

CATO POLICY FORUM
“DEFENSE SPENDING, NATIONAL SECURITY,
AND THE WAR ON TERRORISM”

WASHINGTON, DC
FEBRUARY 6, 2005

[Approx. 1,400 words]

Introduction: “Better is Better”

- Although I’m the first speaker, I suspect that Business Executives for National Security – or BENS -- approaches the question of defense spending somewhat differently than the other panelists.
- It is inaccurate to describe BENS as a “business organization.”
- We are an organization of business executives.
- In our work with BENS, each member leaves behind the interests of our particular business.
- As such, this work does not represent the special interest of business – making money.
- Rather, we simply offer the lessons of our successful business practices to help the national security apparatus perform better.
- A nonpartisan group, we take no position on the size of the defense budget.
 - Some groups say that more defense spending is better.
 - Others say that less is better.

- At BENS, we believe that *better* is better.
- Whatever our nation spends on defense, we need to spend it better and smarter.

“Tail-to-Tooth”

- We approach the defense budget in much the same way we would approach our own businesses:
 - Are we spending defense dollars as wisely, effectively and efficiently as possible?
 - In a word: are we getting our money’s worth?
- President Bush has pledged to spend “whatever it costs to defend our country.”
 - For the next fiscal year, he proposes a defense budget of 419 billion dollars.¹
 - And that does *not* include the \$81 billion supplemental for Iraq and Afghanistan.

¹ Bush’s FY2006 budget proposal includes \$419.3 billion for DOD – 4.8 percent more than 2005, but \$3 billion less than projected for 2006 in last year’s plan. The \$419 billion figures does not include the \$80 billion supplemental for Iraq and Afghanistan. Source: Washington Post.

- So are we getting \$500 billion worth of security?
 - The answer is clear: “no.”
 - Most of the money we need for a 21st century military is wasted on a 20th century bloated bureaucracy.
 - Only about 30 percent of the defense budget directly reaches our warfighters – what is known as the fighting “tooth.”
 - Seventy percent goes to overhead and infrastructure – the bureaucratic “tail.”
- For the sake of our troops and our security, we need to reverse this “tail-to-tooth” ratio.

The Business of Defense: Spending Smarter

- At BENS, we see four key areas where the Department of Defense can spend smarter.
 - **First, commercial operations.**
 - DOD continues to spend tens of billions of dollars every year performing *commercial* services, like housing, health care, and long-distance communications.

- **The Pentagon has *more than one million* employees doing jobs you can find in the Yellow Pages – like payroll and maintenance – that the private sector can perform faster, better and cheaper.**
- **This would allow the military to focus on what *it* does best – fighting and winning wars.**

- **Second, DOD’s outdated acquisition and logistics systems.**
 - **It still *costs too much* and *takes too long* to bring new weapons from the drawing board to the battlefield and to get supplies to troops in the field.**
 - **The decision to cancel the Army’s Comanche helicopter – which was billions over budget and decades behind schedule -- is the exception not the rule. Costs soar. Deadlines are missed. But the funding never ends.**
 - **It should take weeks or months – not months and years – to get our troops the life-saving technologies they need on the battlefield.**
 - **Instead of “just-in-case” logistics, the Pentagon should adopt the “just-in-time” approach of successful businesses like FedEx and UPS.**

- **Third, DOD’s archaic budget and accounting system.**
 - **The Pentagon still has perhaps as many as 4,000 different financial management systems – and yet it *still* cannot account for *billions* of taxpayer dollars *every year*.**
 - **Like any business, Pentagon managers need to have accurate, up-to-date information so they can make informed decisions and measure – and reduce – costs.**

- **And fourth and finally, excess infrastructure.**
 - **Despite the success of previous rounds of BRAC (Base Realignment and Closure) – a process that BENS played a key role in getting approved -- the Pentagon still has \$660 billion tied up in property, much of it unneeded.**
 - **No business could compete with that kind of dead weight.**
 - **The next round of BRAC scheduled to begin this year could save another \$3 billion annually by 2010.**
 - **This, however, is not its primary benefit.**
 - **BRAC is critical for two other reasons:**
 - ***Within* the military, BRAC unlocks billions of dollars that can be reinvested in modernizing and transforming the fighting “tooth.”**

- **Having fewer bases forces the Army, Navy, Air Force and Marines to train jointly.**
- **And *beyond* the military, BRAC ends the quasi-socialist dependence of communities on the government money that flows from military bases.**
- **History shows that most communities that free themselves from this dependence attract new industries and create *more* jobs.**
- **With the creation of \$30-billion Department of Homeland Security, an entire new bureaucracy faces the challenge of spending smarter.**
 - **Although BENS takes no position on the DHS budget, it's fair to ask:**
 - **Are we allocating our homeland security dollars wisely?**
- **In the December issue of *The Atlantic*, Jim Fallows notes that the Transportation Security Administration has a budget of more than \$5 billion – 80% of which goes for airport screening, including forcing small children to take off their shoes.**
- **That leaves less than \$1 billion for everything else – roads, bridges, subways, tunnels, railroads, ports, etc.**

- **Eighty percent for airports when up to 80 percent of shipping is by truck?**
- **When 98 percent of ships entering U.S ports are not inspected?**
- **Why are we not spending smarter?**
- **Keep in mind that the banker and board of directors of DHS are the 534 members of Congress – which needs to put its house in order.**
- **BENS recently formed a task force with CSIS on homeland security oversight.**
- **The Department of Homeland Security reports to dozens of different committees and subcommittees with different priorities and different agendas.**
- **No business could function with such dysfunctional oversight.**
- **There has been some progress in reforming oversight in the House of Representatives.**
- **But there needs to be a massive streamlining of oversight – with a single homeland security committee in both the House and Senate.**

“Being Dead is Bad for Business”

- **In addition to spending defense dollars smarter, BENS has always focused on the threat of weapons of mass destruction.**

- **People have often asked me why a business group would be interested in the issue . . .**
- **To which I have always replied: “Being dead is bad for business.”**
- **Today, we face a new kind of threat that cannot be deterred or negotiated away – from terrorists who want to strike us where we live, work and play.**
- **So we need partnerships between government and business.**
 - **No amount of government spending alone can protect us.**
 - **Some 85 percent of America’s critical infrastructure – food and water supplies, the energy sector, financial networks, and transportation – is owned and operated by the private sector.**
- **The Department of Homeland Security has reached out to the private sector . . . and business – including BENS – has reached back.**
 - **Across the country, BENS is creating what we call Business Forces to fill gaps in our homeland security that government cannot afford to fill alone.**
 - **Local businesses volunteer their facilities, equipment and employees to help state governments prepare for and respond to a terrorist attack on U.S. soil.**

- **For example: if New Jersey or Georgia experienced a smallpox attack, vaccinating all 8 million people in each state would take 80,000 people – but New Jersey and Georgia only have about 2,500 public health workers apiece.**
- **So through the BENS Business Force, corporations and their employees are being recruited to learn how to deal with the massive task of vaccinating millions of citizens.**
- **In the Midwest, an outbreak of foot-and-mouth disease would require the destruction of millions of livestock.**
 - **A Pentagon wargame predicted the U.S. would need to kill 34 million animals . . .**
 - **Which prompted an EPA official to ask her DOD counterpart: “Do we have 34 million bullets?”**
 - **So our Business Force based in Kansas City is tapping the expertise of the private sector to help the government prepare for agro-terrorism.**
- **Across the country, defending the homeland – a financial and logistical burden that government cannot bear alone – demands new partnerships with business.**

Conclusion: “A Prolonged and Complex Struggle”

- **Since our founding, those of us at BENS have considered President Eisenhower’s legendary farewell address as something like our guiding charter.**
- **On January 17, 1961, he said: “America is today the strongest, the most influential and the most productive nation in the world. Although proud of our pre-eminence, we now face a prolonged and complex struggle with a hostile ideology [that is] global in scope, ruthless in purpose and insidious in method.”**
- **Four decades later, America once again faces a hostile ideology – but which, this time, seeks to wage war on U.S. soil.**
 - **The front lines run through our cities.**
 - **So business and government have no choice but to work together.**
- **Whatever we spend on this war on terrorism, we must spend smart:**
 - **Better is better.**
 - **Thank you.**

ADDENDUM: Less is Better!

“Tail-to-Tooth”

[How BENS approaches the defense budget]

- Are programs operating within budget?
- Are we setting priorities, and does our spending match our priorities?

[Defense budget is more than \$400 billion – and growing]

- This does *not* include the \$5 billion per month for the war on terrorism, including Iraq and Afghanistan . . . paid for by “emergency” supplemental bills.
- Nor does it include what might be called the larger “national security budget;” virtually every federal department now has some role in protecting our national security – the State Department, the Intelligence Community, Homeland Security, FBI, Justice, Commerce, Treasury, Agriculture.

[“Tail-Tooth Commission”]

- Several years ago BENS sponsored the Tail-to-Tooth Commission, chaired by Warren Rudman and Josh Weston, Chairman of Automatic Data Processing.
- As Secretary Rumsfeld has said: “Every dollar squandered on waste is [a dollar] denied to the warfighter.”

- The defense department, of course, is not a business.
- Unlike businesses, the military cannot afford to fail; its bottom line is not profit but the security of our country.
- The warfighting “tooth” should never be privatized or outsourced.
- But the bureaucratic “tail” should operate more like business.
- And new money for defense cannot be an excuse for old spending habits.

The Business of Defense: Spending Smarter

- Of all the federal programs considered “high-risk” for waste and abuse by the General Accounting Office, the Pentagon accounts for more than any other department.
- The Pentagon has made some progress in recent years, from Secretary Cohen’s Defense Reform Initiative to Secretary Rumsfeld’s management reforms.
- Even so, the GAO sees “little tangible evidence” of significant, sustainable reform.²

[Commercial Operations]

- Also, today’s system actually *encourages* waste; an efficient military department that does not spend its full budget one year invites budget cuts the next year.

[Acquisitions & Logistics]

- The \$55 billion in defense cuts being considered over the next six years – including cuts to the new F/A-22 Raptor, shipbuilding and nuclear subs -- are driven more by

² GAO chief David Walker: “little tangible evidence of significant broad-based and sustainable improvements has been seen in DOD's business operations to date” (Nov. 18, 2004, testimony to the Senate Armed Services Committee).

budget realities (deficits, Iraq) than by a management philosophy that emphasizes cost and affordability.

- A logistics example: the defense department spends about \$100 billion every year on logistics . . . but it can still take up to three weeks to replace spare parts – something the private sector can do in 48 hours!

[Budget & Accounting]

- Last year, the GAO once again reported that DOD’s “financial records are so unreliable that an audit simply cannot be conducted.”
- But the GAO *was* able to find more than \$400 million in waste due to bad accounting, including:
 - \$100 million in uncollected federal taxes on defense contractors; and
 - \$115 million on unused airline tickets for defense personnel.

[BRAC]

- We will never get the faster, lighter and more lethal fighting “tooth” we need – *no matter how much we spend* – without a faster, lighter and more nimble support “tail.”
- Indeed, BRAC is the single most important step to transforming the military.

[Spending Smarter Summary]

- Individually, these reforms could save billions of dollars.

- But to paraphrase Everett Dirksen – a billion here, a billion there, pretty soon we’re talking real money.
- All together, spending smarter in these areas could save up to \$30 billion *every year* that can help fuel the transformation of the military to fight the war on terrorism.

[DHS Oversight]

- BENS recently joined with the Center for Strategic and International Studies to sponsor a task force on homeland security oversight chaired by Warren Rudman and former Speaker Tom Foley.
- When you are accountable to everyone, you are accountable to no one.

“Being Dead is Bad for Business”

- Rather than a think tank, we consider ourselves a “do tank” – bringing the ideas and innovations of business to help make our country safer.
- In the early 1980s we helped create the U.S.-Soviet Nuclear Risk Reduction Centers.
- I was often asked why a business organization would be involved in reducing Cold War tensions, to which I replied: “being dead is bad for business.”