of risk in North Korea, in
4 the South China Sea, in the Arabian Gulf, the Persian Gulf.

5 So it's time to rebuild the Navy and restore the
6 credibility of our diplomacy around the world by deterrence.
7 It's my wish today that the three of us can help persuade
8 you that not only is the time urgently here and now, but
9 that it can be done, and it can be done affordably, and it
10 can be done quickly.

11 But before I talk about that, I'd like to request, Mr.
12 Chairman, if my full statement could be submitted for the
13 record?

14 Senator Wicker: Without objection, it will be
15 submitted.

16 Mr. Lehman: Well, thank you.

17 So, it all starts, as I think this subcommittee
18 recognizes, with strategy. We have, as a nation, been ad-
19 hocing our strategy. We've not really had a strategy for
20 the last two decades, and it's time to restore a strategy.
21 One of the strengths we had back in the '80s was that
22 starting around 1977-'78, there was a bipartisan effort to
23 really reach agreement on a strategy. It was led by the
24 great Scoop Jackson and the great John Tower and former
25 chairman of this subcommittee and committee, full committee,

1 John Warner, who I was honored to see just left the room,
2 and Chairman Stennis. This was a true bipartisan effort to
3 really see if there was a clear consensus on what should be
4 done to rebuild our Navy, and to what size, and to what
5 makeup, and under what strategy.

6 As a result there was a coherent, well-thought-through
7 and, indeed, budgeted strategy that drove actually the
8 election debate, and it was truly bipartisan. At the time,
9 the Republicans were the minority, and it was led, as I say,
10 by Senator Stennis and Senator Jackson. But with the help
11 of the Navy Department and other outside thinkers, there was
12 a truly fully-thought-through and budgeted strategy to
13 pursue to rebuild the Navy.

14 My distinguished colleague to my left, Bill Schneider,
15 was responsible for the work in putting that budget together
16 in the two years before the Reagan Administration and
17 oversaw its execution in the years after, and he was a very
18 tough comptroller of our currency in the Navy. And it was
19 Ev Pyatt -- these were two of the greatest leaders of that
20 time that really carried out this strategy. Ev was
21 responsible for executing and for putting the discipline
22 into the acquisition process and the procurement and the
23 building of the ships, and the reactivating of the ships,
24 which was a very important part of the strategy.

25 From the way we put together the strategy -- again, I

1 keep emphasizing it was a bipartisan strategy that started
2 with our vital interests. We're not going to be the world's
3 policemen. We're not going to go looking for dragons to
4 destroy. We are going to defend our vital interests, the
5 vital chokepoints, the Malacca Straits, the Sunda Straits,
6 our ability to maintain deterrence in Europe, our ability to
7 keep hostile forces from getting control of the oil in the
8 Persian Gulf, et cetera. And from that, we derived the size
9 and makeup of the force that would be necessary to prevail,
10 and hence to deter, in each of those geographic areas.

11 And from that came the number 600. The number 600 was
12 not just pulled out of a hat. It was logically deduced from
13 our vital interests, and that's what must be done today, and
14 is done and underlies the 355-ship Navy. It's a different
15 era. It's different technology. The adversaries are much
16 different. It was a bipolar world. It's a multi-polar
17 world today, but the same principles apply.

18 It's important that that number, 355, be solidified and
19 understood. It wasn't just we picked it out of a hat,
20 rolled the dice, came up with that number. This number has
21 been developed by a lot of hard work by real operators who
22 have had to deal and look across the waters at their
23 adversaries just a few hundred yards away and see the tasks
24 that they have. So this should not be treated lightly. It
25 has to be incorporated in all of the actions taken here in

1 this committee.

2 And it also, if the number is solid and agreed by this
3 committee, then it can be bid out competitively with the
4 assurance in the shipbuilders world that, yes, this is a
5 serious commitment, and so we will put the capital into
6 tooling up to build these additional ships. If that number
7 wanders around or it's not logically based, then you will
8 not have that economic payoff.

9 So this was what underlay our strategy when we launched
10 it. It depended on the clear consensus on the nature of the
11 strategy. That strategy understood and supported in a
12 bipartisan basis in Congress, in the White House, in the
13 Office of Management and Budget, in the Pentagon, and, of
14 course, in the uniformed Navy and Marine Corps as well, and
15 that we had.

16 And as a result, the choices made in ships tradeoffs,
17 we would not sacrifice readiness and sustainability. These
18 have to be done simultaneously. You can't say -- it's a
19 nostrum to say that first we've got to take care of the
20 readiness, then we'll worry about expanding the fleet. It
21 can't be done that way. It's got to be done simultaneously.
22 In fact, each reinforces the other. So that allows sensible
23 tradeoffs to be made.

24 I hope that you do have time to deal with the
25 procurement side of this because one of the reasons we

1 succeeded in building the 600-ship Navy -- we got to 594 --
2 was because we put discipline in from the beginning. No
3 contract could be let for production or ship construction
4 without the design being complete, and then once it is let,
5 it's in production, that you protect the contractors from
6 the constant change orders and changing of minds and
7 requirements that goes on, particularly in the post-
8 Goldwater/Nichols bureaucracy, impinging on those contracts.

9 You've got to freeze the design once it's complete.
10 When the technology changes, you introduce it in block
11 upgrades. That allows you to compete on a firm fixed-price
12 basis without the contractors worrying that they're going to
13 be constantly pulled around in every different direction by
14 change orders. It requires a continuing discipline and
15 oversight by this committee to see that the disciplines of
16 fixed price, of competition and production are met.

17 Well, I think we ought to -- I can't wait for your
18 questions. Thank you.

19 [The prepared statement of Mr. Lehman follows:]

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1 Senator Wicker: Well, thank you very much for your
2 testimony.

3 I think, Mr. Pyatt, Mr. Secretary, we have you next.
4 So proceed in your own fashion, sir.

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1 STATEMENT OF HONORABLE EVERETT PYATT, FORMER ASSISTANT
2 SECRETARY OF THE NAVY FOR SHIPBUILDING AND LOGISTICS

3 Mr. Pyatt: I guess, in kind of relating here, he was
4 the architect and I was the garage mechanic.

5 But I'd like to talk to you about some of the details
6 that caused success and caused failure.

7 He's right on discipline in the system. It loves to
8 make changes, loves to award a cost-plus contract to get
9 going, even though the design is not done, and invariably
10 it's a disaster, and you've seen that on what you've done on
11 the CVN-78 and the way you followed it and tried to lead it
12 and corral it into something that has a long way to go.

13 One of the fundamental things that I see is that over
14 the last period of time you're talking about until now, the
15 average cost of ships and cost of dollars, the program has
16 increased from \$1.6 billion per ship to \$2.3 billion. This
17 is caused by technological things. It's caused by business
18 activity being a very low rate, so overhead doesn't get
19 amortized over such a large basis. This is what the
20 management has to work on to make an affordable program to
21 bring to the Congress.

22 It's a lot of details involved, but one of the ones
23 that you have to worry about is incremental funding,
24 invariably a disaster. Incremental funding was abolished in
25 the 1950s or '60s because it was impossible to control the

1 cost of ships. It's been basically adhered to since then,
2 with the exception of the CVN-78, the DDG-1000, and the LCS,
3 which have all gotten into serious trouble. It takes away
4 the discipline needed to manage.

5 Senator Shaheen: Mr. Chairman, may we ask the witness
6 to define incremental funding?

7 Mr. Pyatt: Yes. Incremental funding -- full funding,
8 let's start there. Full funding means that when you
9 authorize and appropriate a ship, you give them all the
10 money necessary to complete that ship. There may be and
11 usually is a small amount of long lead money that buys
12 engines and things like that. But when you authorize and
13 appropriate a ship, it should be full funded. That's been a
14 successful program. Every ship we built was full funded,
15 including two carriers and Tridents. It's not an impossible
16 task. What it really says is, executive department, this is
17 all the money you're getting, you'd better live with it. I
18 think that's a very important thing to control the cost of
19 the Navy.

20 But it also allowed us to make some savings and, as I
21 mentioned in the testimony, which I'd like to be included in
22 the record, if I may, sir --

23 Senator Wicker: And your testimony will be included.

24 Mr. Pyatt: Thank you.

25 It allowed us to set up the competition. The

1 contractors knew what was there, and it just -- it's
2 important.

3 I put in here a little side commentary that ships
4 aren't the only thing having the disease of excessive cost
5 growth. Airplanes -- in fact, one of the four studies
6 recommended not building more carriers until you get enough
7 airplanes to put on them. It's not quite that bad, but not
8 far off. So it's something to think about.

9 But the most important aspect of what we did was our
10 people. Navy was blessed with a strong technological and
11 business group at that time. It was partially destroyed in
12 the '90s and is slowly being rebuilt. So one of the things
13 that whoever does this has to worry about is developing and
14 maintaining, both in uniform and in civilians, the skill of
15 a knowledgeable buyer. Everybody can turn out 600-page
16 respect for a handgun, but it takes somebody to realize
17 there's an essential way to buy a handgun.

18 So that's what I would say, and I would also add on to
19 that, there's a person called a contracting officer. Most
20 people don't have any idea who that is, but it is the only
21 person who can obligate the government. We can talk all we
22 want to, but until that person signs on the line, it's not
23 an obligation. You need to develop him and support him.
24 This is, again, from the garage mechanic's point of view.

25 And from this committee in particular, the program

1 could use a little positive support. You've had some
2 successes, the P-8 program, the DDG-51 program, which I'd
3 note that the GAO still calls it an overrun. I call it a
4 success because they started out with 23 and wound up with
5 63. That's a successful program, and that's what this
6 committee should reinforce and encourage.

7 So again, I'd summarize it and say that all programs
8 are not typified by the LCS and CVN-78. You know a lot
9 about the CVN-78, and while I was waiting today I just
10 discovered there's another \$700 million buried in the post-
11 delivery costs for reasons I don't understand. But the R&D
12 shouldn't be that much. It's \$400 million in R&D for a ship
13 that's been delivered.

14 There's another issue on carriers that's coming up.
15 I'm talking about the future now. These are the things I
16 think you will need to consider in the future. Another
17 issue is coming up regarding the use of a small carrier.
18 That's been a long-time issue, and there's lots of reasons
19 for a smaller carrier, but the study that was done, to me,
20 ignored the most obvious answer, which is a stripped down,
21 basic Ford, get rid of a lot of the excessive stuff that's
22 not necessary, because when you go to a carrier, the place
23 that really determines what you need is the maintenance
24 deck. There you see the airplanes that are being worked on,
25 and particularly now, with many types and models, and

1 probably expanded, the fellows who run that deck are going
2 to need space, and I'm not sure a small carrier provides it.
3 It's a worthwhile study, and I hope it gets continued.

4 The SSBN, early in its design phases, plenty of time
5 for things to go wrong, also get corrected. I think it's
6 probably the most competent technical team in the
7 government, and I would expect success, but things are never
8 easy.

9 The attack submarine program, running very smoothly
10 right now. The risks coming up involve the addition of the
11 Virginia module and what turbulence it may bring.

12 Another problem with the submarine that I only talked
13 about a little bit, and I'm sure this is heresy amongst
14 many, is something smaller than the Virginia class. They're
15 now at \$2.5 to \$2.7 billion, and I'm not really sure that
16 all those capabilities are really needed for the missions of
17 the future, since many of the missions require much less
18 capability.

19 You might want to look at what I call a submarine
20 frigate, a smaller ship, a little less money, but I don't
21 think we're going to get to the force levels and within the
22 budget you're talking about with a submarine.

23 Senator Wicker: Where can we look at one?

24 Mr. Pyatt: You can't. Look at the idea is what I
25 said, should have said. I misspoke.

1 Senator Wicker: No. No, you didn't misspeak. I just
2 wondered if that concept existed anywhere on the face of the
3 earth.

4 Mr. Pyatt: Right here.

5 Senator Wicker: Okay.

6 Mr. Pyatt: This is a small part of the face of the
7 earth.

8 [Laughter.]

9 Mr. Pyatt: DDG-51 Phase III, that's a scary program to
10 me. I think the idea of doing it as a change order based on
11 the basic ship was a good idea, but there's a lot of places
12 where it could still go wrong, and I'm particularly worried
13 about the radar, and it's the plan to deliver it on time for
14 a radar that hasn't been developed yet. There are some
15 problems built in there.

16 This committee has been very supportive and very
17 imaginative in pushing a new frigate. We need a real
18 frigate in the Navy. We need an ASW frigate. The Navy just
19 started in the evolution of a design. It's got a long way
20 to go yet. The last version of it, even though it's an ASW
21 ship, did not include ASW weapons, so there's some work to
22 be done. It didn't include VLS, a vertical launch system,
23 which is kind of mandatory for any future weapon system.

24 So, there are problems the next managers have to worry
25 about. We talked about the tanker, the new tanker. I don't

1 know why it cost so much. It has more than doubled in price
2 since the ones we bought, and I don't understand why.

3 Now there's a new concept of icebreakers in the defense
4 budget. This is a perfect candidate for a build and charter
5 program like we did on the TAKs. Build and charter rules
6 are a little different now, but I don't see why you want to
7 spend scarce defense dollars and displace a destroyer or two
8 destroyers and a submarine for building icebreakers.
9 They're necessary, I understand that. There's got to be an
10 alternative way to achieve it, and I'd like to leave that as
11 an idea.

12 So that concludes. We did it, and we did 17 ships that
13 way. I did them. It can be done, and I think it's a good
14 use.

15 The other thing that happened to us and building the
16 TAKs, even at that time I think the Navy estimate was \$400
17 million for militarized ship. We built in the commercial
18 standards. They survived and have been used for 30 years or
19 so, and they've done quite well for the Marines, I
20 understand. So there's no reason to go through all the
21 defense bureaucracy to build an icebreaker. There are
22 plenty of icebreakers around and, first of all, you need to
23 involve Defense. They're the experts in the world, and they
24 built all the Russian ones. So I encourage that line of
25 thought.

1 And, sir, that concludes my summary of my testimony,
2 which was not much of a summary, I think. Appreciate your
3 time, sir.

4 [The prepared statement of Mr. Pyatt follows:]

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1 Senator Wicker: Well, we appreciate your
2 participation. If Mr. Lehman was the inspirational leader
3 and you were the garage mechanic, was Mr. Schneider the
4 banker?

5 Mr. Pyatt: Yes.

6 [Laughter.]

7 Senator Wicker: Okay. Well, Mr. Schneider, you are
8 recognized.

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1 STATEMENT OF HONORABLE WILLIAM J. SCHNEIDER, JR.,
2 FORMER ASSOCIATE DIRECTOR FOR NATIONAL SECURITY AND
3 INTERNATIONAL AFFAIRS AT THE OFFICE OF MANAGEMENT AND BUDGET

4 Mr. Schneider: Thank you very much, Mr. Chairman and
5 distinguished members of the committee. I do also have a
6 prepared statement. With your permission, I'd like to
7 submit it for the record.

8 Senator Wicker: Without objection, all three
9 statements are admitted to the record.

10 Mr. Schneider: Thank you again, Mr. Chairman.

11 I served as Associate Director of OMB for National
12 Security and International Affairs, which was the budgets of
13 the Department of Defense, the intelligence community, and
14 the Department of State. And the function of the Office of
15 Management and Budget, which is, as you know, an office of
16 the Executive Office of the President, was to assure that
17 the President's intent was reflected in both the programs
18 and budgets that were submitted for the President's
19 approval.

20 As Secretary Lehman noted, there was a good deal of
21 preparation that took place before the election so that the
22 staff, including myself, had a very clear idea of the
23 strategy that then-President Reagan would pursue as
24 President.

25 Second, the President was very well aware of the

1 intersection of a sound economy and the ability to produce a
2 strong national defense. At the time, although it's hard to
3 remember now, one of the most frequently used statistics was
4 the misery index, which was the sum of inflation and the
5 prevailing short-term interest rate, and it was over 20
6 percent at the time. The economy was in a chaotic state at
7 this point, but the President recognized that you could not
8 fix the economy first and work on the defense program later.
9 He recognized the congruence of the two. He had a very
10 affable personality that could work very well with the
11 opposition, and he was very successful in working a deal
12 with then-Speaker O'Neill that produced a combination of tax
13 cuts and defense program increases that kept those forces
14 united in the Congress. So it was a very effective
15 collaboration on bringing the economy together so that the
16 resources would be available for a very substantial increase
17 in defense.

18 The President recognized the centrality of maritime
19 power in American national security policy, and his success
20 in building a 600-ship Navy was a remarkable story of a
21 committed executive and legislative branch leadership.

22 The rebuilding of American military power as a maritime
23 nation was one of the major themes of his presidency and
24 perhaps is among the most enduring legacies of his tenure.
25 Naval power and presence was a primary enabler of President

1 Reagan's policy focus of inflicting costs on the Soviet
2 Union as they attempted to maintain their grip on Europe
3 while projecting their power in the Western Hemisphere,
4 Africa, and the Middle East.

5 The strategy that Secretary Lehman mentioned walked
6 away from the previous administration's strategy of defense
7 of sea control, which was mainly for protecting sea lanes,
8 to a strategy of maritime supremacy, a term he often used,
9 and delineated a defense program that was explicitly in
10 support of those activities, and he had a very sharp focus
11 on programs that should be supported in the defense budget
12 to achieve that strategic aim and those that should be
13 jettisoned. I was pleased to have an opportunity to be
14 ruthless in getting rid of the programs that did not support
15 the strategy.

16 I'll just reinforce the point that Secretary Pyatt made
17 about using the discipline of full funding. That was a very
18 important dimension of the success because it assured that
19 the program funding was going to be there when the ships
20 were built and that the leadership in the Department had the
21 ability to enforce discipline on the acquisition process,
22 and that was very valuable.

23 Nevertheless, because of the efficient way in which the
24 Department managed the contractor base, the Reagan
25 Administration had 32 multi-year programs in the defense

1 program to be able to take advantage of the economies of
2 scale. And looking at the 355-ship goal, I believe it is
3 achievable. The acquisition discipline that Secretary
4 Lehman and Secretary Pyatt referred to is certainly there
5 and will help deliver the program, and there is adequate
6 excess capacity in the industry to be able to make good on
7 what is a congressional commitment, as well as a
8 presidential commitment.

9 So I think the opportunity is here to recover our
10 maritime strength, and I would be pleased to do anything I
11 can to contribute to the ability of this committee to be
12 helpful.

13 Thank you, Mr. Chairman.

14 [The prepared statement of Mr. Schneider follows:]

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1 Senator Wicker: Well, thank you very much for that
2 interesting testimony, and let me just make a comment or
3 two, and then we're going to do 5-minute rounds.

4 Secretary Pyatt, you said that you needed a little help
5 back in the day. Well, that's why we're here as a
6 subcommittee, and we're unanimous on the SHIPS Act in
7 putting this requirement as U.S. policy. We're here to
8 provide help to industry, we're here to provide help to the
9 administration and to the military in actually getting this
10 done.

11 Thank you, Secretary Lehman, for emphasizing
12 bipartisanship. Yes, that's a distinguished list of names
13 you mentioned -- Scoop Jackson, John Tower, John Warner,
14 John Stennis. We could only aspire in this year, 2017 and
15 going forward, to stand on the shoulders of those leaders.
16 So, thank you for mentioning that.

17 I would stress to you that this SHIPS Act is a
18 bipartisan bill unanimously endorsed by every member of the
19 Seapower Subcommittee. This morning we had a hearing, as a
20 matter of fact. This has been our day to have hearings.
21 This is my third Armed Services hearing, and there are not
22 that many hours in the day. We did break for lunch at one
23 point.

24 But Senator Ernst brought up a point, and that was
25 enlarged on by Senator Heinrich, and I followed him by

1 agreeing with him about the seriousness of what the Russians
2 are up to. They will do what they can get away with, and
3 they target our threshold of tolerance and try to get just
4 below what they think we'll tolerate or what the end of our
5 patience is, and they try to stay there. I was so gratified
6 to hear that Senator Blumenthal picked right up on that.

7 So really, at the subcommittee level, and at the full
8 committee level, there is a great degree of bipartisanship.
9 And, yes, we were delighted to hear John Warner today come
10 and introduce some distinguished nominees, so I would
11 emphasize that.

12 Secretary Lehman, I've mentioned the SHIPS Act. It's
13 part of both bills, House and Senate, and in my opinion it
14 is a critical statement for laying the foundation for what
15 we need to do over the next few years. Do you believe this
16 action is necessary, Dr. Lehman?

17 Mr. Lehman: Yes, I do believe it's necessary. I
18 believe it's essential. I do believe it's quite necessary.
19 It gives the yardstick for this subcommittee, which we
20 always in the Navy Department have viewed as our Board of
21 Directors. We report to you, and certainly for the use of
22 the troops and the ships that we build and train, the
23 President is the Commander in Chief, but you are the Board
24 of Directors. So we take the relationship very seriously.

25 And we also -- I would hope that you would keep in mind

1 the CEO of the Navy Department, the Secretary of the Navy,
2 when he is confirmed by the Senate, and the CNO and
3 Commandant who have been, thanks to this committee and the
4 tremendous innovative reforms that have been put in place in
5 the last two NDAA's and the current one that you are working
6 on, have really given back to the management team the
7 responsibility, the authority, and the accountability. They
8 know that you are going to hold them accountable and that
9 cost overruns are not somebody else's problem. Even though
10 I had to deal, we all had to deal with a much smaller
11 bureaucracy in the Department of Defense, and it has grown
12 to a bloated extent, nevertheless you have to protect the
13 authority that you are going to hold these people
14 accountable to execute, because now with 40 different joint
15 requirement committees in this vast bureaucracy, there are
16 constant pressures on execution.

17 This office wants this change, this one wants two or
18 three more knots on the LCS, the other joint requirements
19 committee wants greater length, more missiles, et cetera.
20 It is essential that you do hold the Secretary and the CNO
21 and the Commandant responsible for this execution. If there
22 is a 20 percent cost overrun that they come in and ask you
23 for, you should be asking them, "Why the hell should we give
24 you that extra money?" Hold them accountable the way a
25 private-sector CEO is held accountable, and that means you

1 have to protect them from the intrusions of all azimuths
2 against their ability to run the Navy Department.

3 Senator Wicker: Thank you.

4 Dr. Lehman, you mentioned our vital interests, and you
5 also mentioned that you came up with a strategy and
6 suggested that there have been decades where we didn't
7 really have a strategy. When I think of our vital interests
8 today, I think of Russia, I think of Iran, I think of the
9 Asia Pacific and China's invigorated objective to dominate
10 that area, and I think of North Korea. Am I missing
11 anything in terms of our vital interests?

12 Mr. Lehman: There are other areas that also have to be
13 worried about as well. But the point that you make is a
14 good one because, in fact, what President Reagan found, and
15 all of his senior subordinates, that he reaped 90 percent of
16 the benefits of his rebuilding program and his forward
17 strategy in the first year, because as soon as it became
18 clear that this was not just a passing fancy, that Congress
19 was passing the bills, that the ships were being contracted,
20 that reactivations were coming into the fleet, that
21 readiness was going up, that shadow of power reinvigorated
22 American democracy and gave great pause, which we now know
23 because we have a lot of the intelligence from that era.
24 Don't think you have to wait 10 years to get the benefit of
25 building a 355-ship Navy. I guarantee you that 90 percent

1 of it will adhere to the U.S. Government and to our national
2 security by the first year after it has committed to it and
3 funded it.

4 So that is an important consideration, because the
5 strategy we had was very simple. It was a bipolar world,
6 and the Soviet Union kept a discipline on the Warsaw Pact
7 and potential troublemakers like Iraq and North Korea, and
8 today it's a multi-polar world with lots of troublemakers,
9 each requiring deterrence. We have to deter the North
10 Koreans from proceeding with the course they're on, and we
11 have to deter the Russians. We don't have to worry about
12 the Russians becoming the Soviet Union again. That will
13 never happen. And the fleet that they're building today is
14 a formidable fleet, but it's tiny compared to what it was,
15 and they do not have the economy. As your committee
16 Chairman, John McCain, has often said, Russia is a gas
17 station with a real economy the size of Denmark's. So we
18 can't paint them as this vast potential threat.

19 Senator Wicker: There go the Danes.

20 [Laughter.]

21 Mr. Lehman: But the fact is the Russians --

22 Senator Wicker: We love our Danish friends.

23 Mr. Lehman: The northern flag of NATO would be lost
24 without Denmark. They're reliable, they modernized, and
25 they're essential.

1 But my point is that Russia is using a much smaller
2 economy than they had in the Soviet Union, so they focused
3 it. They had at the end of the Cold War, they had over
4 1,000 ships, the Soviet Union, and they were building a
5 100,000-ton aircraft carrier. Today they can't even keep
6 one aircraft carrier, which doesn't even have catapults.
7 But they have spent their money wisely from their point of
8 view, and that is in submarine warfare. They learned their
9 lessons, what we could do to them, which brought about the
10 end of the Cold War, and so they are building submarines
11 that are formidable threats. It's a focused threat. To
12 deter that, we need more capability.

13 The threat that we face, for instance, in the South
14 China Sea is a very different one. We're not going to go to
15 war over the South China Sea at this point, but we want to
16 be able to deter the Chinese from using their increasing
17 naval power, which is directed at our naval power, to close
18 down vital shipping lanes.

19 So every one of the vital interests we have is
20 different, but you don't have to have a different Navy to
21 deal with each of these different threats. You have to have
22 a Navy that's big enough to deploy and deal with flexibility
23 and agility with each of these different kinds of geographic
24 and military threats, and that 355-ship Navy is derived from
25 that analysis. So toying with that number and saying, well,

1 if we just build more capable ships we don't have to build
2 nearly as many, that's baloney. The world is a big place,
3 and if you don't have the presence, you're not going to
4 deter. So I think your path is clear.

5 Senator Wicker: Thank you.

6 We'll move on now to Senator Hirono.

7 Senator Hirono: Thank you, Mr. Chairman.

8 Dr. Lehman, you chatted a little bit about the
9 importance of accountability so that ships can be delivered
10 on time and on budget, but accountability is often quite
11 elusive for this committee, and the SAS Committee, to hold
12 the appropriate people accountable, which is one of the
13 reasons that Chairman McCain, as far as I can see, has spent
14 so much time and focus on acquisition reform, so that we can
15 build in better accountability.

16 Having said that, it would appear that one of the major
17 differences between the early 1980s' buildup and the
18 situation we face now is that the President back then could
19 propose any top line for the Defense Department that he
20 wanted without regard to the deficit, and that was true
21 until the passage of the Gramm-Rudman-Hollings Balanced
22 Budget and Emergency Deficit Control Act of 1985.

23 For example, in 1983, when the administration added two
24 aircraft carriers to the Navy budget, the administration
25 increased the Navy top line unilaterally to account for that

1 with no offset anywhere in DOD or to other domestic
2 programs.

3 Is it safe to infer or to say that each of you would
4 support eliminating the budget caps in the Budget Control
5 Act in order for the administration to ask for ships and
6 other defense programs it believes are needed?

7 Mr. Lehman: I can answer for myself.

8 Senator Hirono: We'll start with you, Dr. Lehman.

9 Mr. Lehman: Yes, those caps have to be increased.

10 Mr. Pyatt: I'll add one yes to that.

11 Mr. Schneider: I'll also agree that the caps should be
12 eliminated. The problem is economic growth and not caps.

13 Senator Hirono: Can you explain a little more? What
14 do you mean the problem is economic growth?

15 Mr. Schneider: One of the enablers for President
16 Reagan's decision to increase naval expenditure in Fiscal
17 Year 1983 was the performance of the economy. The turn-
18 around was remarkable. The tax cuts had a very profound
19 effect on economic activity, which in turn generated tax
20 revenues which enabled the President to have confidence that
21 our economy was able to produce the resources necessary to
22 sustain the modernization that had been proposed when he
23 became president.

24 Senator Hirono: Thank you for that explanation. So
25 not only -- I think there are a lot of economists who are

1 saying that our economy is slowing and there are indications
2 along those lines, and at the same time we have the
3 sequester to deal with.

4 The Navy has raised concerns about how quickly we
5 should ramp up production, and in a recent report to
6 Congress on the possibility of producing additional attack
7 submarines during the 2017 to 2030 period the Navy said, and
8 I'm quoting, "Producing seven additional VCS, Virginia Class
9 Submarines, during the Fiscal Year 2017 to 2030 timeframe,
10 will be a challenge to the submarine industrial base that
11 can be solved only if the shipyards are given sufficient
12 time to address facility plans, develop their workforces,
13 and expand the vendor base". The seven extra boats
14 mentioned in the Navy report amounts to the equivalent of
15 one half of a boat per year.

16 Secretary Pyatt, do you believe that we could add 10
17 ships to the Fiscal Year 2018 budget without overwhelming
18 the industrial base?

19 Mr. Pyatt: Yes. Yes, you can add 10 ships. I don't
20 know where the Navy got those numbers. They must have been
21 controlled by the budget office. But that industrial base
22 in submarines is flexible, it's knowledgeable, and with the
23 two building facilities they were kept there, and they could
24 easily build three ships a year before. I think we got up
25 to five one year, along with Trident being built. So I

1 don't know why the Navy said that, but I certainly do not
2 agree with it.

3 Mr. Lehman: What we found when we ramped up in both
4 destroyers and cruisers and the submarines, that the
5 mobilization base adapted rapidly. In my judgment, what we
6 should do is forward fund and fully fund a multi-year for
7 the subs at three a year and compete them. That's what we
8 did with the 688s, with General Dynamics competing against
9 Newport News every year for the production. Low bid, which
10 was a real low bid because they were firm fixed price,
11 because they were mature designs, low bid got two, high bid
12 got one. But if they went above a certain percentage, as GD
13 did once, and they bid to get rich on the one, we took it
14 away from them and gave it to Newport News.

15 So it's easy to control if you have the benefit -- and
16 this was why it was such a wise thing to keep both sub
17 manufacturers in business, because they could, each of them
18 could build the Virginia class, and it makes a lot of sense
19 to make them compete for that, and I don't mean a beauty
20 contest for the next 10 years. I mean competing every year
21 for the two versus the one, and you can do the same thing
22 with the new destroyers. You can get the benefits of multi-
23 yearing if you keep competition in those five years of
24 multi-yearing. That's the way to do it.

25 Senator Hirono: I have to say that I am astounded that

1 the Navy, upon whose assessments we rely in making decisions
2 as to whether or not our industrial base has adequate
3 resources, manpower, et cetera, to move us faster toward a
4 355-ship goal, and here you are saying that, from what I
5 gather, not a problem. There's such a disparity there
6 between your position as articulated today and what the Navy
7 itself is saying that I think, Mr. Chairman, I personally
8 would need a much better understanding of what really
9 realistically we can move towards.

10 Thank you for that very different opinion. Did you
11 want to add something?

12 I am running out of time. But, Mr. Chairman, if you
13 don't mind?

14 Mr. Pyatt: I'd like to add not a problem, it's a
15 little too easy. It's a problem, but it doesn't stop
16 anything. They can build up. They have the facilities.
17 They'll need to train some manpower. But any number you
18 have below five a year is achievable.

19 Senator Hirono: Thank you.

20 Thank you, Mr. Chairman.

21 Senator Wicker: And thank you.

22 Senator Strange?

23 Senator Strange: Thank you very much, Mr. Chairman.

24 It's great to have you here today. I appreciate your
25 service to our nation and the work you did to achieve an

1 almost 600-ship Navy during your time. More than anyone
2 else, I believe, you gentlemen understand that our
3 industrial base is not a spigot you turn on and off but
4 something that needs to be maintained and nurtured and
5 thought about strategically.

6 I have a couple of questions related to that, Secretary
7 Lehman, maybe for you, but I would be interested in any
8 views here. Do you agree that we should build ships at a
9 rate most efficient to the taxpayer, the industrial base,
10 the war fighters, or do you think we should merely keep a
11 program on life support of procuring ships at a higher cost
12 per ship, ignoring the Navy's stated need for the 52 small
13 surface combatants on its way to a 355-ship fleet? I think
14 you can probably tell from my question the concern that we
15 stop and start and we don't keep the hot lines going to
16 achieve our goals.

17 Mr. Lehman: No, that's true. But again, it's not a
18 black and white issue. The most important thing in the
19 industrial base is the facilities that can deal with
20 shipbuilding. The other is the human resources, the men and
21 women that do the welding and the ship-fitting and all of
22 the other skills required. That is why you have to look at
23 a balanced program and why many of us have been advocating
24 reactivating ships, because there are a lot of ships that
25 during the last 20 years have been retired very early, some

1 of them with less than half of their service life. So the
2 hulls and the HM&E and the propulsion systems are good. The
3 weapon systems and sensors have to be upgraded, but this is
4 the kind of work that can be dispersed, and quickly, out to
5 the industrial base that are not building ships now. It
6 doesn't just go to the primes that have the huge graving
7 docks and so forth. It can be done rapidly and can be done
8 very cost efficiently, and maintain the mobilization base.

9 The FIG-7s, I think there are eight or nine of those
10 that clearly have that possibility. You've got the first
11 flights of the Aegis cruisers that were retired at 14, 15
12 years of a 30-year life. They're sitting there in the
13 Philadelphia Navy Yard. You have Reefers that were retired
14 early as the fleet shrank. They're available for
15 reactivation. That's the kind of work that can be bid out
16 competitively and spread and maintained, the skill base and
17 workers and facilities.

18 Senator Strange: Well, we have a magnificent shipyard
19 that I'm familiar with, Austal, in my home state of Alabama,
20 in Mobile.

21 Mr. Schneider: Yes.

22 Senator Strange: They do an excellent job
23 consistently, and it's part of my background way before
24 politics, workforce development. I'm really proud of that
25 group.

1 Let me quickly ask you a question, and maybe it's for
2 you, Mr. Secretary, because I understand you have a little
3 bit of helicopter background in your past, as well as all
4 the other accomplishments. But as we progress towards this
5 355-ship Navy, we also have to look at the procurement of
6 helicopters, the Seahawks and so forth, to meet the needs of
7 the sea presence.

8 So I wonder if you and perhaps others could share
9 briefly your experience in dealing with that issue as you
10 built up the Navy capabilities during your service.

11 Mr. Lehman: Yes. We always pursued a high/low mix in
12 helo's because we never felt comfortable being reduced to
13 one supplier, because no matter how much goodwill they may
14 have, and patriotism, the effects of monopoly are
15 inevitable, and we've seen that.

16 We had the SH-2. We put that back in production for
17 the frigates. And then, of course, we had the SH-60, which
18 is a great airplane. That's got to be a major part of it.

19 But the same rules apply for airplanes as for ships.
20 They're constant. In my civilian capacity I built the
21 Hawaii Super Ferry, of great fame, right next to the first
22 aluminum ship built by Austal down in Mobile, and Austal is
23 a great shipyard. They have a very, very quality force.
24 But because of the bureaucracy, the Navy averaged 75 change
25 orders a week in that first ship because the design had not

1 been finalized when the contract was let, and right next to
2 it, same size ship, two hulls instead of three, we built the
3 first Hawaii Super Ferry, an 800-passenger ferry, with two
4 change orders for two ships, the whole life of it. Once you
5 sign a contract in the commercial world you can't say, "Oh,
6 we've got another 75 changes we'd like to make."

7 So the discipline has to be there, and it's even worse
8 and more opportunity for change --

9 Senator Wicker: Where does this have to be? Where
10 does that discipline have to originate?

11 Mr. Lehman: It's got to originate and be held
12 accountable with the Secretary of the Navy, the CNO, and the
13 Commandant. The trouble today is there are 22 offices in
14 the Office of the Secretary of Defense, assistant
15 secretaries, under secretaries, deputy under secretaries,
16 all who have access to his autopen. So there are change
17 orders coming in from the combatant commands, from all the
18 different joint requirements committees, and there's only
19 one way to stop that, and that is to put the chief executive
20 in charge. If he approves a change order, he's got to worry
21 about where the money is going to come from. He can't just
22 say, oh, well, we'll cost-plus it later.

23 So I think that having absorbed the hearing and what
24 you put the current nominee for the Secretary of the Navy
25 through, rightly, you've got the kind of chief executive

1 that is needed to carry this program out. So I think you
2 have to hold him to it, because who else are you going to?
3 You know, the F-35 went through 17 project managers. Which
4 one are you going to fire? For what? The same with the
5 carrier.

6 There should be one person where the buck stops, and
7 that's got to be the service secretary.

8 Senator Wicker: Thank you.

9 Senator Shaheen?

10 Senator Shaheen: Thank you, Mr. Chairman.

11 Gentlemen, thank you for being here.

12 I would argue, Dr. Lehman, that the problem is not our
13 industrial capacity. It's our commitment. This Congress
14 could, today or tomorrow, this week, get rid of the
15 sequestration caps, except there's no commitment to do that.
16 There's no incentive. There's no outcry from the public
17 that we should do this. There is not the same perceived
18 threat from nation-states that we had at the time of the
19 Cold War, and that has been challenging the threat that my
20 constituents perceive is from ISIS, from terrorist attacks.
21 They're not worried about China and the fact that they're
22 going to have a 350-ship Navy by 2020 and the second biggest
23 economy. They're not worried about Russia and the fact that
24 they're buzzing our ships in the Black Sea and the Baltic.

25 So I think the question is where is the commitment to

1 address this challenge, and I don't think we've seen it yet.
2 Maybe if people, if the country feels threatened, we will
3 then decide this is something that we're going to achieve,
4 but I don't think we've got it yet. And we can all talk
5 about Senator Wicker's legislation, which I signed on to. I
6 think everybody on this committee signed on to it. This is
7 a goal we want to accomplish. But the fundamental
8 commitment to say we're going to do this because we are a
9 nation that's threatened is not there, and until it gets
10 there, we're not going to do it.

11 So I appreciate what everyone is saying, and I think
12 you're talking about things that we ought to try and
13 incorporate. But I think fundamentally, that's the problem.

14 So, I don't know what your view is.

15 Mr. Lehman: Well, I agree with you, Senator, on the
16 industrial base. We have plenty of industrial base. That's
17 not the primary worry. The commitment is the worry. But
18 that is the role of this subcommittee. Historically, the
19 Chairman talked about the 30-year cycles, and he's
20 absolutely correct. But in the years leading up to those
21 cycles, it was the subcommittees, the Seapower Subcommittee
22 and, I guess up until the '60s, the Naval Affairs
23 Subcommittee, that even though they didn't have the
24 commitment from the political base, there were other things
25 that were taking priority. If it weren't for what Congress

1 and the two Seapower Subcommittees did in 1936, we would
2 have lost the war in the Pacific, because even though
3 "America First" was ruling the political base, there wasn't
4 a constituency for mobilizing. Nevertheless, the committees
5 that were responsible understood the absolute need for the
6 threat that was coming. So they undertook the '36 and the
7 '38 shipbuilding programs in which every major capital ship
8 that fought in World War II was the funding, at least the
9 design was done.

10 I've seen the same thing in my tenure on a bipartisan
11 basis. It was when there was no constituency, after
12 Vietnam, to rebuild the Navy. Far-seeing people like Harold
13 Brown in both Republican and Democratic administrations saw
14 that the funding was protected for the innovation, the new
15 technologies that were necessary. So, in a sense, we reaped
16 the benefit of that. When Reagan came in and said we've got
17 to do it, here's the funding, the programmatic were there
18 because they'd been done by the committees, working with the
19 people who understood it in the executive branch.

20 So that is what you've got to do now. This committee,
21 this subcommittee, has to lead.

22 Senator Shaheen: Well, I certainly agree that there's
23 no strategy and that we need to develop one.

24 Let me ask, to follow up on Senator Hirono's question
25 about the capacity of the industry to do the shipbuilding,

1 one of the things we have heard from them is that they have
2 the capacity, but the suppliers often can't meet their
3 needs. Do you have any thoughts, any of you have any
4 thoughts about what we can do?

5 My guess is that that has a lot to do with certainty,
6 with the belief that if they have a contract for so many
7 ships and they're certain that those are going to get
8 funded, that then the suppliers will come up with what they
9 need to meet industry's need to get those ships done. But
10 right now that's an issue, and I think it's because of the
11 uncertainty.

12 Mr. Lehman: I'd like to hear from my colleagues here,
13 but since I left the Navy, I went into the private equity
14 business and acquiring aerospace and Marine contractors,
15 suppliers, second-tier and third-tier subcontractors. We
16 have owned about 100 of them in the 25 years that I've been
17 in this business. And I can guarantee you, if we had the
18 opportunity to bid on a double production, we would have
19 been able to, in virtually every company that I was involved
20 with. I think that's a red herring. I think that the
21 supplier base will respond. That's the magic of our
22 industrial base and our free enterprise system. So I don't
23 buy the argument that they're holding everything back.

24 Senator Shaheen: But you're saying if the contracts
25 are there.

1 Mr. Lehman: Yes, if the contracts are there, sure. I
2 mean, they're not going to tool up and start hiring
3 programmers and so forth if there's no budgetary projection
4 past the next six months.

5 Senator Shaheen: So one of the challenges is the
6 uncertainty around the budgeting process.

7 Mr. Lehman: Absolutely.

8 Mr. Pyatt: May I add a couple of words?

9 Senator Wicker: Yes, sir.

10 Mr. Pyatt: The commitment from the Congress comes
11 first, and these are the things that John just described.
12 But the budgets show that's reality. The contracting
13 process takes some time for the prime. They will go to
14 their suppliers and they say, hey, we're bidding this, it's
15 going to happen. The competitive enterprise will work, and
16 I'd rely on it. We did, and it worked.

17 Thank you.

18 Mr. Schneider: Senator, if I just may add a footnote
19 to this, one of the things that's worth keeping in mind
20 since the 1980s has been the military applications of
21 information technology. While we've mostly been discussing
22 shipbuilding, in most combatant platforms more than half the
23 value is in things other than the structure.

24 The industry here is much more accessible in terms of
25 being able to get product out that's very competitive. I

1 think we can do very well with this. I've had the privilege
2 for a number of years of serving on the Defense Science
3 Board, including eight years as chairman, and the technology
4 is remarkable that can respond much more rapidly than was
5 the case in the 1980s.

6 So I think with the leadership of this committee and
7 reinforced by the executive branch, I think these problems
8 can be readily overcome.

9 Senator Wicker: Senator Tillis?

10 Senator Tillis: Thank you, Mr. Chair.

11 Gentlemen, thank you for your service and for being
12 here today.

13 Mr. Pyatt, I do agree with you. You said something I
14 think is important. As we're trying to crack this nut and
15 figure out how to actually get the capabilities we need, I
16 think the icebreaker is a classic example of something that
17 you don't need to put \$100 saddle on a \$10 horse. You go
18 find a good shipbuilder, probably in Finland, you figure out
19 an economic way to create that capability. I'm the one that
20 always harps on -- you mentioned the 600-page RFP for the
21 next-generation handguns. Actually, 680 pages in 10 years.

22 Mr. Pyatt: I got it from you, sir.

23 Senator Tillis: So I think it makes more sense to come
24 up with a competitive procurement strategy to deploy that
25 capability and get that out of the DOD and get it into the

1 high C's. That sort of thinking is necessary.

2 I wanted to talk more about something, Dr. Lehman, you
3 brought up, and it probably is something that all three of
4 you could give me some feedback on. But to me, getting to
5 355 ships, I'm less obsessed with clicking off and high-
6 fiving when we get to 355 than I am getting to the
7 capability, the ability to project power and the gross
8 capability that, say, 355 ships would give us.

9 So a discussion, Mr. Chair, I don't know if we've had
10 it or if it's the subject of possibly a future subcommittee
11 hearing, but one of the discussions would be to what extent,
12 through reactivation, can you start building some of those
13 capabilities that buy you time. Admittedly, they may be
14 halfway through their lives, and through the up-fit you may
15 be able to extend their lives. But they're not going to be
16 30-year ships. They're going to live for some period of
17 time, but that buys us time to also move into innovations
18 that you all didn't really have the option.

19 We've heard a number of folks come before the Senate
20 Armed Services Committee and say that unmanned smaller
21 vehicles for survivability, particularly if they're not
22 manned vehicles, could draw the lower unit rate so that you
23 create more quantity, and as Admiral Harris has said more
24 than once before the committee, quantity has a quality of
25 its own.

1 So if you were instructing us to take the lead on this
2 and I think setting that target of 355 and understanding
3 what that means in terms of capabilities, lethality, and
4 projection of power, what would be the wisest way for us to
5 do it so that we don't come up and think we've got the
6 absolute inventory for the next 20 years or 30 years that we
7 want to get built at the expense of maybe taking a leap
8 technologically over that period of time?

9 Mr. Lehman: Very, very good question. First, I think
10 all of us totally support reactivating the ships that were
11 put away early. They've got plenty of life left in them.
12 They're going to have to be modernized. They're going to be
13 upgraded. But you can do that very rapidly.

14 Senator Tillis: They're known quantities.

15 Mr. Lehman: They're known quantities.

16 Senator Tillis: Most of the up-fits are relatively
17 known quantities. We probably ought not be planning on
18 reactivating a ship that's got to be filled in two years
19 with a radar that may take four years or ten years --

20 Mr. Lehman: Exactly.

21 Senator Tillis: -- to develop.

22 Mr. Lehman: That's right.

23 Senator Tillis: But known quantities. So that's one
24 tier of capability.

25 Mr. Lehman: Absolutely. Another tier of capability is

1 getting control. By getting control of the change orders in
2 the design, by ensuring that the design is complete before a
3 production contract is let is another way. I always use the
4 example of the Polaris program, which involved a new
5 submarine, a new missile, a new launch system, a new
6 guidance system, a new warhead, a new bus, done literally
7 from the back of an envelope to the first deployment of the
8 George Washington in four years.

9 Today, the average for the ACAP 1 and 2 programs is
10 22.5 years. And the reason was somebody, somebodies were
11 put in charge, by name -- everybody knew who Admiral
12 Rickover was -- and held accountable, given the budget at
13 the beginning, held accountable, and it was delivered ahead
14 of time, on budget.

15 So that collapses the time that enables you to put
16 those systems out there early on. And again, the best is
17 the enemy of the good. That's why, for instance, we had 101
18 frigates, essential anti-submarine weapons for the deploying
19 battle groups. Today we have none, literally none, none.
20 So we've got to get frigates out there. We can do some with
21 eight or ten of the FIG-7's. But there are at least two
22 first-class, foreign-designed frigates which could be built
23 in this country. They could be done -- the design can be
24 finalized to American standards, to put American weapons
25 systems, where applicable, on them. It's that kind of

1 creative thinking which, believe me, there are plenty of
2 terrifically creative people in our bureaucracy. It's not
3 just the political appointees or the uniformed people. I
4 mean, here we have a bureaucrat who came up with some of the
5 most innovative ideas to really get things moving fast in
6 the Reagan Administration.

7 But again, we were able to do it because we were
8 protected by this committee from all of the requirements of
9 the defense acquisition regulations. One of the best and
10 most innovative jobs done along this line which you all were
11 part of was in the Obama Administration. They had to come
12 up with the OED or the bomb-proof personnel carriers. The
13 Secretary of Defense -- Ash Carter was then the Deputy
14 Secretary of Defense for Procurement, and he granted waiver
15 after waiver after waiver from all this vast bureaucracy,
16 and they were able to get it out to the troops. MRAP. The
17 MRAP was one example. But he did 30 or 40 of them by
18 granting waivers, and that's what makes things go for 22.5
19 years, because if you actually go through every hoop in the
20 current existing defense acquisition regulations, it takes
21 5.5 years just to get approval for a requirement, just the
22 piece of paper.

23 But the Secretary of the Navy, with the Secretary of
24 Defense, has the power to waive that bureaucracy sensibly,
25 to do what common sense dictates. If you support these

1 people in this committee, you can collapse the time. Time
2 is money. So I think it's very doable. The 355-ship Navy
3 is doable on an affordable basis and a lot sooner than the
4 current system and process is projecting.

5 Senator Wicker: Dr. Lehman, should we revamp the DAR,
6 repeal the DAR, or just make sure that the leadership of the
7 Navy understands that they have a robust waiver --

8 Mr. Lehman: The latter is the essential thing. You
9 know, the Brits have a system, a process of legislative
10 reform every ten years, so everything is grandfathered, and
11 that's something going forward that you put sunset
12 requirements in all of these new bureaucratic expansions. I
13 think in the House there are something like 22 new reports
14 that are proposed to be done, which means 22 new offices to
15 hire more bureaucrats to slow things down.

16 Forget about the DAR. The DAR takes up 141 feet of
17 shelf space. It's not a book, not even a thick telephone
18 book. It's 141-feet thick. So trying to reform that is
19 impossible.

20 Do what you just said. Make them come and get waivers
21 from the things that drive the time and eliminate the
22 discipline and the accountability.

23 Senator Wicker: Thank you.

24 Senator Kaine?

25 Senator Kaine: Thank you, Mr. Chairman.

1 Thanks to the witnesses.

2 To pay you a compliment, it's not often that we -- like
3 today, we have the nominee for the Navy secretary here in
4 the room, and he is here because he wanted to hear your
5 testimony, and that's a tribute to him as well. I think
6 it's a tribute to a good leader to come and listen to the
7 expertise of others. So, as you've been saying what we need
8 to hold this person accountable for, I've been looking back
9 there.

10 [Laughter.]

11 Senator Kaine: That's a tribute to you, and it's a
12 tribute to him.

13 I will associate myself with Mr. Tillis, Senator
14 Tillis. I really like the commitment to 355 ships, but I am
15 more interested in capability than the number. I don't
16 think we should be mechanistic about it. One of the things
17 these hearings have been good at, including in Mr. Spencer's
18 hearing, was trying to say, okay, there's a ship number, but
19 this is about an industrial base, it's about the personnel
20 that go on the ships, it's about aviation support for the
21 ships, it's about the mix of the ships, what's the mix
22 between surface and underwater, what's the mix between
23 manned and unmanned. You could have a 355-ship Navy that
24 would be exactly wrong, and that would be worse than a 300-
25 ship Navy that was better configured.

1 So this is a big question that we're going to be
2 grappling with to get to 355. I think the industrial -- I
3 am with you. I think the industrial base can respond to
4 this, but I think we have a lot of challenging strategic
5 decisions to make in tandem with our military leadership
6 about what the right mix is.

7 I also wanted, Dr. Lehman, to just go after one issue
8 that you mentioned. You said during the Reagan-era buildup
9 that you guys worked on -- and I thought this was
10 fascinating -- we got 90 percent of the gain of the buildup
11 in the first year. I want to just unpack that statement.

12 I gather that what that means is what we did in the
13 first year demonstrated our commitment, and no one doubted
14 our commitment, and thus we got a lot of the gain out of it
15 before it was even completed because once we were underway,
16 people didn't doubt us.

17 Mr. Lehman: Right.

18 Senator Kaine: Now, you probably did not deal with a
19 government shutdown during your tenure, did you?

20 Mr. Lehman: No, I didn't, happily.

21 Senator Kaine: And were you dealing with CRs, or were
22 you generally dealing with appropriations bills?

23 Mr. Lehman: CRs.

24 Senator Kaine: So you were dealing with CRs.

25 Mr. Lehman: Oh, yes.

1 Senator Kaine: So that was a reality in the '80s.

2 Mr. Schneider: It was shorter then, but they were
3 still destructive.

4 Senator Kaine: So to go back to your statement we got
5 90 percent of the gain in the first year, we're not going to
6 be able to get the gain out of a commitment to 355. I mean,
7 it passed unanimously in this committee as an amendment, and
8 then it passed unanimously, the mark passed unanimously out
9 of the committee, and say it passes unanimously on the
10 Floor, and say it's in a conference report that passes
11 unanimously. We're not going to get the gain out of that if
12 there's a lot of budgetary gamesmanship that leads not only
13 adversaries and allies but even our own people to wonder,
14 well, is this just a brochure thing or is it really going to
15 happen?

16 Mr. Lehman: Your point is well taken.

17 Senator Kaine: So the certainty issue, this committee
18 and the Armed Services Committee more generally has been a
19 voice for certainty, but the broader budgetary and
20 appropriations processes had to be absolutely critical to
21 accomplishing the goal and communicating the certainty of
22 the momentum going forward.

23 Mr. Lehman: Absolutely, absolutely.

24 Senator Kaine: And that was bipartisan. This was a
25 time during your buildup when this was supported in both

1 parties and nobody questioned the commitment of this body in
2 terms of actually carrying forward with the president in
3 doing that build-out.

4 Mr. Lehman: Right. And then, in those halcyon days,
5 there was a very clear distinction between the authorizing
6 and the appropriating. There was no legislation in
7 appropriations bills, and there was a very close coupling
8 between the Defense Appropriations Subcommittee and this
9 committee, and that's got to be really strengthened.

10 Senator Kaine: I'm a Budget Committee member who
11 wonders whether the budget has any more relevance because it
12 seems like it's all appropriations, and I'm starting to
13 worry about even the authorizers because, for example, we
14 did a mark this year, we didn't have a top line, so we just
15 did the mark to the number that we wanted. But we don't
16 know how that top line, how our mark will be treated when it
17 gets into an appropriations process.

18 I think part of the answer to really sending that
19 commitment is also probably going to be some budget and
20 appropriations reform issues, as well as grappling with
21 these strategic decisions about how, among the 355, how you
22 allocate between the manned/unmanned surface ship, and then
23 what that means with personnel and aviation components as
24 well.

25 So having committed to this, I'll just be blunt and

1 parochial, I was all for 355. I'm from Virginia. I mean, I
2 know what this means. I want to do shipbuilding. But as
3 we've gotten more and more into the layers of it, what it
4 means for aviation, what it means for personnel, what it
5 means for the industrial base -- and I think Mr. Spencer's
6 testimony was good about this when he was before us -- this
7 really is a big, big strategic question that we're going to
8 have to grapple with, and maybe the biggest piece of it is
9 going to be the budgetary discussion.

10 So anyway, I appreciate your being here today and
11 offering the perspective about how to do it right, and
12 hopefully we will. This has been a helpful hearing and
13 we'll learn some things from it.

14 Thanks, Mr. Chairman.

15 Senator Wicker: We are doing our part to the fullest
16 in this subcommittee, and we seek to send a strong signal to
17 everyone else that's listening, including our colleagues.
18 So, a point well taken.

19 Senator King is next.

20 Senator King: Thank you.

21 Mr. Schneider, I particularly want to greet you because
22 you and I served on the staff in this outfit at exactly the
23 same period, in the early '70s. But neither one of us is
24 any older, which is amazing.

25 [Laughter.]

1 Mr. Schneider: The land that time forgot.

2 [Laughter.]

3 Senator King: Mr. Pyatt and Mr. Lehman, I have
4 probably been to 20 hearings in the last five years that
5 have involved -- I think probably more than that, 30
6 hearings that have involved procurement, and the same issues
7 keep coming up, and we just talked about it in the full
8 committee earlier today, and you've mentioned it, because if
9 we're talking about a 355-ship Navy, we're talking about
10 procurement. I mean, that's where we're at.

11 Fixed requirements, design before you build, finalize
12 design before you build -- I think, Mr. Lehman, Secretary
13 Lehman, you said that. Off the shelf where possible,
14 foreign designs where possible, 80 percent solutions that
15 are on time are better than 99 percent solutions that are
16 late; and then finally, and I think you mentioned this,
17 Secretary Lehman, continuity of staff. One of the problems
18 is turnover of project managers so nobody can be held
19 accountable.

20 Anyway, I want to bring this down to the very
21 particular. Mr. Pyatt, in your prepared testimony you
22 talked about the DDG-51 flight III. We just authorized a
23 15-ship multi-year starting next year on that ship, which
24 has never been built. I have concerns about the ability of
25 our shipyards to bid realistically on a ship that's never

1 been built and that the design isn't complete. Do you share
2 those concerns?

3 Mr. Pyatt: Absolutely. I mentioned that that can be a
4 recipe for disaster. I think something that could be very
5 important that you've done is authorize a multi-year
6 procurement to tell everybody this is a serious program and
7 you're going to be behind it, but the actual procurement of
8 those ships should be on an annual or a bi-annual basis with
9 options. Then you can have real competition between the two
10 shipbuilders. They're both fine shipbuilders. You can have
11 real competition. If you need to make a change someplace
12 along the line, you can, and it's inevitable that it
13 happens.

14 I worry about the delivery of the radar, which hasn't
15 been developed, or is in the development --

16 Senator King: That's the heart of the ship.

17 Mr. Pyatt: That's right.

18 Senator King: And there are going to be modifications
19 to the ship based upon how the radar is --

20 Mr. Pyatt: That's right. It's bound to happen. So I
21 would not encourage entering into a multi-year contract for
22 that ship. I would encourage this committee and the
23 Congress to say, yes, we think that's a good idea, and we'll
24 give you a multi-year authorization or multi-year support
25 because that helps build up the industrial base that you'll

1 need to carry it out. So, we agree.

2 Senator King: And then I want to associate myself with
3 Senator Kaine's comments. It seems to me the real issue is
4 what ships, and it's a strategic issue of what do we need,
5 where do we put our effort, and we have to try to project
6 ourselves. I've been in hearings in the last few days that
7 have talked a lot about cyber. That's going to be a huge
8 part of the threat of the future, and that has to be a
9 consideration not only in shipbuilding but in every other
10 aspect of how we defend our country.

11 So, Secretary Lehman, brainstorm a bit in a minute and
12 13 seconds on what the shape of this new Navy should be in
13 terms of mix. Are we talking about more undersea, more
14 surface combatants, larger, smaller? Give us some thoughts.

15 Mr. Lehman: Sure. There's got to be a high/low mix.
16 That's why one of the most urgent needs is for frigates. As
17 I said earlier, we had 101 frigates in the 600-ship Navy.
18 They were built and they were deployed. We have none now.

19 Senator King: Is there some strategic reason for that,
20 for the demise of the frigate?

21 Mr. Lehman: The threat was perceived. If you recall,
22 30 years ago it was the end of history. There was no threat
23 anywhere and we were the only superpower. And so, as
24 happens in democracies, cuts went way too deep. Now we have
25 to rebuild in the most sensible way.

1 Frigates are essential because the real threat is
2 submarines. There are almost twice as many capable, quiet,
3 diesel electric submarines in the world today as there were
4 back in our day.

5 Senator King: And the Soviets are -- the Russians.
6 Sorry.

7 Mr. Lehman: Exactly. The Russians --

8 Senator King: We're showing our age.

9 Mr. Lehman: The Russians have concentrated. They're
10 not a global threat the way the Soviet Union was. They're
11 small, and their one carrier is worthless. They may be able
12 to build one smaller effective carrier, but they're not a
13 global power. What they have concentrated their spending on
14 is the ability to sink our ships and the ability to use
15 their submarines to make sure it's got the best possible
16 quieting technology to protect theirs.

17 Senator King: So counter-submarines are important.

18 Mr. Lehman: Counter-submarines, absolutely. So we
19 have to be able to be better at submarines, and I think we
20 can. We are. We're staying ahead of it. But we also have
21 to have, first of all -- the Navy ought to change its
22 nomenclature from calling these strike groups, because a
23 full battle group deployed with 25 or 28 ships in the Cold
24 War, because you had to cover all azimuths from very
25 substantial multiple threats. Today, a carrier deploys with

1 maybe five or six ships. If you're going against the kind
2 of threats that are already in existence and are being built
3 by the Russians, by the Iranians, by the North Koreans, by
4 the Chinese, you've got to go from five back to 20 because
5 you've got to cover in-depth the defense. You've got to
6 have lots of tails and lots of active sonar. You need
7 platforms for the ASW helo's to live on.

8 So I agree with you. The mix of what you're building
9 is just as important as the number. But the number 355 came
10 from very solid analysis. When you have to have this mix of
11 high/low and defensive capability, you've also got to be
12 there. The whole idea of the Navy is to deter the
13 disturbers of the peace, not to fight them. Of course, to
14 be able to deter, you have to be able to fight them and
15 defeat them.

16 Senator King: I characterize our destroyers at Bath
17 Ironworks as instruments of peace.

18 Mr. Lehman: Yes, they are, in a very real way. When
19 Ronald Reagan said it in 1977, when he was asked what he
20 thought about the Cold War, he said we win, they lose. How
21 do you like that? And he meant, and he truly believed at
22 the time, that this could be done without violence, without
23 fighting, and by ending the war with negotiation, if you
24 built back the strength to deter, to show the Soviets that
25 here we were cruising along with a growing economy with one

1 hand tied behind our back and running them into the ground
2 financially, and we topped their huge buildup that they had
3 sacrificed so much to build. We were going ahead with Star
4 Wars, and we were going ahead -- the Navy was up in their
5 backyard and front yard and showing that we were going to
6 kick their ass. And they finally realized that, and they
7 didn't have the money to keep up with us.

8 So that's what we've got to do again. We've got a
9 different kind of threat, but we have to show the disturbers
10 of the peace that if they think they can continue in the
11 adventurism that they're doing now, that they can prevail
12 against us and use that political leverage to invade other
13 countries or to close off sea lanes or whatever, that they
14 are going to lose that. And that requires numbers, a
15 coherent number that we should stick with because it was
16 logically derived, and not stinting on the quality of what
17 is done, and carrying out with the discipline of fixed
18 price. The best is the enemy of the good. Make sure we've
19 got the capability to prevail, but no more home plating. Do
20 it by block upgrades every four years, or whatever. It can
21 be done.

22 Senator King: Thank you, Mr. Chairman.

23 Senator Wicker: Thank you, Senator King.

24 We've been a little informal here in this hearing, so
25 before I recognize my friend, Mr. Blumenthal, let me just

1 remind committee members, subcommittee members that in
2 testimony about this subject over the last number of weeks,
3 the testimony has been that the requirement comes from the
4 experts in the form of a mix. They have informed the Navy
5 about what mix is needed in the various areas around the
6 globe, and that's the way that we arrived at the 355.

7 For example, in the mix, it's fast attack submarines,
8 66; destroyers, cruisers, 104; carriers, 12. So the 355
9 ship requirement is derived from the mix. Now, we may need
10 to revisit that and we may need to talk about a number of
11 the alternatives that have come from the testimony today
12 such as reactivation, but it's not just a number that was
13 grabbed out there. It was a number that was boiled down
14 from the absolute requirement we need to make this country
15 safe.

16 Senator Blumenthal, you are recognized for at least 5
17 minutes.

18 [Laughter.]

19 Senator Blumenthal: Thanks, Mr. Chairman.

20 Senator Wicker: A minimum of 5 minutes.

21 Senator Blumenthal: You are very, very gracious, as
22 always.

23 First of all, I want to thank you for reminding us of
24 that famous quote from John McCain that Russia's economy is
25 a gas station, or Russia is a gas station with an economy

1 the size of Denmark. I've heard that it has an economy the
2 size of Mexico, but Denmark is even a better --

3 Senator Wicker: We're now hoping the Danes can go help
4 the Finns build those icebreakers, I think.

5 Senator Blumenthal: I want to mention a word that I
6 understand has not been raised here today, and that word is
7 "cyber." Going to your comment, the Russians, for example
8 in the undersea domain, cannot hope to match us. Their goal
9 is to sink our ships. They can't match us in the capability
10 of the Virginia class attack submarines, but they can render
11 at least some of our fleet useless, maybe not sink them
12 through cyber but lead to sinking them by, in essence,
13 making them inoperative in key respects in defending
14 themselves.

15 So my question to you is, assuming that Russia's
16 strategy is, in effect, to use cyber, they don't need huge
17 investments, obviously, for cyber capabilities. They've
18 used cyber against our democratic institutions. They have
19 been audacious, to say the least, in attacking this country
20 in the cyber sphere in the last election. They used it
21 against our allies in Europe in a very direct way. They
22 used it in Ukraine to disable their defense forces. They
23 are obviously developing that as a strategy.

24 Does that change your view of what the United States
25 should be doing either on the 355-ship Navy or on the mix of

1 what it should be? And I'll just throw out what a lot of
2 laymen should say -- you know, we've invested in the USS
3 Ford; now, because of the \$2 billion cost overrun, maybe
4 larger, \$12 or \$13 billion in that one carrier, which
5 conceivably could be rendered a sitting duck out there by
6 cyber. Does that change your view of how we ought to be
7 investing our resources?

8 Mr. Lehman: Well, it certainly assumes that we have
9 the same philosophy in cyber, which you can make a very
10 strong case is the greatest threat we face. But you have to
11 assume that offense is the best defense. In other words,
12 making clear to our adversaries that we can do worse to them
13 than they can do to us, as well as defending and building
14 into our technology weapon systems being able to degrade
15 gracefully, which used to be a very important term in the
16 military.

17 I mean, I flew the A-6 in the olden days, and we had
18 inertial navigation. If that failed, we had Doppler
19 navigation. If that failed, we had electronic navigation
20 not dependent on satellites, and ultimately we had dead
21 reckoning. So you had the highest technology available.
22 But if you lost that or it was jammed or whatever, you
23 degraded gracefully. We've got to have the same thing.

24 If we find that they are able to get into our CQ, our
25 networked capability, that we don't just go dark and

1 ineffective. We have a better technology base in this
2 country and in the Atlantic Alliance than any other area of
3 the world. So we've got to mobilize that. We've got to
4 build more partnerships, which I know this committee has
5 been very strong in advocating with Silicon Valley and the
6 other technology centers, so that there's more interaction,
7 more ability.

8 I was on the 9/11 Commission. We urged the
9 intelligence communities to have more horizontal hiring and
10 fellowships and internships and so forth with the top
11 technological centers to keep that fertilization, because
12 the danger of a bureaucracy that's over 900,000 civilians in
13 the Department of Defense, you're constantly fighting
14 against inertia and just entropy.

15 So that has to be worked just as hard as every other
16 part of the technological equation. But you can't say
17 because we have some vulnerabilities, particularly in
18 aircraft carriers and other systems, that therefore we don't
19 build them or we build fewer of them. We've got to do it
20 all because we are too small today. The fleet is being run
21 into a shambles with less than, as everybody knows, less
22 than half of the tactical fighters able to fly, with ships
23 being run way past their maintenance schedules and so forth.

24 You've got to do it all, and it can be done because
25 it's self-reinforcing. The costs become more containable if

1 you have more ability to get the work out there and to
2 compete and to get the cost reductions. But you are
3 absolutely right to put cyber at the very top of the
4 priority.

5 Senator Blumenthal: Thank you for that excellent
6 answer.

7 I have another question related to submarines, and I
8 understand Senator Hirono asked a couple of questions about
9 the Navy's report on our defense industrial base. But the
10 idea -- I think you said that at some point we were
11 producing five submarines a year?

12 Mr. Lehman: Mm-hmm, 688's.

13 Senator Blumenthal: That is staggering. I mean, they
14 were different submarines, but --

15 Mr. Lehman: You know, people have forgotten the
16 benefits of fixed price when you've got a solid design and
17 it's complete and won't be changed. The ability -- the
18 amount of money you can save by competing every year, that's
19 what we did. When we had five, the low-cost bidder got
20 three and the high-cost bidder got two. When you have
21 three, you do two and one. You can do that. You can really
22 provide a challenge to the contractors if you aren't going
23 to change the design in the middle of the contract, and they
24 know that, so they can sharpen their pencils. They sign a
25 contract that is not going to bring a loss, but then they

1 start innovating and finding ways to cut costs and get
2 better prices from their suppliers because on a firm fixed-
3 price contract they can make a 40 percent margin if they do
4 it the right way. So we've got to get back to that, and
5 numbers count.

6 Senator Blumenthal: Well, I represent the state that
7 is home to Electric Boat. We're very proud of Electric
8 Boat's capacity to build two, and soon it will be three with
9 the Columbia class, submarines a year. But the Navy
10 correctly identifies, and we've seen it up close on the
11 ground, the difficulty of recruiting, retaining, and most
12 importantly, training that defense industrial base, and it's
13 not just at EB at the yard, it's also the supply chain which
14 is often ignored.

15 I am told that the numbers of contractors or the
16 numbers of active suppliers was, in the 1980s, around
17 17,000. There are now about 3,000. So we've gone from
18 17,000 to 3,000 suppliers in that defense industrial base.
19 I think that's where, from a production standpoint, we need
20 to be investing some of our attention and maybe our
21 resources.

22 I think you're right, we can do it, but it will take
23 some training, effort, skill education and so forth in our
24 vocational technical skills, which is a good thing because
25 we need those welders and pipefitters and electricians and

1 engineers and designers, but it won't happen by magic.

2 Mr. Lehman: No, you're absolutely right. It's a
3 challenge.

4 Senator Blumenthal: Thank you.

5 Mr. Lehman: Thank you.

6 Senator Wicker: Thank you, Senator Blumenthal.

7 Gentlemen, can you stay another 5 or 10 minutes?

8 Mr. Lehman: Sure.

9 Senator Wicker: Secretary Lehman, when you did your
10 strategy, how did you lay it out? What form did it take?

11 Mr. Lehman: It was laid out in a comprehensive
12 document that started with my confirmation hearings. Thanks
13 to the way this committee operates, I was nominated, had my
14 hearing, was reported out and confirmed in two weeks after
15 the inauguration. So February 5th, I was on the job.

16 The statement that I submitted for my confirmation
17 hearings was the same -- I didn't think it was so shortened,
18 but it was a comprehensive explanation of what we hoped to
19 achieve, what the intellectual process was, going to each
20 geographic area and the threat, and then we really spent so
21 much time communicating, and not just public affairs but,
22 more importantly, congressional affairs. We spent so much
23 time up here. As I said earlier, throughout my tenure of
24 six-plus years, I spent about 30 percent of my time up here,
25 sitting down and having breakfasts and lunches and

1 explaining --

2 Senator Wicker: Who signed on to the strategy, sir?

3 Mr. Lehman: A better point to make, because everybody
4 signed on to it. The President ensured that that took place
5 because we had to have OMB, we had to have the Defense
6 Department, the Secretary of Defense, we had to have, in
7 effect, the entire bureaucracy understand it. They might
8 not all agree with it, but the fact is that we ensured that
9 the Defense Logistics Agency, the nuclear agency, all of the
10 23 independent agencies were all brought into the picture to
11 understand what the tradeoffs would be, how it would be
12 executed, that discipline is required, and what we believed
13 the result would be.

14 So everybody has to be part of it. There has to be
15 consensus with the committees, bipartisan committees and
16 membership of both houses of Congress, the White House, the
17 White House staff, OMB, and the Defense Department itself in
18 all its many layers.

19 Senator Wicker: Okay. Have you looked at our Navy
20 title? Have you been able to read the NDAA Seapower title?

21 Mr. Lehman: I haven't.

22 Senator Wicker: Well, let me just say this. I hope
23 you will agree that in terms of getting to this 355 with the
24 right mix and making the requirement the policy of the
25 United States Government, we funded five ships over and

1 above the administration's budget request, and they include
2 one destroyer, one amphib, one submarine, one float forward
3 staging base, and one cable ship, in addition to what the
4 administration had asked for.

5 I hope you gentlemen would agree that in terms of
6 getting to our stated policy of 355 as soon as practicable,
7 that we're off to a good start in the first year.

8 Mr. Lehman: I think it's terrific, and I think also
9 the two NDAA's that I have read that preceded this one have
10 laid the groundwork to enable it to be accomplished, the
11 headquarters reductions, all of the reforms that you've
12 done. You are providing the new team the foundation to get
13 this thing done, which wasn't there before. So this
14 committee has really broken new ground with the last two
15 NDAA's.

16 Senator Wicker: Senator Hirono?

17 Senator Hirono: I'm fine.

18 Senator Wicker: Are there any other questions?

19 [No response.]

20 Senator Wicker: Gentlemen, thank you very, very much
21 for your lifetime of service and for your helpful testimony
22 today.

23 This hearing is concluded.

24 [Whereupon, at 5:52 p.m., the hearing was adjourned.]

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