



TESTIMONY BEFORE THE SENATE BUDGET COMMITTEE

HEARING ON WASTE, FRAUD, COST OVERRUNS, AND AUDITING AT THE PENTAGON

May 12, 2021

Statement by Mr. Roger Zakheim

Director, Ronald Reagan Institute

Chairman Sanders, Ranking Member Graham, and distinguished members of the Committee, thank you for inviting me to testify today on waste, fraud, cost overruns, and auditing at the Pentagon.

The White House's recently released Interim National Security Strategic Guidance reaffirmed that the U.S. faces a "growing rivalry" with a "more assertive and authoritarian China" while we continue to face threats from Russia, Iran, terrorism, as well as cyber and digital threats, and nuclear proliferation to name only a few.¹ Though these challenges have economic, diplomatic, and technological dimensions, the continuity between President Biden and President Trump's national security strategies demonstrates a bipartisan understanding that the military will play a central role in what is now a strategic competition.

While there is always a need to ensure that defense dollars are spent effectively and efficiently, thereby reducing wasteful spending, such efforts should not result in budgets and policies that fail to provide for a military capable of fulfilling its fundamental mission – the common defense. For the Biden administration's strategy, that means resourcing a military capable of deterring a catastrophic great-power war and, if deterrence fails, preventing the escalation of the conflict and ending the war on terms favorable to the United States and its allies.

As Congress reviews the FY22 defense budget request, this Committee should consider:

- (1) Providing a 3-5% real growth per annum increase in defense spending to ensure that the Department of Defense (DOD) can execute its current strategy, mission requirements and modernize the force.

- (2) Ending the repeated use of continuing resolutions, revisiting laws that incentivize “use it or lose it” spending and continuing to support DoD efforts to realize a comprehensive, clean audit.
- (3) Ensuring that emergency spending measures before Congress do not leave DOD victim to reduced appropriations and harmful budget delays.

Defense Budget Topline: Building a Strategy-Driven Budget

Defense budgets must be strategy-driven and fiscally informed, not the reverse. Secretary Austin echoed this view during his Senate confirmation hearing saying that our “resources need to match our strategy and our strategy needs to match our policy.”ⁱⁱ As the 2018 bipartisan National Defense Strategy Commission (NDS Commission) outlined, Russia and China have embarked on massive military modernization initiatives that have diminished America’s longstanding military advantages, and even surpassed the U.S. in some key capabilities. The NDS commission, whose members included Deputy Secretary of Defense Kathleen Hicks, warned that, even with its current defense budget, “the U.S. military could lose the next state-versus-state war it fights.”ⁱⁱⁱ

China’s military spending reinforces this concern. Recent research from the Heritage Foundation concluded that when accounting for differences in official reporting, purchasing power, and labor costs, China’s 2017 defense budget amounted to 87% of the purchasing power of the 2017 U.S. defense budget.^{iv} This spending is concentrated on relatively few regional objectives, while U.S. defense budgets resource a military with a global mission, including deterring a resurgent Russia in Europe and a continuing need for presence in the Middle East. Moreover, the U.S. heavily invests in personnel costs, such as health care and pay, in a way that China does not. This is part of the reason why the PLA can afford to maintain an active force 700,000 troops larger than the U.S. while claiming to have a substantially lower topline.^v

Despite the fiscal challenges posed by the COVID-19 crisis, Beijing announced a 6.8% increase in defense spending in March 2021.^{vi} These increased resources have continued a spending trend that has funded what former National Security Advisor General H.R. McMaster has accurately described as “the largest peacetime military buildup in history” and led Admiral Phillip Davidson, outgoing commander of U.S. Indo-Pacific Command, to testify before the Senate Armed Service Committee that the Chinese military threat to Taiwan may materialize within the next six years.

The Trump administration deserves some credit for launching an effort to respond to this challenge by seeking to rebuild the military, yet this work is by no means complete. In fact, much of the increased funding appropriated in fiscal years 2018 through 2020 was allocated toward restoring readiness, with only a small percentage focused on modernization. Accordingly, the NDS Commission’s recommendation that a 3 – 5% real growth per annum increase in defense spending remains an urgent priority for the U.S. military to project power and uphold alliance commitments. While the Commission noted that this number is more “illustrative than definitive” what is clear is that real budgetary growth is required to maintain readiness and modernize the force.^{vii}

Assessing the Impact of Defense Cuts

Even before COVID-19 triggered America’s economic downturn, calls to reduce defense spending emerged from elements in both political parties. Now, with historic deficits resulting from federal spending on COVID-19 relief and other proposed spending measures, those calls are increasing. To examine the real consequences of cuts to the Pentagon’s resources, the Ronald Reagan Institute and the Center for Strategic and Budgetary Assessments (CSBA) hosted two Strategic Choices Exercises this past fall. Bipartisan groups of recognized leaders in their fields — defense and budget experts, current and former policy makers, and industry executives — utilized CSBA’s interactive Strategic Choices Tool to weigh the tangible implications of defense budget changes.

The results of this bipartisan group effort were clear: defense budget cuts would have devastating consequences of our military and our national security. A ten percent cut – a proposal introduced (and soundly defeated) in both chambers last Congress – would leave the United States with a military that is incapable of carrying out the current National Defense Strategy. It would compel the DOD to re-examine its current standard of maintaining a force that can win one war while deterring another. To realize cuts of this magnitude, experts were forced to significantly reduce the military’s force structure — the size and organization of our military — leaving the participants to question America’s ability to win one war, let alone deter a second.^{viii} In other words, “with cuts of this magnitude the United States could be reduced to a de facto hemispheric power by 2030.”^{ix}

When forced to implement a 10 percent cut, participants made choices with dubious political and strategic assumptions. For example, teams made significant cuts to personnel, force structure and modernization programs that heretofore have proved politically impossible. Similarly, teams cut the contractor and civilian workforce by approximately 10 percent and 30 percent, respectively. Such cuts would result not only in large reductions in support and expertise provided to warfighters but also a quick and dramatic loss of a substantial number of American jobs.^x

On the strategic level, the consequences are no less real. Defense cuts would place further strain on an alliance system already under severe pressure. They would leave the United States with a significantly reduced forward presence that would be less able either to deter adventurism by adversaries or to assure allies that America will come to their defense.

The Administration’s \$715 billion dollar budget request for FY 2021, when accounting for inflation, is a reduction from the previous fiscal year. While this may appear to be sufficient to maintain the status quo, readiness and modernization accounts will shrink as other budget lines, such as personnel and operations and maintenance accounts, tend to demand continued real growth. Thus, the Administration’s budget will likely exacerbate the Department’s ability to modernize. Put differently, defense cuts do not equal defense reform; rather, as our strategic choices exercise makes clear, less resources result in a less capable fighting force.

A More Efficient Pentagon – Ending Continuing Resolutions (CR), “Use-it-or-lose-it” Incentives and the DOD Audit

As this Committee considers how to reduce waste and inefficiency, it ought to consider one of the most consistent drivers of inefficiency in the Department of Defense –continuing resolutions.

As this Committee knows, DOD has started the fiscal year under a CR fifteen of the past twenty years (FY2002-FY2021) creating unnecessary uncertainty that creates significant management challenges for the Department.^{xi} Interim CRs create compressed timelines for expenditures and generate waste by requiring short-term contracts that must be resigned once additional funding has been allocated. One Congressional Research Service report gave the following example of the inefficiencies created by reliance on CRs:

“For example, as the Air Force program to procure a new combat rescue helicopter transitions from development to production between FY2019 and FY2020, the amount requested for R&D dropped by about \$200 million while the amount requested for procurement rose by a 12-percent larger amount. Although the total amount requested for the program in FY2020 is thus \$25 million higher than the total appropriated in FY2019, a CR that continued the earlier year’s funding for the program would be problematic: The nearly \$200 million in excess R&D money could not be used to offset the more than \$200 million shortfall in procurement funding, absent specific legislative relief.”^{xii}

These inefficiencies cost real money, reduce military readiness, and hinder modernization. A few recent examples: In December 2017 Secretary of the Navy Richard Spencer stated that since 2011, CRs had cost the Navy \$4 billion.^{xiii} Before the beginning of FY 2018, DOD delayed starting seventy-five weapons due to the rule that govern CRs.^{xiv} At the 2019 Reagan National Defense Forum, Secretary Esper reported the Department was unable to begin almost 200 new-start programs and nearly 100 production increases due to the CR.^{xv} As the NDS Commission concluded, CRs have had a “grave material impact, encouraging inefficient, “use-it-or-lose-it” spending by the services at the end of the fiscal year, resulting in delays in acquisitions and modernization, and exacerbating readiness problems throughout the force.”^{xvi}

Another reform the Congress might consider is revisiting legal restrictions that incentivize “use-it-or-lose-it” spending. As currently mandated, Congress permits the Defense Department to transfer only a total of \$6 billion from one appropriations account to another in any given fiscal year and, with some exceptions, prohibits using appropriated funds across fiscal years. Thus, in the last month of every fiscal year, Pentagon programmers are incentivized to spend the balance in their annual budgets, rather than obligate the funding in the next fiscal year which would likely advance a more strategically sound purpose.^{xvii}

Congress should also continue to support DOD efforts to realize a clean audit. With some \$3.1 trillion in assets, auditing DOD was always going to be a monumental task. A similar initiative at the Department of Homeland Security, a substantially smaller organization, also took 10 years to pass an audit. As one recent report noted, “defense financial systems were established to track how the DOD applies funding to defend the country. They were not set up for business efficiency or to produce detailed financial documentation at the enterprise level.”^{xviii}

Though the process has involved around 1400 auditors and cost taxpayers close to \$1 billion, the ongoing Audit mandated by the Government Management Reform Act of 1994 is generating reforms that increase DOD’s performance and accountability.^{xix} These efforts have resulted in

the consolidation of data access and IT systems, enabled more efficient resourcing of defense spending, and assured taxpayers that DOD resources are not wasted on fraud. This last point is critically important: while a fully clean audit is likely years away, for the third straight year auditors found no evidence of fraud.^{xx} Moreover in 2020, 16.3% of the issues identified in the previous year's audit had been fixed.^{xxi}

Impact of Emergency Spending Measures on DOD: Challenges and Opportunities

This Committee should also consider how emergency spending measures before this Congress may impact the Department of Defense and the annual appropriations process. The combined spending of the Coronavirus Aid, Relief, and Economic Security Act and the proposed American Jobs Act and American Families Plan, if passed, would result in over six trillion dollars of federal spending. In the aggregate these measures would add up to the equivalent of over four years of federal discretionary spending. These bills resource domestic areas exclusively, which under normal circumstances Congress would fund through annual appropriations measures that naturally balance defense and domestic priorities. Given the size and scope of these emergency bills, Congress may be less incentivized to balance spending priorities given the trillions it may spend on domestic priorities. Though the unprecedented crisis brought on by the COVID-19 pandemic justifies emergency spending, prioritizing multi-trillion multi-year omnibus packages threaten to exhaust Congressional appetite for spending during its regular consideration of the President's budget request leaving the DOD in a precarious funding position.

To mitigate this outcome, Congress should consider funding defense priorities which complement the priorities of the emergency bills. Specifically, the Administration's infrastructure proposal provides an excellent opportunity to enhance military bases and housing, industrial base infrastructure, like shipbuilding^{xxii}, and critical research and development programs and projects. From the construction of the interstate highway system to the contemporary need to secure the defense industrial base's supply chains, infrastructure has long been critical to U.S. national security. Although the White House's plan to allocate \$50 billion to bolster a domestic superconductor industry represents a small victory, the American Jobs Act in its current iteration is a missed opportunity to resource national security-relevant infrastructure.

The nation's cyber resiliency represents a particularly urgent area in need of infrastructure investment, which the American Jobs Act currently underfunds. While the Biden administration plans to "integrate cyber with the design and implementation of the [American Jobs Plan] with investments in cyber security," no funds are allocated to protect the energy grid enhancements and other infrastructure expansions currently proposed by the bill. The damage caused by the recent cyber-attack on the Colonial pipeline, which has already required federal assistance, demonstrates the critical need to protect the energy grid enhancements and other infrastructure investments proposed in the plan.^{xxiii}

Conclusion

In 1984, President Reagan observed, "history teaches that war begins when governments believe the price of aggression is cheap. To keep the peace, we and our allies must be strong enough to

convince any potential aggressor that war could bring no benefit, only disaster.” This philosophy of “peace through strength” is strengthened by healthy reforms, such as consistent and timely appropriations and modernized financial management practices. Budget cuts masked as reform will only weaken our national defense. The recently released Reagan National Defense Survey reveals that three in four Americans, including significant majorities of both Republicans and Democrats, favor increasing defense spending. Americans understand what it takes to sustain the peace and our prosperity, and they are willing to make the investments necessary to support a strategy that delivers just that. It is imperative that this Committee balance domestic and national security priorities in a fashion that ensures our military is properly resourced to meet the demands of our national defense obligations.

ⁱ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/03/interim-national-security-strategic-guidance/>

ⁱⁱ <https://www.armed-services.senate.gov/hearings/watch?hearingid=B375A7FA-5056-A066-60BB-60103D5F5D6F>

ⁱⁱⁱ <https://www.usip.org/sites/default/files/2018-11/providing-for-the-common-defense.pdf>

^{iv} <https://www.heritage.org/asia/report/chinas-defense-budget-context-how-under-reporting-and-differing-standards-and-economies> See also

https://www.realcleardefense.com/articles/2021/05/03/combined_china_and_russian_defense_spending_exceed_us_defense_budget_775323.html

^v For more on China R&D spending see <https://www.defensenews.com/opinion/commentary/2021/04/05/why-slashing-the-pentagon-budget-would-be-a-disaster/> and see

<https://www.heritage.org/defense/commentary/chinas-defense-spending-larger-it-looks>

^{vi} <https://www.csis.org/analysis/understanding-chinas-2021-defense-budget>

^{vii} See supra note iii at 52.

^{viii} https://www.reaganfoundation.org/media/356490/rri_csba-americas-strategic-choices.pdf

^{ix} <https://www.reaganfoundation.org/reagan-institute/centers/articles/biden-s-post-covid-defense-budget-choice-a-resurgence-or-a-decline/>

^x See supra note vii

^{xi} <https://fas.org/sgp/crs/natsec/R45870.pdf> See also <https://www.csis.org/analysis/what-continuing-resolution-means-defense-and-space-force-funding-fy-2021> and <https://federalnewsnetwork.com/government-shutdown/2020/09/senate-sends-shutdown-averting-continuing-resolution-to-trumps-desk/>

^{xii} Id.

^{xiii} Id.

^{xiv} Id.

^{xv} <https://www.youtube.com/watch?v=kEtP8j3MvRc>

^{xvi} See supra note iii at p. 57

^{xvii} See <https://www.militarytimes.com/news/your-military/2019/03/12/use-it-or-lose-it-dod-dropped-46-million-on-crab-and-lobster-and-9000-on-a-chair-in-last-minute-spending-sprees/> For impact on modernization, see also <https://thehill.com/opinion/546097-reform-the-pentagons-budget-process-or-lose-our-military-and-tech-advantages>

^{xviii} <https://www.aei.org/wp-content/uploads/2021/04/What-Should-You-Know-About-the-Defense-Audit.pdf?x91208>

^{xix} https://www.armed-services.senate.gov/imo/media/doc/Norquist_11-20-19.pdf

^{xx} <https://www.defensenews.com/pentagon/2020/11/16/the-pentagon-failed-its-audit-again-but-sees-progress/>

^{xxi} Id.

^{xxii} <https://www.wsj.com/articles/want-infrastructure-build-shipyards-11619044766>

^{xxiii} <https://www.politico.com/newsletters/weekly-cybersecurity/2021/04/26/the-push-for-cyber-funding-in-bidens-infrastructure-plan-794879>