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Reform of the Defense Acquisition System

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Chairman Levin, Ranking Member Inhofe, distinguished members of the Committee, thank you for the opportunity to appear before you today on behalf of the Congressional Research Service to discuss efforts to improve defense acquisitions.

Historically, Congress has played a critical, and at times primary, role in reforming the acquisition process. Such efforts as the Goldwater-Nichols Act, establishment of the Federal Acquisition Regulation, creation of Defense Acquisition University, and streamlining acquisition rules and regulations, were all accomplished as a result of congressional action. More recently, many analysts and senior DOD officials have stated that without the efforts of Congress, DOD would not have been as successful at improving operational contract support.¹

Most analysts believe that despite the current efforts underway at DOD, significant, effective, and lasting acquisition reform will only occur with the active participation on Congress.² A 2009 report by the Business Executives for National Security argued Congress “sets the expectations and tone for the entire [defense] enterprise—and must be at the forefront of any change.”³ The role of Congress may be particularly important in the area of workforce and culture. As GAO stated as far back as 1992 “ultimately, change will occur only through the collective action of acquisition participants, particularly within the Department of Defense and the Congress, for it is their actions that dictate the incentives that drive the process.”⁴

The Quest for Acquisition Reform

Congress and the executive branch have long been frustrated with waste, mismanagement, and fraud in defense acquisitions, and they have spent significant resources seeking to reform and improve the process. Efforts to address cost overruns, schedule slips, and performance shortfalls have continued unabated, with more than 150 major studies on acquisition reform since the end of World War II. Every administration and virtually every Secretary of Defense has embarked on an acquisition reform effort.⁵

In the early 1980s a number of major weapon system programs were experiencing dramatic cost overruns—overruns that increased the defense budget by billions of dollars but resulted in the same number, or in some cases fewer, weapons. In 1985, President Ronald Reagan established the *President’s Blue Ribbon Commission on Defense Management*, chaired by former Deputy Secretary of Defense David Packard, which issued a final report (known as the Packard Commission Report) that contained far-reaching recommendations “intended to assist the Executive and Legislative Branches as well as industry in implementing a broad range of needed reforms.” Many of DOD’s current initiatives to improve acquisitions can be traced back to the ideas and recommendations in the Packard Report.

¹ See CRS Report R43074, *Department of Defense’s Use of Contractors to Support Military Operations: Background, Analysis, and Issues for Congress*, by Moshe Schwartz.

² Packard Report, p. 52.

³ Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 12.

⁴ U.S. General Accounting Office, *Weapons Acquisition: A Rare Opportunity for Lasting Change*, NSIAD 93-15, December 1992, p. 3.

⁵ Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. 7.

Congress has also been active in pursuing reform efforts, by legislating changes through the annual National Defense Authorization Acts as well as through stand-alone legislation, such as the Defense Acquisition Workforce Improvement Act of 1990,⁶ Federal Acquisition Streamlining Act of 1994,⁷ Clinger-Cohen Act of 1996,⁸ and Weapon System Acquisition Reform Act of 2009.⁹ A number of these efforts were aimed at implementing recommendations of the Packard Report.

The various studies and reform efforts have dramatically altered the process by which DOD procures goods and services. Major changes include

- creating the Federal Acquisition Regulation (FAR) to develop uniform acquisition regulations across DOD and the federal government,
- establishing the Defense Acquisition University to better train and improve the performance of the acquisition workforce,
- instituting a streamlined management chain (Program Manager, Program Executive Office, Service Acquisition Executive, Under Secretary of Defense) to foster accountability and authority,
- implementing a milestone decision process to improve oversight,
- requiring independent cost estimates to improve budgeting forecasting,¹⁰
- establishing a joint requirements board to improve requirements development and eliminate duplicative programs,
- moving away from the use of customized military standards and specifications to promoting the use of commercial technologies, and
- using multi-year procurement (with congressional approval) to promote cost efficiency.

Cost, Schedule, and Performance Problems Still Persist

Acquisition programs initiated since the 1970s continue to experience significant cost increases and other problems. Consider the following:

- Since 1993, development contracts have experienced a median of 32% cost growth (not adjusted for inflation).¹¹
- Since 1997, 31% of all Major Defense Acquisition Programs have had cost growth of at least 15%.¹²

⁶ P.L. 101-510.

⁷ P.L. 103-355.

⁸ P.L. 104-106.

⁹ P.L. 111-23.

¹⁰ The Cost Analysis and Improvement Group was established within the Office of the Secretary of Defense in 1972 to develop these independent cost estimates. Today, independent cost estimates are generated by the Office of the Director of Cost Assessment and Program Evaluation, which supplanted the Cost Analysis and Improvement Group.

¹¹ Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 28.

- During the period 1990-2010, the Army terminated 22 Major Defense Acquisition Programs; every year between 1996 and 2010, the Army spent more than \$1 billion on programs that were ultimately cancelled.¹³
- Procurement costs for the aircraft carrier CVN-78 have grown more than 20% since the submission of the FY2008 budget, and 4% since the submission of the FY2013 budget, prompting the Navy to program more than \$1.3 billion in additional procurement funding for the ship in FY2014 and FY2015.¹⁴
- Part of the acquisition plan for the F-35 Joint Strike Fighter was referred to as “acquisition malpractice” by then acting Pentagon acquisition chief Frank Kendall.¹⁵

A number of analysts have argued that the successive waves of acquisition reform have yielded limited results, due in part to poor workforce management. A recent analysis stated, “There is little doubt that acquisition reforms produce limited positive effects because they have not changed the basic incentives or pressures that drive the behavior of the participants in the acquisition process.”¹⁶

Recent DOD Efforts to Improve Acquisitions

In recent years, DOD has taken a number of steps to improve the process by which it buys goods and services. In a press conference in May 2009, then-Secretary of Defense Robert Gates announced steps to tackle the issue of cost and schedule growth in weapon system acquisitions.¹⁷ Specifically, he called for cancelling programs that significantly exceed budget, do not meet current military needs, or do not have sufficiently mature technology. Addressing programs with significant cost growth, he called for the cancellation of a number of programs, including the VH-71 presidential helicopter. He also called for the cancellation of programs for which a strong requirement no longer existed or for which needed technology had not matured—such as the ground components of the Future Combat System and missile defense’s Multiple Kill Vehicle (MKV). Other programs, such as the F-22 and Air Force Combat Search and Rescue X (CSAR-X), were also cancelled or curtailed. These actions can be viewed as generally consistent with his prior statements, in which he argued that weapon systems have added unnecessary requirements and proceeded with immature technology—resulting in higher costs, longer acquisition schedules, and fewer quantities.

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¹² Based on percentage of programs experiencing Nunn-McCurdy breach. Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 20.

¹³ U.S. Army, *Army Strong: Equipped, Trained and Ready*, Final Report of the 2010 Army Acquisition Review, January 11, 2011, p. ix.

¹⁴ CRS Report RS20643, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, by Ronald O’Rourke, p. 9.

¹⁵ CRS Report RL30563, *F-35 Joint Strike Fighter (JSF) Program*, by Jeremiah Gertler, p. 7.

¹⁶ J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 190.

¹⁷ For the full text of the press conference, see <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4396>.

That same year, then-Secretary Gates also sought to improve the use of contractors during military operations. In January 2009, he acknowledged DOD's failure to adequately prepare for the use of contractors when he testified that the use of contractors occurred

without any supervision or without any coherent strategy on how we were going to do it and without conscious decisions about what we will allow contractors to do and what we won't allow contractors to do... We have not thought holistically or coherently about our use of contractors, particularly when it comes to combat environments or combat training.¹⁸

Subsequently, DOD has taken a number of steps to improve how it uses contractors during operations,¹⁹ such as establishing a Functional Capabilities Integration Board, co-chaired by the Deputy Assistant Secretary of Defense for Program Support and the Joint Staff Vice Director of Logistics. This board is a forum for senior leaders to come together to address critical operational contract support issues.²⁰ DOD has also significantly expanded regulation, policy, doctrine, and training related to operational contract support, including the following examples:

- In 2009, DOD released a directive entitled, *Orchestrating, Synchronizing, and Integrating Program Management of Contingency Acquisition Planning and its Operational Execution*.²¹
- In 2010, DOD updated its *Policy and Procedures for Determining Workforce Mix*, which addressed contractor personnel as part of the total force.²²
- In 2011, a major update to the DOD Instruction for operational contract support was released, which established roles and responsibilities for managing operational contract support.²³
- In 2012, DOD updated its joint planning and execution policy to include operational contract support in many non-logistical functional areas, such as intelligence, personnel, and engineering.²⁴
- In 2013, DOD developed standards for using private security contractors.²⁵
- In 2014, DOD conducted a joint exercise for operational contract support.²⁶

¹⁸ U.S. Congress, Senate Committee on Armed Services, *To Receive Testimony on the Challenges Facing the Department of Defense*, 110th Cong., 2nd sess., January 27, 2009.

¹⁹ U.S. Government Accountability Office, *Warfighter Support: DOD Needs Additional Steps to Fully Integrate Operational Contract Support into Contingency Planning*, GAO-13-212, February 8, 2013, p. 3.

²⁰ The Operational Contract Support Functional Capabilities Integration Board was chartered based on the authority set forth in Section 854 of the John Warner National Defense Authorization Act for 2007 (Public Law 109-364). See <http://www.acq.osd.mil/log/PS/fcib.html>.

²¹ DOD Directive 3020.49 *Orchestrating, Synchronizing, and Integrating Program Management of Contingency Acquisition Planning and its Operational Execution*, March 2009.

²² DOD Instruction 1100.22, *Policy and Procedures for Determining Workforce Mix*, April 2010. DOD is in the process of updating DOD Instruction 1100.22 as well as DOD Directive 1100.4, *Guidance for Manpower Management*.

²³ DOD Instruction 3020.41, *Operational Contract Support*, December 2011. In 2012, this Instruction was codified in 32 Code of Federal Regulations Part 158.

²⁴ Chairman of the Joint Chiefs of Staff Manual 3130.03, *Adaptive Planning and Execution (APEX) Planning Formats and Guidance*, October 2012.

²⁵ Private Security Contractor standards were required by Section 833 of the NDAA for FY2011. The American National Standards Institute validated these standards in March 2013.

²⁶ The exercise has been held annually for the past four years. The 2014 exercise, the first to be sponsored by the Joint (continued...)

In addition to steps taken to improve discrete areas of defense acquisitions such as weapon systems and contingency contracting, DOD has also embarked on a comprehensive effort to improve the operation of the overall defense acquisition system. This effort generally focuses on

1. improving the overall performance of the acquisition workforce,
2. rewriting rules and regulations to create a more efficient and effective acquisition process, and
3. improving the culture of the acquisition workforce.

On September 14, 2010, then-Under Secretary of Defense for Acquisition, Technology and Logistics Ashton Carter issued the memorandum *Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending*. The memorandum outlined 23 principal actions to improve efficiency, including making affordability a requirement, increasing competition, and decreasing the time it takes to acquire a system. In November 2012, Secretary Carter's successor, Frank Kendall, launched the Better Buying Power 2.0 initiative, an update to the original Better Buying Power effort, aimed at "implementing practices and policies designed to improve the productivity of the Department of Defense and of the industrial base that provides the products and services" to the warfighters.²⁷ Better Buying Power 2.0 contained 34 separate initiatives, including reducing the frequency of OSD-level reviews and improving requirements and market research.²⁸ According to officials, Better Buying Power 3.0 is currently in development.

DOD has also undertaken a comprehensive effort to overhaul the regulatory structure that governs defense acquisitions.²⁹ For example:

- On January 10, 2012, DOD issued updated versions of the instructions *Charter of the Joint Requirements Oversight Council* and *Joint Capabilities Integration and Development System*.
- On January 19, 2012, DOD issued an updated version of the *Manual for the Operation of the Joint Capabilities Integration and Development System*.³⁰
- On January 25, 2013, DOD issued an updated version of the directive *The Planning, Programming, and Budgeting System (PPBS)*.

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Chiefs of Staff, was attended by some 500 individuals drawn from across military services and components.

²⁷ While much of the original effort remains intact, the new version does contain some changes. For example, the original effort called for increased use of fixed-price contracts whereas the newer version emphasizes the use of an appropriate contract type, depending on the circumstances. Quote taken from document provided to CRS by DOD entitled *Better Buying Power (BBP) 2.0 Summary*.

²⁸ The full text of the *Better Buying Power 2.0* memorandum can be downloaded at <http://bbp.dau.mil/doc/USD-ATL%20Memo%2024Apr13%20-%20BBP%202.0%20Implementation%20Directive.pdf>.

²⁹ See memo accompanying issuance of interim DOD Instruction 5000.02, Deputy Secretary of Defense Ashton Carter, *Defense Acquisition*, Department of Defense, November 26, 2013.

³⁰ The manual can be found at <https://dap.dau.mil/policy/Documents/2012/JCIDS%20Manual%2019%20Jan%202012.pdf>. A four page errata sheet was issued on September 20, 2012 (see: <https://dap.dau.mil/policy/Documents/2012/JCIDS%20Manual%20Errata%20-%2020%20Sept%202012.pdf>).

- On November 26, 2013, DOD issued an updated ‘interim’ instruction *Operation of the Defense Acquisition System* (5000.02).
- On December 2, 2013, Secretary Kendall announced the establishment of a team whose goal is to develop a legislative proposal that would attempt to “simplify the existing body of law and replace it with a more coherent and ‘user friendly’ set of requirements, without sacrificing the intention behind existing statutes.”³¹

An analysis of the updated regulations indicates an intended focus on fostering a culture that promotes providing more autonomy to the workforce and better decision-making over managing by compliance. For example, the new DOD Instruction 5000.02 (*Operation of the Defense Acquisition System*) emphasizes that

the structure of a DOD acquisition program and the procedures used should be tailored as much as possible to the characteristics of the product being acquired, and to the totality of circumstances associated with the program....³²

In promoting a more tailored approach, the instruction goes on to outline four different models (and two additional hybrid models) for acquisitions, depending on the type of program being pursued. This theme of promoting a culture of good decision-making is a recurring theme in numerous documents, speeches, and policy decisions. Consider:

1. In the memo issued to implement the Better Buying Power (BBP) 2.0 initiative, Secretary Kendall wrote “the first responsibility of the acquisition workforce is to think. We need to be true professionals who apply our education, training, and experience through analysis and creative, informed thought to address our daily decisions. Our workforce should be encouraged by leaders to think and not to automatically default to a perceived ‘school solution’ just because it is expected to be approved more easily. BBP 2.0, like BBP 1.0, is not rigid dogma—it is guidance subject to professional judgment.”³³
2. A memo jointly issued by Under Secretaries of Defense Robert Hale (comptroller) and Kendall stated “the threat that funding will be taken away or that future budgets can be reduced unless funds are obligated on schedule is a strong and perverse motivator. We risk creating incentives to enter into quick but poor business deals or to expend funds primarily to avoid reductions in future budget years. We need to rethink how we approach managing mid-year and end-of-year obligations and to change the types of behavior we reward or punish.”³⁴
3. There has been a significant focus on using data to drive decisions. This has been made manifest in numerous ways, from the sign hanging by the door of Secretary Kendall’s office which states “In God We Trust. All Others Must Bring Data”³⁵ to

³¹ Under Secretary of Defense Frank Kendall, *The New Department of Defense Instruction 5000.02*, Department of Defense, Memorandum for the Acquisition Workforce, December 2, 2013, p. 1.

³² Department of Defense, Instruction 5000.02, *Operation of the Defense Acquisition System*, p. 3, November 25, 2013.

³³ Under Secretary of Defense Frank Kendall, *Implementation Directive for Better Buying Power 2.0 - Achieving Greater Efficiency and Productivity in Defense Spending*, Department of Defense, April 24, 2013, p. 1.

³⁴ Under Secretary of Defense Robert Hale and Under Secretary of Defense Frank Kendall, *Department of Defense Management of Unobligated Funds; Obligation Rate Tenets*, Office of the Secretary of Defense, September 10, 2012, p. 1.

³⁵ Quote attributed to W. Edwards Deming.

the release of the first annual report *Performance of the Defense Acquisitions System*, a 110-page report that relies extensively on data gathered over a 30-year period to analyze and measure the effectiveness of weapon system acquisitions.³⁶ The annual report is one of, if not the most, comprehensive, data-driven analyses on defense acquisitions issued by this office in many years.³⁷

Many members of the acquisition workforce have argued that while laudable, these efforts have generally not had a significant impact on defense acquisitions. These individuals point out that the fundamental incentives in the acquisition system remain unaltered.³⁸ For example, they say, there is a culture within DOD (and other agencies) that encourages the obligation of funds before they expire out of fear that if money is not spent, future budgets will be cut. This belief, which may be reinforced by certain congressional oversight practices,³⁹ encourages managers to prioritize spending money based on an arbitrary calendar deadline instead of on sound business decisions.⁴⁰ According to this argument, reform efforts will have only limited impact until incentives are changed to better align with desired outcomes. Others have argued that implementing such far-reaching change takes years of sustained effort to implement; that the groundwork is being set for long-term change that may not produce visible gains for years to come.

Most analysts suggest that DOD does not have the authority or ability to substantially improve the acquisition process on its own; that substantial reform requires close, consistent, and long-term collaboration between DOD, Congress, and industry. For example, a comprehensive effort to streamline and improve the efficiency of the acquisition regulations will in some instances require Congress to amend existing legislation, DOD to amend internal practices, and industry to play a constructive role.

A number of analysts, industry officials, and DOD officials argue that constrained budgets are the key to fostering a culture of better decision making. This argument is similar to a comment made by former Secretary of Defense Gates, who noted that as a result of defense spending more than doubling between FY2001 and FY2010, “we’ve lost our ability to prioritize, to make hard decisions, to do tough analysis, to make trades.”⁴¹ Some analysts argue that declines in defense acquisition spending since FY2008 have resulted in efforts to prioritize programs, reign in the expansion of requirements, improve efficiency, and increase the focus on costs.⁴²

³⁶ Office of the Under Secretary of Defense, Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013. The concluding comments of the report states “measuring the performance of defense acquisition provides objective, quantitative information on our current performance. The following insights provide some broader perspectives and considerations. These should inform and enable stable improvement in our overall acquisition performance.” p. 109.

³⁷ The report acknowledges that more work and more data analysis needs to be done; the report seeks to provide initial results in what is expected to be a long-range effort to use data to inform efforts to improve acquisitions.

³⁸ Based on dozens of CRS interviews with acquisition personnel from June 2013–February 2014.

³⁹ DOD briefings on acquisition programs, apparently at the request of some Congressional recipients, routinely conclude with slides providing data on percentages of prior-year funding that have been obligated and expended to date.

⁴⁰ Robert F. Hale and Frank Kendall, *Department of Defense Management of Unobligated Funds; Obligations Tenets*, Office of the Secretary of Defense, Memorandum, September 10, 2012.

⁴¹ Department of Defense, “DOD News Briefing with Secretary Gates and Adm. Mullen from the Pentagon,” press release, June 6, 2011, at <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4747>.

⁴² See Yamil Berard, “Former Pentagon leader says defense cuts are necessary,” *Fort Worth Star-Telegram*, October (continued...)

Successful Acquisition Reform Efforts

Given the results of past efforts, some analysts have argued that acquisition reform is a fruitless effort; that the fundamental problems with DOD acquisitions lie not in policy but in execution and expectations. In an article entitled *Let's Skip Acquisition Reform This Time*, MIT professor Harvey Sapolsky writes

The limited number of available reforms have all been recycled. You can centralize or decentralize. You can create a specialist acquisition corps or you can outsource their tasks. You can fly before you buy or buy before you fly. Another blue-ribbon study, more legislation, and a new slogan will not make it happen.⁴³

Other analysts point out that some past reform efforts have had modest success, generating savings in certain areas and keeping pace with a changing world. These analysts argue that learning from past reform efforts—understanding what worked, what didn't work, and why—is critical to successful acquisition reform.⁴⁴ A number of analysts have argued that Congress is critical to significantly improving DOD acquisitions.⁴⁵

Some reforms have been judged successful. For example, most analysts view the original consolidation of disparate acquisition rules into a single, uniform Federal Acquisition Regulation as an improvement to the system. More recently, Congress has embarked on select acquisition reform efforts through legislation that analysts believe have contributed to improving defense acquisitions, including the *Weapon Systems Reform Act of 2009*.

In developing the *Weapon Systems Acquisition Reform Act of 2009*, Congress considered reports by government and other analysts that focused on the early stages of weapon system development, prior congressional hearings and investigations, and extensive consultations with DOD, industry, and outside experts. The act did not seek to rectify all of the problems related to the acquisition process. Rather, it focused primarily on improving the early stages of weapon system development. Key provisions in the act included

- appointment of a Director of Cost Assessment and Program Evaluation (CAPE),
- appointment of a Director of Developmental Test and Evaluation,
- appointment of a Director of Systems Engineering,
- a requirement that the Director of Defense Research and Engineering periodically assess technological maturity of MDAPs and annually report findings to Congress, and
- A requirement that combatant commanders have more influence in the requirements generation process.

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16, 2013; Barry D. Watts, *Sustaining the U.S. Defense Industrial Base as a Strategic Asset*, Center for Strategic and Budgetary Assessments, Background Paper, September 2013, p. 15.

⁴³ Harvey Sapolsky, "Let's Skip Acquisition Reform This Time," *DefenseNews*, February 9, 2009, p. 29.

⁴⁴ See: Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, 7.

⁴⁵ See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 3.

Given how recently the Weapon System Acquisition Reform Act was enacted, the full effect of the Act may not be felt until the next generation of weapon systems are in production. However, a number of analysts believe that the Act is having a positive effect.⁴⁶ Senior officials within the offices of the CAPE, Developmental Test and Evaluation, and Systems Engineering, believe that their offices are being empowered to positively impact weapon system acquisitions.⁴⁷ These offices have been given access to senior leaders within the department, opportunities to provide input at key points in the acquisition system, and resources to carry out their responsibilities. For example, the CAPE has contributed to a better understanding of potential costs for a number of major programs, such as the F-35 Joint Strike Fighter program.⁴⁸ The act's focus on the early stage of the acquisition process and on using data to inform decisions complements and reinforces a number of the internal DOD initiatives to improve acquisitions.

The Changing Landscape of Defense Acquisitions

Much of the organization of the defense acquisition system was developed during the early years of the Cold War. In recent years, the defense acquisition landscape has changed significantly and a number of analysts believe that the acquisition system is not sufficiently responsive to an ever changing world.⁴⁹ A 2009 study by the Defense Science Board argued that current DOD acquisition practices are inadequate in a changing industrial environment.⁵⁰ Significant changes often cited by analysts include the following:

- *The defense industrial base has consolidated significantly over the last 25 years.* According to a study by the Defense Science Board, over the last 25 years, the number of major defense contractors decreased from fifty to six.⁵¹ Such consolidation, which was partly due to the reduction in defense procurement following the end of the cold war, can have benefits but can also hurt competition and innovation.
- *DOD is becoming a less influential buyer.* Fewer and fewer U.S. industries are dominated by defense spending.⁵² For example, in 1965, DOD accounted for

⁴⁶ U.S. Government Accountability Office, *Defense Acquisition Reform: Reform Act is Helping DOD Acquisition Programs Reduce Risk, but Implementation Challenges Remain*, GAO-13-103, December 14, 2012.

⁴⁷ Based on meetings these senior officials had with CRS in early 2011.

⁴⁸ Based on discussions with senior officials from the Joint Staff, J-8 (Force Structure, Resources, and Assessment Directorate) and Joint Operations Support (Acquisition, Technology & Logistics), December 2011.

⁴⁹ Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 7.

⁵⁰ Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, *Buying Commercial: Gaining the Cost/Schedule Benefits for Defense Systems*, Defense Science Board Task Force on Integrating Commercial Systems into the DOD, Effectively and Efficiently, February 2009, p. xvii.

⁵¹ Office of the Under Secretary of Defense For Acquisition, Technology, and Logistics, *Creating an Effective National Security Industrial Base for the 21st Century: An Action Plan to Address the Coming Crisis*, Defense Science Board Task Force on Defense Industrial Structure for Transformation, July 2008, p. 15. See also: Kenneth Flamm, "Post-Cold War Policy and the U.S. Defense Industrial Base," *National Academy of Engineering of the National Academies*, vol. 35, no. 1 (Spring 2005); Barry D. Watts, *Sustaining the U.S. Defense Industrial base as a Strategic Asset*, Center for Strategic and Budgetary Assessments, Background, September 2013, p. 15.

⁵² Kenneth Flamm, "Post-Cold War Policy and the U.S. Defense Industrial Base," *National Academy of Engineering of the National Academies*, vol. 35, no. 1 (Spring 2005); See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 4.

over 75% of all U.S. semiconductor purchases. By 1990, government-wide purchases represented less than 10% of the market. By 2012, government represented less than 2% of the semi-conductor market.⁵³

As DOD becomes a less important customer, an increasing number of companies are diversifying their revenue streams. In 2012, the top 100 defense companies received 28% of their revenue from defense contracts, down from 38% of revenue in 2007.⁵⁴ Other companies are choosing not to compete for defense contracts because of extensive and ever-changing regulations, increased costs, auditing requirements, and instability of funding caused by sequestration, continuing resolutions, and lapses in appropriations.

- *Weapon and information technology systems are more complex and sophisticated.* Some analysts believe that the acquisition system is not nimble enough for acquisition programs that rely heavily on rapidly changing technologies. These technologies are posing new challenges to acquisitions. For example, according to U.S. Air Force Lt. Gen. Christopher Bogdan, the biggest risk to the F-35 program is software development.⁵⁵ Some analysts believe that the increasing complexity of systems is the principle reason that aircraft development times have increased significantly since 1980.⁵⁶
- *U.S. military spending is declining, squeezing acquisition accounts.* Constraints on U.S. defense spending, combined with real growth in per-capita expenditure for military personnel and pay benefits, limit the funding available for acquisitions, and bring about reductions in force structure.⁵⁷ These effects also reduce potential economies of scale in defense production and can make it more challenging to pursue acquisitions associated with specialized or niche capabilities.

At the same time U.S. military spending is declining, other countries are investing more in their military. Some analysts have argued that the United States may not dominate defense spending in the future as much as it has in recent years. These analysts point to countries such as Russian and China. China's military modernization has been fueled by two decades of steadily increasing military spending. According to a DOD report to Congress, China's officially disclosed military budget increased an average of 9.7% annually in inflation-adjusted terms over the decade from 2003 to 2012.⁵⁸

⁵³ Data provided to CRS by Semiconductor Industry, October, 2013.

⁵⁴ Zachary Fryer-Biggs, "Looking Beyond Defense: Firms Grow Revenue--By Diversifying," *DefenseNews*, July 22, 2013, p. 11.

⁵⁵ Andrea Shalal-Esa, "Pentagon Sees Some Risk of Delay in F-35 Software," *NBCnews.com*, April 24, 2013, at http://www.nbcnews.com/id/51649848/ns/technology_and_science-tech_and_gadgets/t/pentagon-sees-some-risk-delay-f--software/#.UIWMmm3zByU.

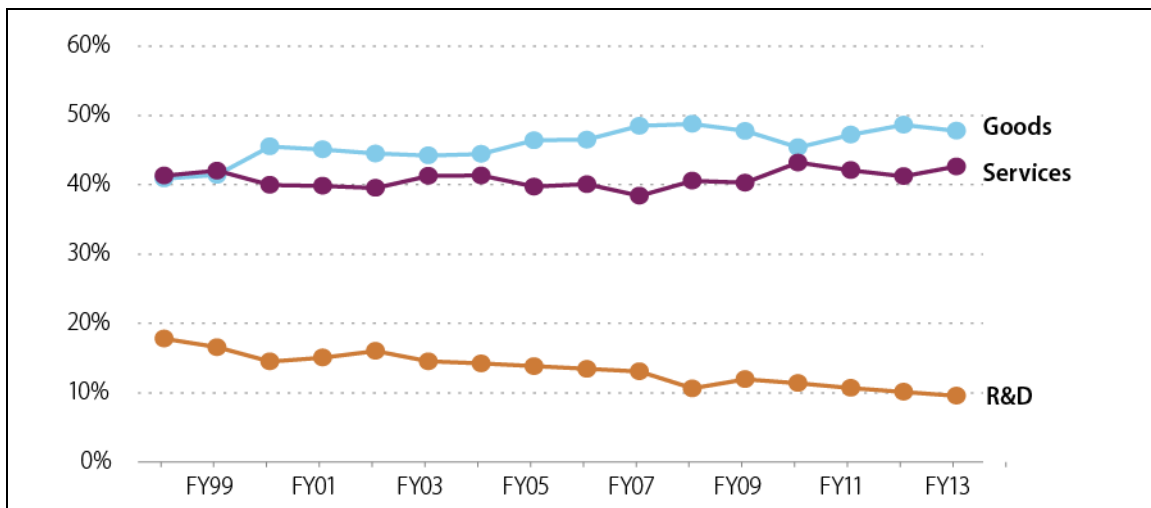
⁵⁶ Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 57. Aircraft development times have also markedly increased in the commercial aerospace market.

⁵⁷ Department of Defense, *Defense Budget Priorities and Choices*, Fiscal Year 2014, April 2013, p. 5.

⁵⁸ See CRS Report R41108, *U.S.-China Relations: An Overview of Policy Issues*, by Susan V. Lawrence, p. 16.

- DOD-financed research and development is playing a less important role in innovation and development.*⁵⁹ DOD is spending an ever-smaller share of its contracting dollars on research and development (R&D) contracts. In FY1998, 18% of DOD contract obligations were dedicated to R&D contracts compared to just 10% in FY2013 (see **Figure 1**). One analyst pointed out that even though the military is still an important funder of specific, leading-edge technologies such as supercomputers and microelectromechanical systems devices, “commercial demand for these products has far outstripped the requirements of the military.”⁶⁰ At the same time, technologies developed for the commercial market are commonly adapted for military use. As one general officer stated, whereas the military used to go to industry and tell them to create a technology to meet a requirement, increasingly the military is going to industry and asking them to adapt an existing commercial technology to military requirements.⁶¹

Figure 1. Percentage of Contract Obligations Dedicated to R&D Contracts
FY1998-FY2013



Source: Analysis of data from the Federal Procurement Data System, February, 2014.

Many analysts believe that an acquisition system designed to meet the challenges of the Cold War is not well suited to this changing landscape.⁶² Some of these analysts argue that comprehensive

⁵⁹ See Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 4.

⁶⁰ Kenneth Flamm, "Post-Cold War Policy and the U.S. Defense Industrial Base," *National Academy of Engineering of the National Academies*, vol. 35, no. 1 (Spring 2005).

⁶¹ Based on discussion with CRS analyst, May 8, 2013.

⁶² Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 6; Business Executives for National Security, *A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight*, July, 2009, p. 4. Then Secretary of Defense William Perry used the same logic to implement acquisition reforms in the 1990s. He stated "Because the world in which DoD now must operate has changed beyond the limits of the existing acquisition system's ability to adjust or evolve -- the system must be totally re-engineered. If DoD is going to be capable of responding to the demands of the next decade, there must be a carefully planned, fundamental re-engineering or re-invention of each segment of the acquisition process." See Honorable William J. Perry, *Acquisition Reform: A Mandate for Change*, Department of Defense, February 9, 1994, p. 9.

acquisition reform is urgently needed.⁶³ In 2009, Norman Augustine (former CEO of Lockheed Martin) and former Senators Gary Hart and Warren Rudman wrote that the defense acquisition system operates

too slowly and at vastly greater cost than necessary. In earlier times we could arguably afford such flaws in efficiency, but we can afford them no longer.... We must examine the status quo systemically, in all its aspects, in order to make necessary and long overdue changes. If we do not, we will be in an increasingly sclerotic defense acquisition process that may one day no longer be able to supply American war fighters with the means to assure this nation's freedom and security.⁶⁴

Many analysts and DOD officials argue that DOD in recent years has also undergone changes that may make significant reform possible. Some DOD officials and analysts detect a culture shift underway within the Department—a shift that reflects a better understanding of the importance of defense acquisitions, and a fuller commitment on the part of senior leadership, uniform personnel and civilian personnel, to support efforts to improve defense acquisitions. Changes contributing to the culture shift include the following:

Operations in Iraq and Afghanistan have highlighted the importance of acquisitions. In the early years of the conflicts, contracting in Iraq and Afghanistan was done on an ad-hoc basis, without significant consideration of implications for foreign policy and without putting in place necessary oversight systems. Insufficient resources were dedicated to oversight, resulting in poor performance, billions of dollars of waste, and failure to achieve mission goals.⁶⁵ However, the experiences of the operational force underscored the importance of acquisitions to senior leaders and prompted numerous internal efforts to examine contractor support, such as the report of the Commission on Army Acquisition and Program Management in Expeditionary Operations (known as the Gansler report).

Constrained budgets are fostering a culture of better decision making. Former Secretary of Defense Robert Gates stated that as a result of defense spending more than doubling between FY2001 and FY2010, “we’ve lost our ability to prioritize, to make hard decisions, to do tough analysis, to make trades.”⁶⁶ As mentioned earlier, declines in defense acquisition spending since FY2008 have resulted in efforts to prioritize programs, reign in the ‘gold-plating’ of requirements, and increase the focus on costs.⁶⁷ Historically, eras of budgetary restraint have been associated with the pursuit and implementation of acquisition reform. In the 1980s, the deficit targets enacted as part of the Gramm-Rudman-Hollings Act (The Balanced Budget and Emergency Deficit Control Act of 1985; P.L. 99-17) are seen by analysts as having contributed to development of the Packard Report and changes in defense acquisitions. Later, the Budget

⁶³ See Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. Introductory Letter by Chairman Ronald Kadish.

⁶⁴ Business Executives for National Security, *A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight*, July, 2009, p. iii.

⁶⁵ CRS Report R43074, *Department of Defense's Use of Contractors to Support Military Operations: Background, Analysis, and Issues for Congress*, by Moshe Schwartz.

⁶⁶ Department of Defense, "DOD News Briefing with Secretary Gates and Adm. Mullen from the Pentagon," press release, June 6, 2011, <http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4747>.

⁶⁷ See Yamil Berard, "Former Pentagon leader says defense cuts are necessary," *Fort Worth Star-Telegram*, October 16, 2013.; Barry D. Watts, *Sustaining the U.S. Defense Industrial base as a Strategic Asset*, Center for Strategic and Budgetary Assessments, Backgrounder, September 2013, p. 15.

Enforcement Act of 1990 (Title X of The Omnibus Budget Reconciliation Act of 1990; P.L. 101-508) and related limits on defense spending are seen as having led to the Perry Report of 1994 and another round of far-reaching acquisition reform. Against the current backdrop of the Budget Control Act of 2011 (P.L. 112-25) and declines in defense spending, many analysts argue that the stage is set for a renewed effort to embark on a significant effort to improve defense acquisitions.”

*Data is improving.*⁶⁸ Advances in information technology are making it possible to better track and analyze larger amounts of data. DOD is improving its IT systems and has embarked on a number of wide-ranging efforts to gather and analyze data to inform policy decisions, often at the behest of Congress. For example, the Weapon System Acquisition Reform Act of 2009 required DOD to conduct a root cause analysis of the cost, schedule, and performance of Major Defense Acquisition Programs that experience cost growth that surpasses the thresholds set forth in the Nunn-McCurdy Act.⁶⁹ Over the years, these analyses have provided insight into what drives cost growth. Despite the progress being made, there continue to be significant gaps in the data available and reliability of some existing data.⁷⁰

In sum, the unique combination of constrained budgets, a changing strategic and industrial landscape, recent experiences in Iraq and Afghanistan, and the increased availability of data have led many analysts and officials to conclude that there may be a unique opportunity to embark on another effort to improve defense acquisitions.⁷¹

Improving the Workforce

Despite the hundreds of disparate recommendations to improve defense acquisitions, most reports seeking to address the fundamental weaknesses of the system arrive at the same conclusion: the key to good acquisitions is having a good workforce and giving them the resources, incentives, and authority to do their job.⁷² As David Packard wrote in a 1986 report to President Reagan,

Excellence in defense management cannot be achieved by the numerous management layers, large staffs, and countless regulations in place today. It depends...on reducing all of these by adhering closely to basic, common sense principles: giving a few capable people the authority and responsibility to do their job, maintaining short lines of communication, and holding people accountable for results.⁷³

⁶⁸ Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 106.

⁶⁹ P.L. 111-23, section 103.

⁷⁰ Office of the Under Secretary of Defense Acquisition, Technology and Logistics, *Performance of the Defense Acquisition System*, 2013 Annual Report, June 28, 2013, p. 105; U.S. Army, *Army Strong: Equipped, Trained and Ready*, Final Report of the 2010 Army Acquisition Review, January 11, 2011, p. iv. The report found that “The Army lacks a sufficiently robust and trustworthy database on acquisition programs, workforce and lessons learned,” p. 42.

⁷¹ Bill Greenwalt, “Once More Unto The Breach, This Time For Acquisition Reform,” *Breaking Defense*, April 23, 2014. At <http://breakingdefense.com/2014/04/once-more-unto-the-breach-this-time-for-acquisition-reform/>.

⁷² See below. For additional discussions, see Thomas Christie, “Sound Policy, Awful Execution,” *DefenseNews*, December 15, 2008, p. 53. Thomas Miller, “Rearranging Deck Chairs on the Titanic: Why Does Acquisition Reform Never Work?” *Defense AT&L*, November-December 2010, p. 27; Scott Reynolds, “Let’s Fix It: A Five-Step Plan for Improving Acquisitions,” *Defense AT&L*, November-December 2009, p. 18.

⁷³ *A Quest for Excellence*, Final Report to the President by the Blue Ribbon Commission of Defense Management, June (continued...)

The workforce is not the only area that analysts believe needs to be improved—numerous recommendations are aimed at budgeting, requirements development, cost estimating, and other structural problems. However, without a culture that promotes good acquisition decisions, analysts believe that reform efforts will not achieve their fullest potential. This is seen as true not only for the acquisition workforce but also for other people involved in the process, such as those involved in developing requirements and budgets. As then-defense analyst Robert Hale wrote in 2002

Efficiency requires change, and change is difficult to implement in any organization—public or private. To have any chance of success, there must be an incentive to change. Incentives start with the climate created by top leaders... But commitment must extend beyond the senior leadership to the Defense Department’s field commanders and managers. Efficiencies achieved at the base or installation level could add up to substantial savings, and the individuals running these bases will be more likely to implement changes if they have incentives to do so.⁷⁴

It is this belief that appears to have prompted Secretary Kendall to introduce guidance on implementing the Better Buying Power initiatives with the following overarching principle:

Policies and processes are of little use without acquisition professionals who are experienced, trained, and empowered to apply them effectively. At the end of the day, qualified people are essential to successful outcomes and professionalism, particularly in acquisition leaders, drives results more than any policy change.⁷⁵

(...continued)

30, 1986.

⁷⁴ Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. 20.

⁷⁵ Frank Kendall, *Implementation Directive for Better Buying Power 2.0 - Achieving Greater Efficiency and Productivity in Defense Spending*, Office of the Under Secretary of Defense Acquisition, Technology and Logistics, Memorandum, April 24, 2013.

The Importance of People and Proper Incentives

Numerous reports have highlighted the importance of people in successful acquisitions. Below are conclusions from some of the most influential reports on defense acquisitions from 1970 to the present.

- “Regardless of how effective the overall system of Department procurement regulations may be judged to be, the key determinants of the ultimate effectiveness and efficiency of the Defense Procurement process are the procurement personnel.... The importance of this truism has not been appropriately reflected in the recruitment, career development, training, and management of the procurement workforce.”⁷⁶ *Fitzhugh Report (1970)*
- “DOD must be able to attract, retain, and motivate well qualified acquisition personnel.”⁷⁷ *Packard Report (1986)*
- “Making fundamental improvements in acquisitions will require attacking the cultural dimension of the problem. Changes of the type needed will not come easily. They must be directed at the system of incentives.”⁷⁸ *GAO (1992)*
- “Give line managers more authority and accountability (reward results, not just compliance with rules; focus on the customer).”⁷⁹ *Perry Report (1994)*
- “The department should focus on creating incentives so that commanders and managers seek efficiencies.”⁸⁰ *Robert Hale (2002)*
- “To repeat: the emphasis must be on the individuals in line management.... the key to effective execution of any contract is not the quality of the contract, it is the quality of the program management responding to clear assignment of authority and accountability for each program.”⁸¹ *QDR Independent Panel (2010)*
- “There is little doubt that acquisition reforms produce limited, positive effects because they have not changed the basic incentives or pressures that drive the behavior of the participants in the acquisition process.”⁸² *Defense Acquisition Reform: 1960-2009 (2011)*

Building a Capable, Trained, and Sufficiently Sized Workforce

Analysts have concluded that insufficient resources or shortages in the number of properly trained acquisition personnel increase the risk of poor contract performance, which in turn can lead to waste, fraud, and abuse.⁸³ The issue is not just the number, but also the quality and capability of the workforce.⁸⁴

⁷⁶ Department of Defense, *Report to the President and the Secretary of Defense on the Department of Defense by the Blue Ribbon Panel*, July 1, 1970, p. 94.

⁷⁷ *A Quest for Excellence*, Final Report to the President by the Blue Ribbon Commission of Defense Management, June 30, 1986, p. xxv.

⁷⁸ U.S. General Accounting Office, *Weapons Acquisition: A Rare Opportunity for Lasting Change*, NSIAD 93-15, December 1992, pp. 2-3.

⁷⁹ Honorable William J. Perry, *Acquisition Reform: A Mandate for Change*, Department of Defense, February 9, 1994, p. 9.

⁸⁰ Robert F. Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, Be Realistic*, Center for Strategic and Budgetary Assessments, January 2002, p. iii.

⁸¹ U.S. Institute for Peace, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, Final Report of the Quadrennial Defense Review Independent Panel, July 28, 2010, p. 86.

⁸² J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 190.

⁸³ J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 195, 199. See also, Commission on Wartime Contracting in Iraq and Afghanistan, *At What Risk? Correcting over-reliance on contractors in contingency operations*, Second Interim Report to Congress, February 24, 2011, p. 17; United States Institute of Peace, *The QDR in Perspective: Meeting America's National Security Needs in the 21st Century*, 2010, p. (continued...)

In an effort to improve the size and quality of the acquisition workforce, the FY2008 NDAA mandated the establishment of the Department of Defense Acquisition Workforce Fund to enable the “recruitment, training, and retention of acquisition personnel.”⁸⁵ From FY2008 through FY2012, DOD obligated \$2.3 billion through the fund. According to DOD, this funding was used to augment training and hire an additional 8,300 people in contracting, cost estimating, systems engineering, auditing, and other related fields. Many analysts believe that while DOD and congressional efforts are starting to have a positive impact on the acquisition workforce, additional support and focus is needed.⁸⁶

DOD has recognized the need to dedicate sufficient resources to develop a more professional and skilled workforce. The 2010 Quadrennial Defense Review states that “to operate effectively, the acquisition system must be supported by an appropriately sized cadre of acquisition professionals with the right skills and training to successfully perform their jobs.... We will continue to significantly enhance training and retention programs in order to bolster the capability and size of the acquisition workforce.”⁸⁷

Creating the Right Incentives

Many analysts argue that even with a sufficiently robust, highly trained and capable workforce, the right incentives must be in place. Yet often the incentives in the acquisition process, they argue, encourage people to make poor decisions.⁸⁸ One example, discussed above, is the incentive to obligate funds before the end of the fiscal year. Another example of incentives driving poor acquisition decisions relates to cost estimating. Senior Defense officials, both past and current, acknowledge that program advocates have strong incentives to underestimate program acquisition costs. Contractors use low cost estimates to win the contract; program representatives use low estimates to argue for approval of the system against competing systems.⁸⁹ In 1981, then-Deputy Secretary of Defense Frank C. Carlucci testified that low cost estimates “are fueled by optimistic contractor proposals to win competitions and program managers who want to see their programs funded.”⁹⁰ Almost 30 years later, then-Under Secretary of Defense for Acquisition, Technology, and Logistics John

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39; U.S. Government Accountability Office, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, GAO-07-145, December 18, 2006; Commission on Wartime Contracting In Iraq and Afghanistan, *Transforming Wartime Contracting: Controlling costs, reducing risk*, Final Report to Congress, August, 2011, p. 83-84.

⁸⁴ See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 3.

⁸⁵ P.L. 110-181, section 852.

⁸⁶ Data provided by DOD. See also Department of Defense, *Defense Acquisition Workforce Development Fund (DAWDF) FY2012 Report to Congress*, Department of Defense, April 2013, p. 4.

⁸⁷ QDR, p. 77-78

⁸⁸ J. Ronald Fox, *Defense Acquisition Reform 1960-2009: An Elusive Goal* (Center of Military History, 2011), p. 197-199; Department of Defense, *Defense Acquisition Performance Assessment Report*, January 2006, p. 5; See: Business Executives for National Security, *Getting to Best: Reforming the Defense Acquisition Enterprise*, A Business Imperative for Change from the Task Force on Defense Acquisition Law and Oversight, July, 2009, p. 3.

⁸⁹ House Armed Services Hearings, 97th Cong., 1st Sess., Volume 11, 1981. Op. Cit. p. 883.

⁹⁰ House Armed Services Hearings, 97th Cong., 1st Sess., Volume 11, 1981. Op. Cit. p. 1086.

Young echoed this sentiment, stating “the enterprise will often pressure acquisition teams and industry to provide low, optimistic estimates to help start programs.”⁹¹

The absence of more reliable cost estimates denies Congress the ability to decide on competing strategic and budget priorities based on realistic cost assumptions and denies DOD the opportunity to develop a well-conceived acquisition plan. The 2010 Quadrennial Defense Review stated, “our system of defining requirements and developing capability too often encourages reliance on overly optimistic cost estimates. In order for the Pentagon to produce weapons systems efficiently, it is critical to have budget stability—but it is impossible to attain such stability in DOD’s modernization budgets if we continue to underestimate the cost of such systems from the start.”⁹²

Establishing Authority and Accountability

Authority and accountability are viewed as critical elements in building an effective workforce.⁹³ Without authority, even the most skilled and incentivized professionals cannot effectively run and manage a program. Yet many analysts believe that the management structure is too bureaucratic; that too many people can say “no” or influence a program. As one program manager recently quipped, the inside joke among program managers is that “We are not really sure who runs the program.”⁹⁴ Without anyone having practical authority to manage a program, there is no one to effectively hold accountable. The Quadrennial Defense Review Independent Panel concluded that “the fundamental reason for the continued underperformance in acquisition activities is *fragmentation of authority and accountability for performance*.”⁹⁵

Chairman Levin, Ranking Member Inhofe, this concludes my statement. I will be pleased to respond to any questions the Committee may have.

⁹¹ John J. Young, Jr., *Reasons for Cost Changes for Selected Major Defense Acquisition Programs (MDAPs)*, Memorandum, January 30, 2009.

⁹² Department of Defense, Quadrennial Defense Review Report, February 2010, p. 76.

⁹³ The Packard, for example, stated “We must give acquisition personnel more authority to do their jobs. If we make it possible for people to do the right thing the first time and allow them to use their common sense, then we believe that the Department can get by with far fewer people.” See p. xxiv.

⁹⁴ Based on conversations with program managers and other acquisition personnel, September 14, 2013.

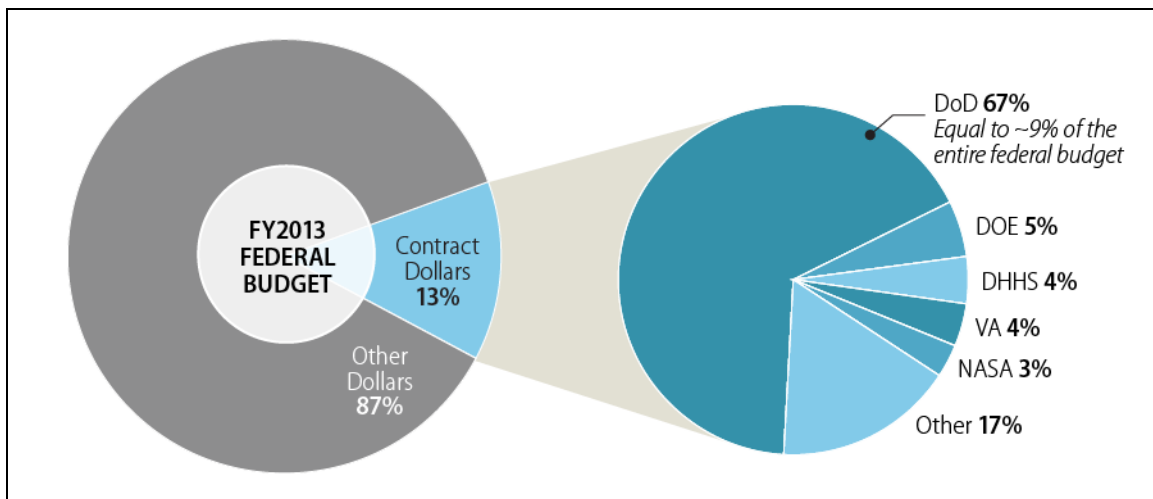
⁹⁵ U.S. Institute for Peace, *The QDR in Perspective: Meeting America’s National Security Needs in the 21st Century*, Final Report of the Quadrennial Defense Review Independent Panel, July 28, 2010, p. 85. Italics as in original.

Appendix. DOD Contract Obligations

In FY2013, the U.S. government obligated \$460 billion for contracts for the acquisition of goods, services, and research and development. The \$460 billion obligated on contracts was equal to approximately 13% of the FY2013 U.S. budget of \$3.5 trillion (**Figure 2**).⁹⁶ DOD obligated \$310 billion on federal contracts—more than two-thirds of the value of all federal contracts and more than all other government agencies combined. DOD's contract obligations were equivalent to approximately 9% of the entire U.S. budget.⁹⁷

Figure 2. Contract Obligations by Agency

FY2013



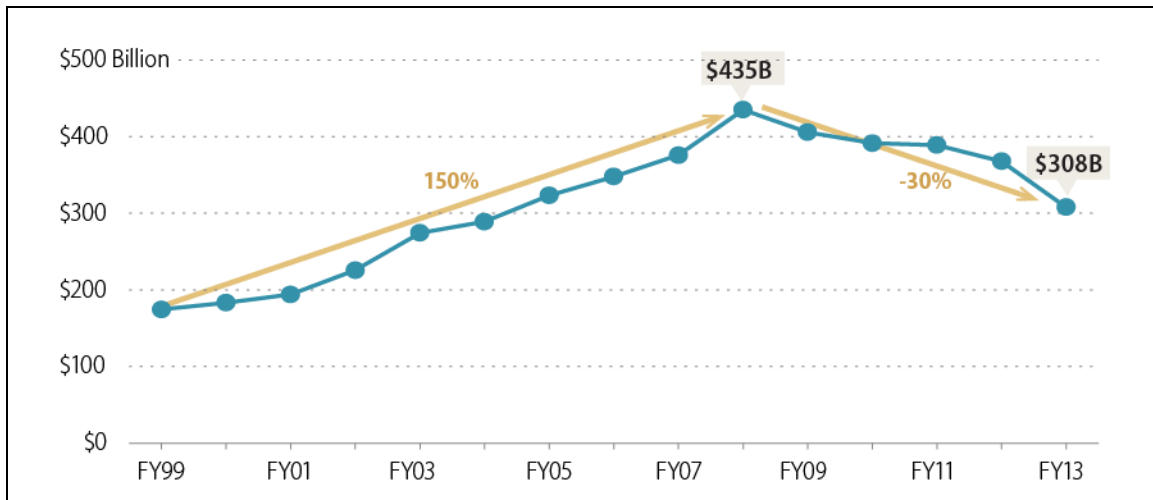
Source: Federal Procurement Data System-Next Generation, February, 2014. Figure by CRS Graphics.

From FY1999 to FY2013, adjusted for inflation (FY2013 dollars), DOD contract obligations increased from \$175 billion to \$310 billion (see **Figure 3**). Over the first part of this period—FY1999-FY2008—DOD contract obligations increased 150%, from \$175 billion to \$435 billion. This trend reversed itself in FY2008: from FY2008-FY2013, DOD contract obligations decreased by 30%, dropping from \$435 billion in FY2008 to \$310 billion in FY2013.

⁹⁶ Calculations are based on total contract obligations data as recorded in the Federal Procurement Data System—Next Generation, February, 2014. FPDS-NG does not include data from judicial branch agencies, the legislative branch, certain DOD components, or select executive branch agencies, such as the Central Intelligence Agency and National Security Agency. See also: United States Department of the Treasury, "Joint Statement of Secretary Lew and OMB Director Burwell on Budget Results for Fiscal Year 2013," press release, October 30, 2013, <http://www.treasury.gov/press-center/press-releases/Pages/j12197.aspx>.

⁹⁷ For purposes of this statement, total obligations are defined as total direct obligations. Deflators for converting into constant dollars derived from Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for FY 3013*, Department of Defense, "Department of Defense Deflators – TOA by Category 'Total Non-Pay,'" Table 5-5, p. 59-60, March, 2012.

Figure 3. DOD Contract Obligations (FY2013 dollars)
 FY1999-FY2013 (in billions)



Source: CRS analysis of data from the Federal Procurement Data System—Next Generation, February, 2014.

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