

The Mess In US Procurement

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No single Pentagon office is in charge of buying arms and equipment. Each military service and the Department of Defense does its own procurement, in its own way. Even Secretaries of Defense have avoided interfering with the way the military services and their favorite contractors go about the business of buying and selling arms.

To correct this problem, President Clinton should establish a Blue-Ribbon panel to clean up the mess in military procurement. A useful approach would be for the President to put someone in charge with no potential conflict of interest — the Comptroller General of the United States who also heads the General Accounting Office — and give him a year to come up with a uniform military procurement system to replace the patchwork process now in place.

Congress Has Tried to Correct the Problem

Over the years, scandals involving fraud, waste and abuse led to demands for corrective actions, and steps were taken to create more competition, gain better visibility of contractors' costs when competition is absent, and improve the system of audits and accountability. Many problems remained unsolved but the government was placed in a better position to obtain the information it needed to award contracts, monitor their progress, and curb criminal activities.

In the early 1990s, the defense industry and its allies in Washington promoted a round of procurement reforms that all but eliminated these safeguards against mismanagement and contract abuses. As a way to cut costs, this new approach assumed that much of what the military requires can be bought in the commercial marketplace, reducing government audits and the need to scrutinize defense contract performance. Under this approach, which may make sense when the military's commercial market is truly competitive, Pentagon purchasing agents are supposed to compare prices for the item among different manufacturers and decide which one to buy.

In such a transaction, the government dispenses with negotiations over the price, examination of the manufacturers actual costs, monitoring of production, and audits. Although the core of the arms market is made up of monopolies and near monopolies of products such as bombers, aircraft, submarines, carriers, and many categories of spare parts, the procurement reform legislation enacted in the early 1990s authorizes the Pentagon to determine that a piece of equipment or an entire weapon is a commercial item and can be purchased accordingly.

That is how the Air Force is buying the newest version of the C-130 cargo plane, called the C-130J. This plane has become notorious in the past several years as an example of the congressional military pork barrel. Each year, for the past two decades, Congress has added large sums to the defense budget to buy C-130s that the Air Force has not requested, and directed that they be given to national guard and reserve units in the districts and states of key legislators. More than 250 of the planes were acquired this way. But equally significant, if not more so, is the hands-off, commercial way it is being acquired.

Critics of the J model argue that its modest upgrades are not worth the approximately 50 percent increase in price over previous models. In fact, the Air Force has more planes of this type than it needs and is also protesting its high price.

This year, an internal Pentagon report severely criticized the plane. A Defense Acquisition Executive Summary report, prepared for the Office of Secretary of Defense, identified numerous deficiencies in the C-130J's

performance and in the ability of the contractor, Lockheed-Martin, to meet schedules for the delivery of software and hardware items and for testing. The report concluded that the bulk of the problems on this program stem from the unusual nature of a congressionally directed procurement and the new acquisition reform environment.

But the group that issues these reports has little clout in the Pentagon. More weighty is Lockheed-Martin's threat that if the Air Force stops buying the cargo planes it will shift its overhead costs to the already expensive F-22 fighter plane, which the contractor is building in the same facility. The Air Force included \$42.9 million for the C-130J in this year's budget. While that is a relatively small amount for this plane, experienced budget watchers say it invites Congress to once again add money to buy more of them.

Most new weapons are still being purchased through procurement contracts that are negotiated with the contractor, rather than through the commercial item loophole. Technically, these weapons must meet military performance standards and the scrutiny of the contracting organization. The reality is that under the new acquisition reform environment management and oversight have become so weakened that there is less likelihood than before that performance and cost objectives will be met.

The Procurement Culture Endures

In addition, the traditional arms procurement culture lives on. The major imperative of this culture can be summarized as, get the money from Congress and run. Once the Pentagon decides to buy a new weapon, it takes whatever steps are deemed necessary to secure congressional approval. This may mean responding to complaints about high costs by reducing the quantities on order to make costs fit the budget, exaggerating performance, misrepresenting test results, postponing or eliminating some tests to make up for manufacturing delays or gloss over test deficiencies, and making unwarranted claims about future savings in operating and maintenance costs.

The current new tactical aircraft programs are cases in point. The Air Force F-22 fighter and the Navy F-18E/F were seen by Congress as too expensive. The Pentagon's response was to pare back the quantities of each program. The result was to balloon the costs per plane as there were fewer to absorb the cost of development. But Congress was satisfied and the development money has flowed. The current estimates are that the F-22 will cost \$184 million each and \$62.7 billion for the entire 341 item program, and that the F-18E/F will cost \$86 million each and \$47 billion for all 548 planes.

Both programs are nightmarish examples of the reformed procurement system. The F-22 already has had cost overruns totaling more than \$14.5 billion, and full-scale production has not begun yet. Indeed, that is the problem. There have been serious problems in the initial manufacturing of the plane and in the development of the avionics system. These have caused delays in deliveries of the test aircraft and in scheduled tests. The Air Force's solution is to defer or eliminate some of the testing and go directly to production, in the hopes that the problems get fixed before too many planes are built. This approach invites disaster and is contrary to the commercial market, where new products are fully tested and problems resolved before production starts.

A similar situation exists with the F-18E/F, being built by Boeing. Among the numerous deficiencies noted in tests of this plane are wing drops — the plane unaccountably wobbles at the altitude and speed where combat is expected, and the weapons separation problems — bombs dropped by the plane have a bad habit of colliding with each other. In 1998, the Navy claimed that the wing drop problem was solved, but the General Accounting Office discovered that the fix was only a partial solution and caused new problems. Still, the Navy, like the Air Force, plans to rush into production. The response of Congress is to wag its finger while paying the bills. Last year, the House Armed Services Committee directed the Air Force Secretary to certify by the year 2000 that the F-22 is

within the cost limits and that tests will be performed as planned. But the committee said if the Secretary cannot make such certification, he should explain why and provide new cost estimates.

President Eisenhower warned against the militaryindustrial complex as he ended his second term. Bill Clinton could be the first president to do something about it.

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