

# RESTORING *FREEDOM'S* FORGE

**AMERICAN INNOVATION UNLEASHED**

BY SENATOR ROGER WICKER



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*The ideas and proposals contained in the following pages are solely those of U.S. Senate Armed Services Committee Ranking Member Senator Roger F. Wicker, R-Miss. The appearance of U.S. Department of Defense (DoD) visual information does not imply or constitute DoD endorsement.*

# INTRODUCTION

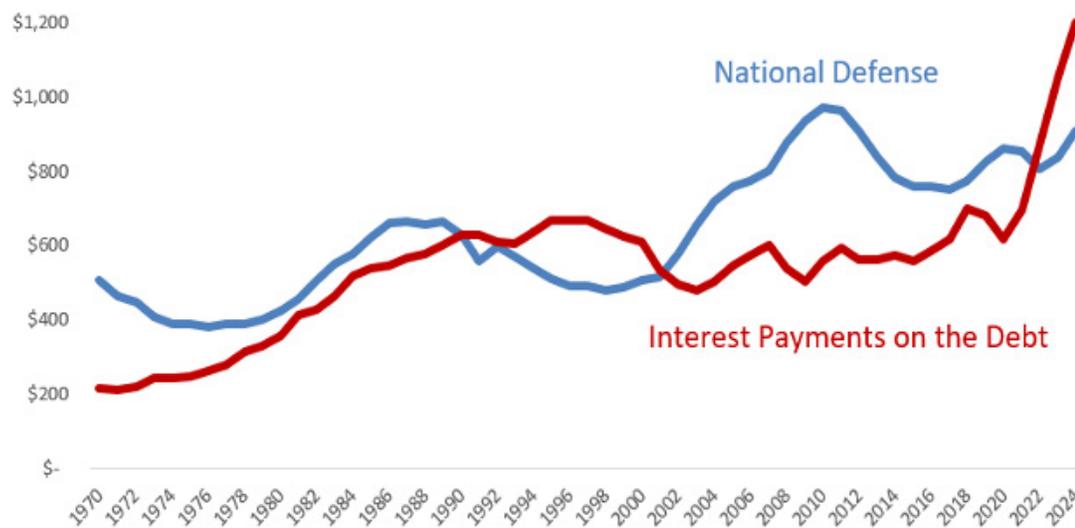
“The bureaucracy won’t change itself; that is like asking a whale to fly. Only the Congress can reduce the system’s size and bring some order out of chaos.”

Admiral Hyman Rickover

The Federal Government is hobbled by bloat, bureaucracy, and inefficiency that is undermining the economic and military strength of the United States. Interest payments on the debt are approaching [\\$1.2 trillion](#) in 2024 compared to a topline defense budget of [\\$850 billion](#). As a share of federal spending, the defense budget has fallen from nearly 60 percent to just 10 percent since the 1950s. While we must prioritize our national security, and I believe investing five percent of gross domestic product is a crucial goal, the Department of Defense (DOD) must contribute to a larger effort that will drive efficiency into every aspect of our government. This report and associated bill language will address the efficiency of defense programs, lending credence to the idea that a larger defense budget will be money well spent and a catalyst for the reindustrialization of America.

Critics of current defense acquisition practices often suggest that eliminating price gouging will free significant funds for real security needs. Many have cited famous examples: the [\\$600 hammer](#) or the [8,000 percent markup](#) on a C-17 soap dispenser. On both, the story is more complicated than price gouging. Accountants disproportionately spread overhead costs across various line items, giving the \$600 hammer that eye-popping tag. The C-17 soap dispenser contained unique Air Force requirements for decompression, shock, acceleration, and flammability.

Unfortunately, much of the Pentagon’s business inefficiencies do not stem from anything as straightforward as price gouging. The problems are fundamental and are interconnected. DOD operates non-commercial business systems, requires unreasonable qualifications, orders at low production volumes, and lacks leverage on sole source suppliers.



Interest Payments on the Debt Has Overtaken Defense Funding (Constant 2024 \$B)

The situation is not just a 21st century problem. In the 1970s, the Comptroller General [estimated](#) that half of all defense research and development funding was spent on paper documentation. By all accounts, bureaucracy and risk aversion are worse today. Researchers found that the acquisition cycle time has jumped more than [four-fold](#) since the 1950s – primarily driven by obstacles that impede decision-making.

What do we get for the endless daisy chains of approvals and documentation? Certainly not improved outcomes. For example, it took the Army [10 years](#) just to release a contract solicitation for a handgun that contained a mountain of requirements and compliance. The administrative complexity scared some major manufacturers away. They opted not to bid on the contract rather than face the paperwork. Even government officials find it hard to navigate their own bureaucracy. Every year, we spend roughly [\\$2.5 billion](#) in the Washington, D.C., region alone to hire contractors to manage programs. The clock would be ticking for any company that operated this way.

Emergencies indicate how procurement could be different. When a crisis arises and the paper process is thrown out, there is consistent evidence that projects are completed better, cheaper, and faster. The Mine-Resistant Ambush Protected (MRAP) program, the Rapid Equipping Force, and Joint Improvised-Threat Defeat Organization are examples of successful efforts during the Global War on Terror. In contrast, poor performance is pervasive in programs that follow the peacetime process, such as the DDG-1000, Future Combat Systems, Joint Tactical Radio System, and the GPS Next-Gen Operational Control System. Poor performance results from bureaucratic practices that have separated our commercial industrial base from defense, leaving our weapon systems generations behind. For example, the computing power of the F-35 [lags behind](#) new consumer items like a Tesla.

We can regain the advantage. To do so, defense officials must embrace a new world. Today, we count autonomous militarized drones by the millions, industry drives technological evolution, and operational success is determined by speed to deploy capabilities. The time to admire the problem is over. In recent years, private capital has poured into defense startups by the billions. To draw entrepreneurship and technology back into defense, we must start buying advanced systems from the best talent that exists today.

Major players in industry and government have outlined plans for such an acquisition overhaul. Palantir strives to bring more startups into defense production and has dubbed its initiative the [“First Breakfast.”](#) The title is meant to reference – and reverse – the infamous 1993 “Last Supper,” an event which accelerated the consolidation of defense contractors. Private investors have created an organization to tap into [“American Dynamism,”](#) funding entrepreneurs who are pursuing groundbreaking technology. Former Department of Defense officials have worked to popularize the [“Hedge Strategy”](#) – a plan to supplement our exquisite systems with small, inexpensive, unmanned capabilities running on cutting-edge software. They have also promoted the [“Fast Follower”](#) model. The idea envisions a DOD that lets industry lead in innovation but then jumps in as the first to adopt technological breakthroughs.

The benefit of plans of this kind is that defense will not keep pace with innovation unless we decisively reform the acquisition bureaucracy. No single barnacle will slow down a ship, but a mass buildup of barnacles creates drag and, if left unaddressed, corrodes the hull. We cannot debate the issue of efficiency in a piecemeal fashion, one barnacle at a time. The president must take an active role to make major improvements to defense acquisition. But with much of the current regulations grounded in statute, fixing the problem will take close coordination and a partnership with Congress.

We have a generational opportunity to transform the Pentagon for the 21st century. This report outlines steps Congress should take to support the president in freeing our defense enterprise and allowing the United States to outpace and out-innovate our adversaries once again. I introduced specific legislative language in the FORGED Act to enable these recommendations.

## I PROPOSE A FIVE-PART PLAN FOR DRIVING EFFICIENCY INTO WEAPON SYSTEMS ACQUISITION:



**Cut Red Tape.** Decades of layered statute and regulation has created a labyrinth of rules that prevent the workforce from thinking innovatively or moving with urgency. Congress should repeal statutory provisions that add reporting requirements, create unnecessary pilot programs, or micromanage the executive process. Approvals, thresholds, and limitations should be struck or raised. These moves would open the aperture for the president to retain, revise, or remove regulations. If Congress can streamline the administrative state across the executive and legislative branches, greater efficiencies and mission impact will follow.



**Unleash American Innovation.** The United States is the most innovative country in the world. For the first time in generations, commercial companies and entrepreneurs are turning their talents to defense. If DOD fails to capitalize on the moment, it will lose access to this talent for years to come. Too many innovations fail to transition into production at scale. Instead, they languish in the valley of death – that tenuous period between experimental prototypes and production contracts. Congress can help correct this failure, and it has a suite of solutions to pursue. DOD should solidify expedited acquisition pathways and implement portfolio acquisition strategies. It should flip the paradigm of contracting to require commercial procedures as the starting point. Most companies can be exempt from DOD's bespoke, non-commercial business systems. Innovative nontraditional defense contractors should be on speed dial, not struggling for access. The sum of these actions will make the government an attractive customer for leading companies.



**Create Competitive Pressure.** While new systems are being developed and fielded, traditional platforms remain the backbone of our military power. Ships, aircraft, munitions, and ground vehicles will continue to be essential elements of the defense inventory for decades to come. These systems, however, are plagued by diminishing manufacturing sources and material shortages that lower readiness and increase costs. We should significantly streamline the processes for reverse engineering, qualification, testing, and second sourcing. The effort will reduce the cost of entry for software-defined manufacturers to help bring the defense industrial base into the 21st Century.



**Enable Decisive Action.** Program managers and program executive officers are responsible for acquiring weapons but have little authority. Dozens of oversight organizations drive lengthy reviews to ensure compliance with mountains of policies. The more decisions are bogged down by unaccountable officials, the more bloated and dysfunctional the organization becomes. Good people are leaving the bureaucracy in droves. Functional support must be moved directly into upgraded program executive offices that can integrate requirements, resourcing, and acquisition to implement portfolio management while creating more collaborative structures to enable joint coordination. Integrated decisions and single lines of approval will accelerate acquisition across the board.



**Modernize Defense Budgeting.** The antiquated defense budgeting system severely hampers national security. Funding for weapon systems requires three-year lead times. The president lacks the flexibility to move money to better uses even as technologies and threats change. There are thousands of budget lines creating financial prisons that box out new innovations, take leverage away from contract negotiators, and generate year-end spending sprees. Many of the recommendations from the Commission on Planning, Programming, Budgeting, and Execution Reform should be adopted – including transforming the budget structure, consolidating budget lines, mitigating the harm of continuing resolutions, and providing reprogramming and new start authorities. Adopting these recommendations will dramatically improve DOD's ability to keep pace with the speed of commercial innovation.

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# Cut Red Tape

“We bury the men who do the nation’s creative work under layers of administrators and mountains of memoranda. We shrivel creativity by endless frustrations.”

Admiral Hyman Rickover

Over the last four decades, the defense acquisition system has ground to a virtual halt, buried under a mountain of statutes and regulations from Congress and the Pentagon. The system once delivered an Arsenal of Freedom. Today, we have replaced those heroics with a culture of compliance and the bureaucracy – and at the exact wrong time. Our world has grown particularly dangerous. We must aggressively cut or streamline regulations to enable speed, agility, and innovation. The United States has neither the time nor the budget to afford the current administrative environment. We need to empower the best and brightest in DOD and industry to deliver novel solutions to our warfighters rapidly. The last thing they need are regulatory obstacles and busy work. We cannot get the most out of them without striking or streamlining hundreds of redundant or distracting provisions from statute, keeping only the core tenants of good policy. Many statutory provisions are duplicative, restrictive, and cannot be fulfilled without excessively high-level approval. Hundreds of pilot programs have been created over the last few years. Many of them are permissive, which has created the false impression that the workforce can act only if it is specifically allowed in statute. To unleash the ingenuity of the acquisition workforce, we should make that mandate clear from statute through regulations and guidebooks.

## BACKGROUND

The defense acquisition system is inundated with regulations. The complexity makes officials risk averse to the point of inaction. It does not need to be this way. In 1948, the entire armed services procurement regulation fit on eight pages, with roughly one hundred additional pages of implementation guidance. The length of today’s policy speaks literal volumes. The Federal Acquisition Regulation – including supplements, clauses, forms, and instructions – runs 6,000 pages, with thousands more in guidebooks. The multi-volume document is a maze that our contracting officers must navigate. Financial managers, systems engineers, cost estimators, program managers, and other officials also face other daunting requirements. Overregulation has created a culture of compliance and box-checking that comes at the expense of mission outcomes.

A streamlined acquisition process has demonstrated success in the past. Consider the entire statement of work and other contract conditions that the Army issued for the first fixed wing aircraft in 1908. [The document fit on one page.](#) It used well-crafted performance specifications instead of detailed lists of technical and business requirements. This practice continued even after World War II. The specifications for the P-80, the first pure jet fighter aircraft, were drafted and approved [within hours](#) in a collaboration between the Air Force and industry. In 1955, the entire specification of the F-4 Phantom II fit on [two pages](#).

Procurement practices have changed dramatically. By 1980, the [C-17 specification](#) consisted of more than 13,000 pages and 35,000 drawings. Contractor responses came in boxes delivered by the truckload. The same problems persist. In many cases, they have become even worse. In 2017, a Government Accountability Office (GAO) report found that it took [nearly two years](#) to get on contract for a procurement between \$10 million and \$100 million. Another GAO report found that lead times for major contracts increased another [40 percent](#) between 2019 and 2022. Even with additional authorities, DOD is unable to get on contract to support urgent requirements in a relevant cycle time. The regulations overflow in complexity, and officials justifiably fear that a single missed check box can trigger a bid protest that stops a procurement in its tracks. The result is predictable: Business leaders focus on process rather than taking decisive action.



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# UNLEASH AMERICAN INNOVATION

“That is why so many talented people at the operational level are leaving the Defense Department, they have experienced too often the inward fury of sincere and capable men thwarted by powerful little bureaucrats.”

Admiral Hyman Rickover

The Department of Defense is frequently outpaced by technological change in the commercial world. By the time officials make a decision, let alone field a system, the private sector has created innovations. Often, these commercial technologies have military relevance, and they are equally available to all nations and non-state actors. There is no going back to the days when DOD both leads and outspends the private sector on R&D. Moreover, DOD cannot force American companies to do business with the government. China could not be more different. It has a fused military-civil program in which companies must support national security. To keep pace, DOD must become a better customer. To begin, it must break up monopsonistic practices within DOD, in which a one-buyer mentality dominates what could be a marketplace. Instead, the capabilities prototyping process should involve competition among program managers. We should also lower barriers to acquisition programs by removing Milestone A, which gatekeeps too many programs from the development phase by pre-determining solutions on behalf of industry. We should also supercharge innovative acquisition pathways and create portfolio acquisition strategies. Commercial contracting procedures should be the default, not simply a preference. DOD should be required to provide determinations to select non-commercial business practices. Today, determinations are required to buy commercial. As a matter of course, all nontraditional defense contractors should be treated commercially and exempted from onerous non-commercial business systems.

In other words, we can achieve value in defense procurement by lowering barriers to entry, which would boost competition. We cannot continue layering non-commercial regulations that disincentivize new entrants and risk-taking.

## BACKGROUND

Defense modernization from the 1940s through the 1960s was marked by extraordinary advances in weapon systems on expedited timelines. The first nuclear reactor to create usable power was approved to start design in April 1950. In fewer than three years, it went critical – meaning it began operating at a steady state. The reactor was integrated into the first nuclear submarine and delivered to the fleet just over two years later, in April 1955. The entire program was completed within five years. Imagine that happening today. Now, construction of an attack submarine in rate production takes more than eight years.

The construction of the nuclear submarine fleet from scratch was remarkable, but it was not an isolated example of success in that era of defense innovation. The first nuclear aircraft carrier contract was awarded in November 1957 and commissioned four years later. In contrast, the lead ship of the Ford-class carrier took more than twice as long to commission and another five years to deploy. First-in-class nuclear weapons, ballistic missiles, jet aircraft, reconnaissance satellites, radars, laser-guided bombs, hypersonic vehicles, air defense systems, and other weapons were routinely delivered from start to finish in five years. Today, major programs take at least five years to go through planning and technology maturation. Then, they take another [11 years](#) on average to reach initial operational capability.

In real dollars, the United States spends roughly the same on defense as it did 70 years ago. Yet defense spending has fallen by two-thirds as a percentage of total national economic output. In the 1960s, DOD drove innovation and was the leading early adopter of new technology sectors. In the first year of that decade, defense-related research and development (R&D) represented 36 percent of global expenditures. By 2019, that figure had fallen to just [3 percent](#).

The defense industry has also slowed its pace in research. In 1956, aerospace and defense companies spent a whopping [19 percent](#) of their sales on R&D – several times more than civilian industries – including on scientific instruments

and chemicals. Today, most defense companies spend just one or two percent of sales on reimbursable R&D, but commercial tech companies spend far more. Last year, Nvidia poured [27 percent](#) of its sales on R&D, and Meta spent [29 percent](#). Amazon devoted [\\$85 billion](#) to technology and infrastructure.

DOD cannot spend its way back into technology leadership in the vast majority of critical technology areas, including artificial intelligence, communications, advanced materials, microelectronics, space, and cybersecurity. Even hypersonic vehicle development is affected. There are startups – with significant private capital – making these vehicles and trying to use defense as an early sales path to commercial scale. DOD must leverage the talent, technologies, and capital of the commercial sector and integrate them into novel weapon systems concepts. Rapid acquisition procedures can work for small drones and for the largest weapon systems alike.

This is not a novel observation. More than 30 years ago, the [Packard Commission](#) recognized that the commercial sector was three to five years ahead of defense. The Federal Acquisition Streamlining Act of 1994 and the Federal Acquisition Reform Act of 1996 created commercial item procedures and preferences for commercial products and services. This period also saw the expansion of DOD authorities to access more nontraditional defense contractors by using Other Transactions – a special type of contract that bypasses contract regulations to facilitate research and prototyping. However, the foundation of commercial items did not stick, and it slowly fell away. The number of government-unique clauses in a commercial contract has increased from roughly [50 to over 150](#). Even making minor customization for defense is not a minor inconvenience. It imposes hundreds of burdensome clauses and processes on commercial companies.

Today, commercial items represent roughly [20 percent](#) of DOD prime contracts, mostly for mundane items and services rather than technology products. Companies that use the same commercial parts on defense and civilian products are often prevented from applying commercial procedures to their suppliers. The practice is egregious. So is the fact that many Other Transactions are awarded to traditional prime contractors. The nontraditionals that are awarded these innovative agreements cannot easily transition to the production stage. When they try to do so, the entire effort is recompeted on the usual defense contracts which are burdened with noncommercial requirements.

DOD risks losing access to American innovation if it does not become a better customer. Doing so requires process improvements, and it means creating competitive pressure within the government. If the public believes monopolies are unacceptable, then a monopsony – a single buyer, rather than single seller – should be viewed with equal suspicion. Breaking up monopsonistic practices creates incentives for government personnel. It can also facilitate the use of commercial product development strategies while preserving fair opportunity in industry. In the years after World War II, it was common for DOD to create austere prototypes of several platforms across organizations. Then, it would put into production only the very best of the bunch. We must return to the competitive practices inherent to our American values.

There is no better time to get started. In fact, we must seize a huge opportunity, as private capital is flowing into defense innovation. The value of [venture funding](#) to aerospace and defense companies jumped seven-fold between 2016 and 2021. A total of \$118 billion was deployed to aerospace and defense companies in the last three years, totaling more than 9 percent of all defense contracts. Yet venture-backed companies received just [1 percent](#) of defense contracts. If DOD does not start transitioning new innovative companies into production, private capital will dry up sooner or later. DOD cannot squander a chance to work with an entire generation of the country's finest entrepreneurs.



Venture Capital Surged into Aerospace and Defense Companies, But May Dry Up [Source]

## ACTIONS

*Buy-Before-Build:* Streamlining acquisition requirements will reduce cycle-times, lower barriers to entry, and support the adoption of innovation. Milestone A became a statutory requirement in 2009 and added a long list of required documentation to the acquisition process. The paperwork creates a bias toward incremental changes to legacy weapon systems and against innovative breakthroughs. In theory, tradeoffs are supposed to be made for cost, schedule, and performance throughout the prototyping phase. However, lengthy documentation before Milestone A often prohibits such tradeoffs. DOD approaches industry with a pre-determined solution, limiting its ability to innovate. Milestone A should be struck from statute and recreated into a buy-before-build process. Such a system would rely on experimentation to prove the mettle of innovative alternatives. Meanwhile, Milestone B should define requirements while removing statutory certifications and streamlining documentation.

*Rapid Acquisition:* The novel Software Acquisition and Middle-Tier of Acquisition pathways should become the preferred pathways for all new programs. Both need additional authorities to roll back the regulations that impede them. A key way to expedite these pathways will be by updating DOD's acquisition strategies. Today, DOD tends to detail a specific end-item, but it should be focused on a capability portfolio. For example, an acquisition strategy for small unmanned aerial systems would focus on high-level objectives. Then, it would allow companies to compete, innovate, and develop alternative platforms – without having to reapprove documentation or change baselines. Similarly, the largest weapon systems should be broken down into smaller incremental efforts and iterated upon, instead of packing a traditional set of requirements into these new acquisition pathways.

*Monopsony:* We must maximize competition within the government. In the current monopsonistic model, a single program manager and contracting officer requests bids from multiple performers. The down-select – or narrowing the field of bids from one stage of the review process to the next – is based on rigid factors that box out learning, pivoting, and improving. In a new competitive model, multiple program managers and contracting officers would work with a contractor to deliver a prototype within an equal funding limit. Companies hoping to move from the prototyping to production phase should be evaluated with independent test activities and end user engagement. Under the new model, the program manager must have the ability to bypass documentation and amend requirements in response to updated information on technical feasibility and user feedback.

These reforms would allow program managers to adopt commercial product development practices. Competition in government creates internal incentives to move quickly, inject innovation, and collaborate with industry to deliver the best overall product. It also helps redefine competition in industry. Under the current model, industry bids on the price of a pre-determined government solution. Instead, we should allow multiple vendors, each with a sole source contract, to compete in delivering differentiated solutions to the warfighter in order to win large production orders.



*Conflict of Interest:* DOD can create a conflict of interest, and we must address it. Sometimes, DOD labs simultaneously support program office acquisitions and offer products that compete with industry. When government standards and reference architectures are overly prescribed, they can become a back door to sole-sourced solutions created by government-supported labs, universities, and federally funded research and development centers. The regulator becomes the supplier. Lab personnel generate program requirements, provide technical assistance to the program and contracting team, and serve as members of source selection evaluation boards. Rather than buying and configuring an off-the-shelf product that has millions or even billions of dollars invested, DOD labs will convince the program offices to redevelop the solution. In the name of avoiding contractor vendor lock – in which it becomes too costly to switch to a new supplier – DOD labs ironically vendor lock programs into government solutions.

We can work against this conflict of interest. A provision should be created to tackle potential unfair competitive advantage in cases where DOD lab employees or assigned personnel perform acquisition functions, including the development, award, and administration of contracts. This will level the playing field. Industry would be able to compete to supply products for acquisition programs – rather than being forced to provide labor services to support government-lab-built solutions. Such a reform will also help enforce the use of performance-based specifications which are already in statute but are often ignored in favor of military-unique specifications drafted by DOD labs.

*Consumption-Based Solutions:* Many modern companies have adopted a new business model. It has become popular to offer products as a subscription-based service, rather selling them as an item owned and maintained by the customer. Congress has created pilot programs for this kind of scheme – using the term “consumption-based solutions” – but the model remains underused. Consumption-based solutions should become a permanent authority. We should add a new subsection under “service contracting” in the Defense Federal Acquisition Regulation Supplement, and we should establish a new contract type called fixed-price resource units. Moreover, consumption-based solutions should be provided incremental funding authority and be allowed to use appropriate funds from any appropriation account. This would eliminate confusion about whether such acquisitions are an investment or an expense.

*Nontraditional Defense Contractors:* DOD frequently adds defense-unique – as opposed to broadly commercial – requirements to its acquisitions. These standards can increase costs by 30 percent. This often boxes out nontraditional defense contractors (which includes all small businesses). These suppliers must be relieved of such expensive requirements. DOD already has the power to treat products or services from nontraditionals under commercial procedures. It rarely uses that power. Without exception, contracting officers should conduct business with nontraditionals at any tier using commercial procedures. These companies should be exempted from onerous business system requirements,

forward pricing rate reviews, and similar mandates. Removing government requirements allows commercial and dual-use companies to share their infrastructure with defense. It avoids having to stand up federal units with separate infrastructure, which prevents the waste of time and capital. Finally, redefining nontraditionals around self-funded investments will provide a pathway to trimming the layers of compliance that bog down large contractors.

*Commercial First:* To integrate defense with commercial business practices in DOD's contracting strategy, we must change the way the Pentagon solicits contracts. Generally, contracting officers issue solicitations with negotiated procedures and hundreds of government-unique requirements, even for competitive procurements. This puts commercial contractors at a disadvantage. In order for elements of the contract to be considered commercial, the contracting officer must go through a lengthy determination process. The paradigm must be flipped. We must create a glide path to innovation by starting from the presumption that commercial procedures will be applied. This would also prevent the use of cost-type contracts as a default, which can often bar nontraditionals from bidding. In cases where a traditional contractor or subcontractor presents a non-commercial solution, the contracting officer should justify a memorandum to use negotiated procedures or cost-type contracts.

*Merit-Based Selections.* Many of these outcomes are already feasible using Commercial Solutions Openings (CSOs), which allow contracting officers to use merit-based selection to do market research and proposal evaluation. CSOs can be used to award either Other Transactions agreements or FAR-based contracts, the latter being the usual, highly-regulated contracting process. Defense Innovation Unit and AFWERX already leverage CSOs extensively, but this is not enough. Other offices underuse the CSO solicitation approach. CSOs should become the default method for soliciting proposals from industry. To do this, CSO authorities would need to be amended to create follow-on sole source authority, delegate approvals, and create a class of CSOs that excludes traditional contractors. Through reforms like these, we can allow contracting officers to access nontraditional innovators quickly.

*Return on Investment:* Of course, the determination of commerciality is separate from the determination of price reasonableness. Unfortunately, the contracting officers regularly misunderstand how commercial products are priced. Too often, contracting officers rely on cost data to determine price reasonableness and add roughly 10 percent for profit. However, cost-based pricing does not reflect private investment, true cost absorption rates associated with defense contracts, or innovative value being delivered. As a result, cost-based pricing can lead to DOD accepting bad deals. Suppose a company adopts technology to drive costs down by 90 percent. With today's rules, the company would earn one-tenth the revenue and one-tenth the profit. Cost-base pricing incentivizes companies to maximize their costs and avoid putting private investment into innovation.

In the years after World War II, companies took significant self-funded risk on development to earn profits in production. This stimulated effort and innovative solutions, and it reflected the risk-taking nature of the private sector broadly. We should learn from this example. Nontraditionals should be exempt from cost-based pricing, which is required by certified cost or pricing data. Instead, business leaders in DOD should justify pricing by considering cost avoidance to government, return on investment, the value of cost-per-effect to the military user, and other analyses. Traditional contractors that do not take self-funded risk and adhere to the Cost Accounting Standards, however, should continue to provide certified cost or pricing data.

For too long, defense officials have ignored the statutory preference for commercial and non-developmental items. If DOD is to leverage commercial innovation, it must become a customer with whom commercial companies want to do business. We must empower defense officials to use rapid acquisition and commercial pathways and make these pathways easy to use.

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# CREATE COMPETITIVE PRESSURE

“I believe in capitalism and in competition. I believe that business has a right to pursue reasonable profit. I am convinced our capitalist system must survive in order for our fundamental freedoms to survive.”

Admiral Hyman Rickover

As we have observed the modern battlefield, we see a recipe for military effectiveness: the combination of new systems, novel operational concepts, and existing United States weapons. However, existing American weapons take too long to build, are too costly to sustain, and cannot scale to meet the capacity demands of high-end conflict. The defense industrial base has collapsed into sole source suppliers – companies that are the only ones capable of providing a given good or service to DOD. Diminished manufacturing capacity exacerbates this readiness problem and is indicative of a broader industrial decline in the United States, as many jobs have been shipped overseas.

To compete with China, DOD must rejuvenate the industrial base and transition to advanced manufacturing technologies. Such an effort requires that we qualify competitive sources of supply by dedicating funding for reverse engineering and re-engineering activities. A new program should withhold contracted procurement and sustainment funds – similar to the design of the Small Business Innovation Research program, which withholds 3.2 percent of contracted R&D funds. This change would ensure that procuring activities are building the muscle movements necessary for industrial mobilization. Qualification processes must also be streamlined by qualifying manufacturers’ processes and materials, rather than their individual parts.

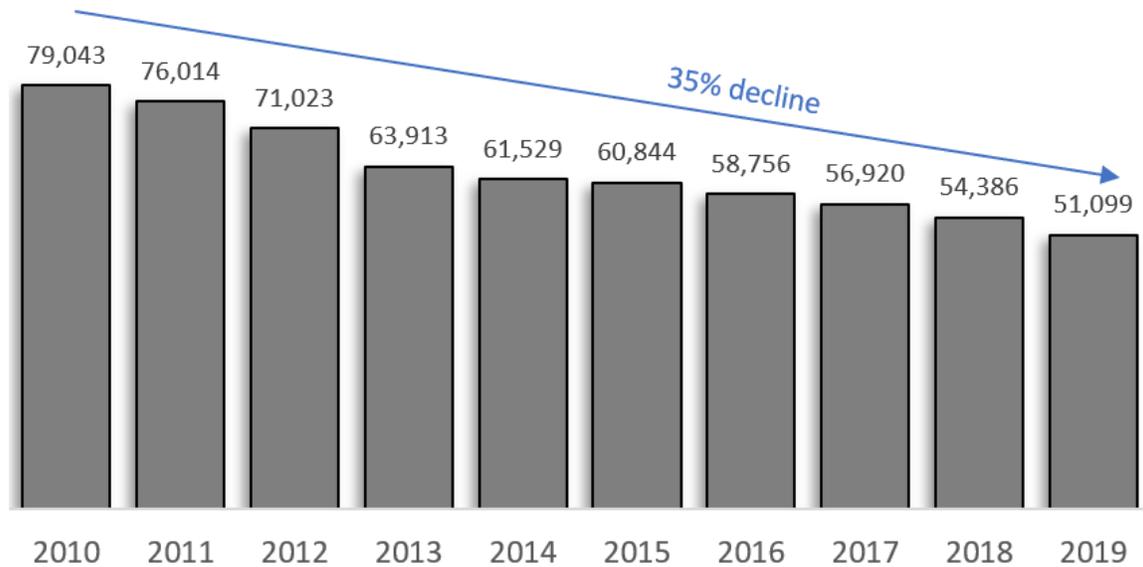
Programs should have regular opportunities to insert new entrants. No longer should a production contract award give a supplier an enduring sole source advantage. If it is competitive, then the industrial base will become far more responsive to defense needs. Competition can be increased if DOD dedicates funds, significantly streamlines the end-to-end process, and creates incentives to reindustrialize.

## BACKGROUND

Adopting innovation is a paramount initiative, but many existing weapon systems will be relevant for decades to come. As we continue to use them, these systems must be upgradable, mass-produced, and affordable.

Over the past 50 years, many classes of weapon systems have entered a death spiral. Production and sustainment have gotten more expensive, reducing output quantity. The decline has been expedited by the so-called “procurement holiday,” a term for the 56 percent funding drop that followed the Cold War. Lower volumes made little economic sense for many contractors, leading to industry consolidation and the collapse of production lines. DOD compensated by keeping aging systems in the inventory longer than anticipated. Naturally, it had to deal with increasing maintenance issues as these systems bumped up against obsolescence. Contractors were unable to make money on low volumes, and they shifted their business model to engineering services – redesigning parts or reconstituting production lines for haphazard orders that came in the dozens rather than the thousands.

The defense industrial base is plagued by fragile and sole source manufacturers. [DOD data indicates](#) a steep decline in activity during the 2010s. The number of prime contractors fell by one-third, and the presence of small businesses declined by 43 percent. [DOD has reported](#) that between 2000 and 2018, 20,500 shipbuilding suppliers abandoned the industrial base. When it comes to munitions, 98 percent of second- and third-tier suppliers are single or sole source. [As a result](#), 78 percent of military aircraft face diminishing manufacturing sources, 82 percent have parts which are essentially obsolete, and 86 percent suffer from parts shortages and delays.



The Number of Defense Contractors is Declining [Source]

The sobering reality is that our warfighters cannot indefinitely endure this limited manufacturing capability. The [sustainment phase](#) of weapon systems constitutes roughly 50 percent of lifecycle costs for ships, 60 percent for fixed wing aircraft, and 70 percent for helicopters. And sustaining our hardware is getting more challenging. Some materials have become obsolete, too many items come from a single source, manufacturing or repair delays have piled up, and we lack sufficient technical data, all of which inevitably leads to reduced training and readiness. Aircraft and ships have increasingly resorted to cannibalizing parts from other systems to keep alive those in the field. Production takes so long that even newly developed systems are riddled with outdated parts by the time they are fielded – a problem that is becoming more common as systems increasingly leverage electronics that quickly move to new generations of designs.

Consequently, DOD ends up with a weaker hand in business negotiations. Small and infrequent orders diminish DOD’s bargaining power. The competitive pressure of multi-sourcing – using two or more suppliers to secure a given good or service – would help DOD regain leverage, reduce costs, and increase supply chain responsiveness. Creating a second source was common through the 1980s. The A-10’s GAU-8/A uranium-depleted round benefitted from [80 percent](#) cost reduction due to continuous competition between two sources. The F-16 engine competition between Pratt & Whitney and GE generated savings of up to [\\$3 billion](#) over 20 years and doubled reliability. Improved lead times and quality can be more important than cost savings. Second sourcing the Tomahawk missile increased its reliability from 80 percent to [97 percent](#). The lesson: multi-sourcing works.

DOD faces a host of industrial base challenges, and the difficulties largely stem from its own mismanagement. The department consistently underperforms in procuring data rights, using value-based pricing, stabilizing orders, reverse engineering, qualifying second sources, and introducing innovation. Improving these activities will give DOD significant leverage over sole source suppliers, and it will create the market conditions to develop multiple sources of supply.

Advanced manufacturing, including additive manufacturing, presents a tremendous opportunity for DOD. Though it sometimes carries a higher price tag than rate production, additive manufacturing is a relatively cost-effective way of making low volumes of hard-to-procure parts. Additive manufacturing can also reduce lead times, add surge capacity in times of need, allow for design changes, enable point-of-use manufacturing in contested logistics or austere environments, build core logistics capabilities, and prepare for industrial mobilization.

The armed forces and industry have already demonstrated the success of additive manufacturing. The Air Force’s Pacer’s Edge program reduced lead times by [80 percent](#) compared to traditional “cold starts” of engine components, which could take 300 days or more. An Army unit used the technique to produce more than 100 unique parts for vehicles, avoiding [1,800 days](#) of vehicle downtime. The Marines harnessed expeditionary additive manufacturing

to increase labor efficiency by [400 percent](#) in the Indo-Pacific. Pratt & Whitney reduced 400 TJ-150 engine parts down [to just six](#), halving the production cost and cutting out a year of lead time for hard tooling. In one case, additive manufacturing produced an F-35 landing gear door bump stock for [\\$0.75 cents](#) – avoiding \$70,000 in cost to repair the entire assembly.

Improving technical data, common repositories, and qualification procedures could help DOD's ability to scale advanced manufacturing and second sources of supply. In one instance, it took just 45 days to reverse engineer and produce a part but [296 days](#) to qualify and test it – even though there was no impact on vehicle safety. It often takes several years to qualify and test critical parts. There are over [300,000 parts](#) in the F-35 alone, and the Defense Logistics Agency (DLA) supports nearly [one million](#) consumable hardware items. There could be as many as 125 million total part numbers used in defense and aerospace, with [12,000 certified suppliers](#). Improving industry's responsiveness to defense needs will require a dedicated program and consistent source of funding, which I outline below.

## ANALYSIS

*Dedicated Program.* DOD should withhold 3 percent of contract procurement and sustainment funding and dedicate it to specification drafting, obsolescence management, reverse engineering, re-engineering, technical data reviews, procuring of organic equipment, and qualifying sources. In this, it would follow the lead of the Small Business Innovation Research program, which withholds 3.2 percent of contracted R&D funding. A review of Air Force and Navy missile procurement accounts found that 3 percent of funding goes to sublines identified with diminishing manufacturing sources and material shortages. Yet these budgeted lines are often pillaged to cover program cost overruns. The Defense Logistics Agency's aviation division has a paltry \$1 million fund to reverse engineer parts and create technical data. By protecting – not pillaging – a source of funds for expanding the industrial base, DOD will ultimately reduce both costs and lead times.

*Prioritization.* These withheld funds should be spent according to a ranked priority of needs. For the sake of readiness and sustainment, we should begin with parts shortages that reduce mission capable systems below their required rates. These parts may be categorized in several ways – as mission impaired capability awaiting parts, as cannibalizations, or simply as late to need for sustainment workflows. For procurement, parts that are sequence critical and drive production schedules should be prioritized. Parts that have no qualified sources of supply identified must be addressed, followed by parts for which a contracting officer cannot ascertain fair and reasonable pricing. Finally, the funds can support parts or equipment required for core logistics capabilities at the depots or those that are identified by a combatant commander as critical for point-of-use manufacturing under contested logistics.

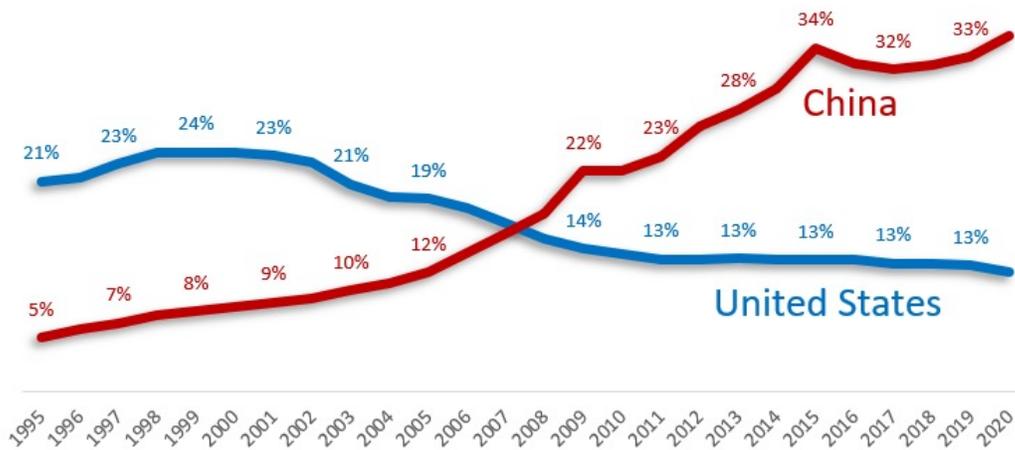
*Data Rights Review.* After parts meet the priority analysis for access to the funds, DOD should conduct a targeted review of technical data rights and ordering. If DOD does not have sufficient rights or technical data in hand for some parts, a legal review should ascertain whether the contractor failed to deliver on the contract requirements. If DOD did not acquire the data rights, it should request a licensing arrangement with the manufacturer that provides a reasonable return on investment. If the manufacturer declines, a prior art search should be conducted. Such a search would clarify claims to technical rights in conjunction with funding reverse engineering activities, which generate the technical data package (TDP) used in further parts manufacturing and use.

*Process Improvement.* Barriers to second sourcing must be removed. For example, regulations put reverse engineering as the option of last resort, and only when significant cost savings can be demonstrated and users have gotten approval from the head of contracting activity. All parts must be put into safety critical and non-safety critical categories, with expedited qualification procedures for the latter and strict limitations on flow-down clauses, which bind all subcontracts to the requirements of the primary agreement, adding burdensome paperwork. There must be only one engineering authority and a well-defined process for qualification that has strict time limits. Qualification on a part-by-part basis should be minimized. We should expand the practice of qualifying manufacturers for entire classes of parts, a tactic currently used for certain electronics in which technology change is rapid. Processes and materials should be qualified for a manufacturer who may then rely on internal processes for qualifying individual items.

*Rapid Onramping.* Statute should clarify that all reverse engineering and re-engineering activities will have a pref-

erence for Other Transactions with follow-on production authorities, or permission to move from prototype to production without having to re-compete. No-cost Other Transactions prototyping efforts may also be used – only if volumes are high enough to induce private investment. This will allow for expedited production awards that avoid the excessive overhead and extended durations associated with full and open competition. True competition is achieved through easy access to a set of alternative options, not through a cumbersome process that is competitive in name only.

These processes can lower the barriers to entry for new and emerging advanced manufacturers. Reducing regulatory roadblocks will then help manufacturers gain early customers as part of their strategic growth. It will also create the muscle movements necessary to increase readiness and surge defense production. To gain value in the marketplace, DOD must rely on integrating defense and commercial production through competition rather than rely on burdensome non-commercial processes.



China Overtakes the United States in Manufacturing as a Share of World Total [\[Source\]](#)

## Enable Decisive Action

“A system under which it takes three men to check what one is doing is not control; it is systematic strangulation.”

Admiral Hyman Rickover

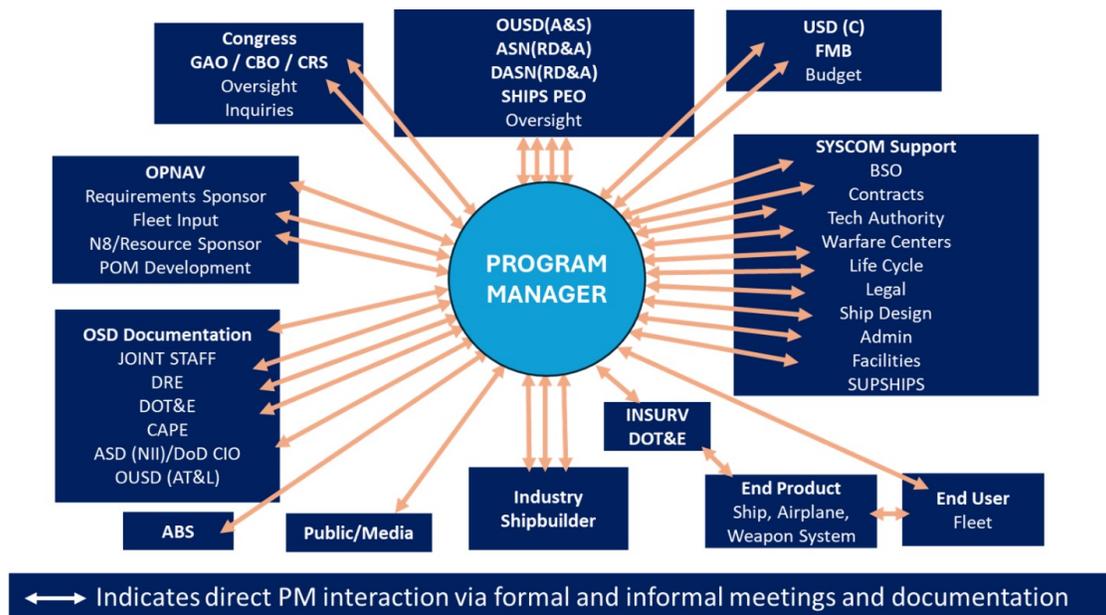
The government undertakes few efforts more complex than defense acquisition. The program office is notionally empowered with a given acquisition, but excessive demands from external stakeholders burden defense acquisition projects. They bog down programs by adding numerous requirements, documents, and approvals. Inundated by irresponsible demands, these procurement initiatives fail to produce their expected value. That failure subsequently triggers the creation of additional process and oversight. For example, an acquisition strategy is typically [reviewed by 50 offices](#) before final approval. Milestone B reviews, which initiate the development phase, take two years on average and generate nearly [50 information requirements](#). The record is clear: Unreasonable layering and a one-size-fits-all approach hampers program performance.

Previous attempts to empower program managers and tailor-in documentation have routinely failed. Too much authority remains outside of the program office chain of command. To empower the program manager, we must upgrade the program executive officer into a portfolio acquisition executive. This executive should have broad authority over requirements, programming, and acquisition – including all the functional support necessary to

exert true decision-making authority. Successful programs are led by good people with real authority. Even the most talented people cannot succeed if they are forced to prioritize bureaucratic processes.

## BACKGROUND

On the heels of the procurement reform in the 1986 Goldwater-Nichols Act, the [Packard Commission report](#) recognized that decision making authority was diffuse when it came to weapon systems acquisition. The report sought to streamline the organizational structure and delegate authority to the working level. Thus was born today's organizational chart. The Program Manager (PM) reports directly to the Program Executive Officer (PEO) and the Service Acquisition Executive (SAE) under the direction and control of the Under Secretary of Defense for Acquisition and Sustainment (USD A&S). Still, PMs lack the authority to match their hefty responsibilities. PMs must comply with demands and seek approval from numerous officials outside their chain of command. In particular, the PM cannot make informed tradeoffs between user requirements, cost, and schedule. The creation of the Joint Requirements Oversight Council, chaired by the Vice Chairman of the Joint Chiefs of Staff, did little to improve the quality of requirements. In fact, it exacerbated gold-plating, the excessive adding-on of features or capabilities. Contracting, financial management, engineering, cybersecurity, logistics, cost estimating, and other functional support report through alternative chains of command, each with their own processes and regulations outside the scope of the PM's control.



Navy Program Managers Answer to Dozens of External Offices

This structure shares authority broadly but robs the PM of agency and the system of efficiency. The PM is reduced to executing standing orders in the baseline plan, tied to obligating funds rather than allowed to exert leadership and set program cost, schedule, and performance. This creates a breakdown in efficiency: Many officials have the authority to veto the program or demand changes, but few have knowledge or responsibility to help get the job done. Inevitably, the program is less than what it could be. It is irresponsible to have so many external decision-makers, for they take no part in execution. One or two outside officials weighing in could provide value. Dozens of such outsiders with the power to say no and levy demands only ensures an over-cost and underperforming program.

If PMs are truly in charge of a program, they must feel that they own it. Similarly, if PEOs are to manage a large portfolio of programs, they must have the requisite authorities and support. Various levels of integrated product teams or cross-functional teams are not a substitute. The Section 809 Panel recommended elevating the PEOs to Portfolio Acquisition Executives (PAEs), those with direct access to timely decisions across requirements, programming, and acquisition. Portfolio management is the key concept. This requires moving functional support into the PAEs. Too much matrixing in an organization means that the PM loses control of all functional support. In turn, this forces

a focus on internal process rather than delivering capability. As famed aerospace engineer Kelly Johnson [advised](#), a program manager “must be delegated practically complete control of his program in all aspects.” Admiral Hyman Rickover [agreed](#): “I think we could help speed procurement if project managers in the Defense Department were authorized to take the lead in all aspects of their job.”

The military departments and the Office of the Secretary of Defense also present an opportunity for reform, since they currently micromanage the acquisition process. Reform can only succeed by adhering to good organizational principles. The line organization should only report up through a single chain of command. Staff functions, while empowered to set policy and coordinate, must not be in the line of authority. Staff should go up and down the proper chain of command to have an order issued. This leads to coherent integration within a PAE, but it is worth noting that straight-line hierarchy also risks excessive stove-piping across PAEs.

In the past, coordination was achieved in various ways, including the success of the Munitions Board and Research and Development Board in the years after World War II. In the Munitions Board model, each of the bureaus and technical services was aware of one another’s program plans because representatives from the line organizations sat on the joint boards. This helped fill capability gaps and reduce unnecessary duplication. It achieved more effective integration than a bloated rotational staff approach, in which the people involved have no connection to execution. The representative board and committee structure avoided the worst paralysis of consensus-based decisions and promoted analysis that crossed organizational boundaries.

## ACTIONS

*Portfolio Acquisition Executives:* DOD should implement [recommendation 36](#) from the Section 809 Panel, upgrading the program executive offices (PEOs) into portfolio acquisition executives (PAEs). This corresponds with shifting from a program-centric model, where particular systems are managed on an individual basis, to a portfolio-centric model, where particular systems are managed holistically as part of a broader set of capabilities, mission-needs, and technologies. The PAEs will be empowered to make decisions by balancing the three legs of what has been called the “[Big A](#)” acquisition stool – requirements, program funding, and acquisition. Consider how the PAE, if not a civilian of the senior executive service, is often a Senate-confirmed general officer or flag officer between one and three stars. This leader should have authority proportionate with his or her rank. For example, a two-star admiral commands PEO aircraft carriers while a one-star admiral commands a carrier strike group. The PEO should exert influence over the carrier programs as significant as the influence wielded by the commander over his or her carrier strike group. The PAE construct can achieve this outcome while retaining organizational structures with roles, responsibilities, and resources reassigned in the following ways.

*Requirements and Programming:* Requirements and programming staff should, in large part, be moved to PAEs. The PAEs may then liaise directly with the combatant commanders and test community to initiate, tailor, or modify requirements and programs under their own authority. A set of capstone requirements should be created for each PAE that allows the PAE to define, prioritize, and refine requirements. Approval from the service staff should be set at a threshold, such as major systems entering Milestone B, while higher joint-levels of approval may be needed for major defense acquisition programs. A common system of tracking requirements and programs should give stakeholders continuous insight into PAE activities. Control should be handled formally through the chief of staff or secretary of a military department, such as through administrative orders or budget review, rather than by skipping the chain of command.

At the joint level, the Chairman of the Joint Requirements Oversight Council (JROC) and Director of Cost Assessment and Program Evaluation (CAPE) should co-chair a Joint Requirements & Programming Board (the Board). Requirements officers and action officers from the PAEs, as well as representatives from the combatant commands, should sit on the Board with cross-cutting committee structures. These committees should act as capability portfolio managers, such as for contested logistics, joint fires, and nuclear command and control. Current bureaucratic portfolio initiatives for requirements, acquisition, and science and technology should be retired.

The Board should be advisory in nature. It should have no decision or approval authority except through the policy decisions it issues as the result of a vote. The Board should have a dedicated staff of military and civilian experts from CAPE and the JROC to help provide analysis, set agendas, and lead debate. Direction formulated by the Board, such as adding requirements for a tactical data link or reducing the PAEs overall budget because a program will not be recapitalized, should be understood by the PAE to be advisement. Formal policy direction is authorized through the proper chain of command when validated by a majority vote at the committee level with inclusion of the represented PAE. However, the co-chairs and the vice chiefs of staff of the Board's executive committee should be able to negate a committee vote through unanimous consent. The service chief of staff, secretary of a military department, and Deputy Secretary of Defense will also be able to exert control over PAE requirements and programming through administrative orders or the budget review process.

*Acquisition and contracting:* Just as they do with requirements and programming, the PAEs need more complete authority for the remaining functional support elements in acquisition and contracting. Financial management, engineering, sustainment, logistics, contracting, cost estimation, and cyber are examples of functions that are often outside the PM and PEOs chain of command. The PM's functional support has limited authority. For example, airworthiness technical authority is a direct report to the commander of the Air Force Lifecycle Management Center, which is outside the PEO's chain of command. The head of contracting activity for the Army is the commanding general of Army Contracting Command, while for the Navy it is generally the systems commander, such as Commander, Naval Sea Systems Command. Cost estimators in the Army are subject to the control of Deputy Assistant Secretary of the Army for Cost and Economics, while the Navy disbanded a comparable organization but retained a cost estimating function in the systems command. Authorizing officials that approve software onto defense networks report to the relevant Chief Information Officer.

Staff and authorities should be moved into the upgraded PMs and PAEs to the maximum extent practicable. Certain offices are already empowered functionally. For example, the Space Development Agency has its own head of contracting activity, while PEO Strategic Submarines is simultaneously the chief engineer for submarines in SEA 07. The Commander of Naval Reactors already integrates requirements, programming, and acquisition. However, each delegated function of the PAE should continue to be subject to the general policies and direction set by functional leaders. The secretary of each military department should determine when clearance authority for a functional area will be held above the PAE. For example, there are unique contracting approvals by the senior procurement executive. However, as a matter of course, documentation, such as the Test & Evaluation Master Plan, Systems Engineering Plan, and Lifecycle Cost Estimate, should be approved by the PAE rather than an external stakeholder.



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# MODERNIZE DEFENSE BUDGETING

“I recognize the technical work as the important work. The rest of it—the administration and stuff we are compelled by our superiors to do and to endure—is the price we must pay to get money... As it is today, too much time and effort is wasted by the budget process.”

Admiral Hyman Rickover

The United States has entered a complex security environment, and DOD needs a funding process that keeps pace with rapidly evolving technologies, threats, and warfighting concepts. New weapons programs cannot wait years to get funding approved while DOD squanders resources to maintain outdated or failing programs. Innovative startups offering much-needed capabilities risk going out of business in this “valley of death.” For defense acquisition to be adaptive and innovative, it must have an agile budget process. The industrial era Planning, Programming, Budgeting, and Execution (PPBE) process should be scrapped in favor of a portfolio-based resource allocation system. The congressionally appointed [Commission on PPBE Reform](#) made important recommendations that should be adopted. Among them are ideas to transform the budget structure to align with capability portfolios, consolidate budget lines, raise reprogramming and new start thresholds, and mitigate the impacts of continuing resolutions. In return, DOD should be more transparent and collaborative in its partnership with Congress.

## BACKGROUND

The budget process is crucial to any reform of defense procurement because it controls nearly everything that can be acquired. DOD continues using an industrial era technique called Planning, Programming, Budgeting, and Execution (PPBE), invented for government in the 1960s. However, companies that adopted the practice started falling behind their competitors and eventually abandoned it. PPBE fails to connect strategy to budgets or provide for the agility required to keep pace with rapid technological change. PPBE relies on predictive control years in advance and holds projects to closely held baselines with minimal room for managing the enterprise. Even small deviations require the prior approval of 12 layers of executive bureaucracy and four congressional committees.

Just as no company can survive in a competitive market using a rigid process like PPBE, DOD cannot maintain military advantage with such a process. Modern companies receive timely budgets that are managed at the sector level rather than for specific projects. They are marked by delegated authority and short decision chains. Oversight and control of project execution is handled less through budgetary mechanisms and more through regular monitoring of performance using advanced business systems.

At the core of PPBE is budgeting for specific projects instead of broader sets of organizations or capability portfolios. This represents a radical change from nearly 200 years of precedent in congressional appropriations. In the past, the Army Ordnance Department and the Navy Bureau of Ships had dedicated accounts with line items controlling the aggregate value of facilities, contracts, and personnel. In fiscal year 1968, the House Appropriations Committee recognized the pitfalls of tying PPBE to budget justifications for Congress. The members [wrote](#):

“At present the program structure, being independent of the budgeting and accounting system, can be altered or redirected as circumstance or prudent management appears to require. Once such a program system becomes the legislative history in support of an appropriation act it can be changed only by some further legislative expression.”

Well said. In 1961, the Navy could initiate the new start of five fleet ballistic missile submarines under its own authority. The appropriation for the procurement of ships or aircraft, like other appropriations, was considered a lump sum. The president had broad authority to make timely program decisions. This is also how the Air Force developed and fielded dozens of advanced aircraft in the 1950s on expedited timelines.

With PPBE, however, the number of budget lines increased [more than 10-fold](#) to control specific projects. This added years of decision time and layers of bureaucratic interference. Moreover, DOD required consent from Congress to reprogram money between efforts or to start a new effort. This reduced DOD’s ability to manage risk across portfolios or take advantage of new technological opportunities.

Today, we micromanage defense projects, which must be justified up to three years in advance of appropriations. The defense budget is crammed with detailed minutiae about what may or may not be done. The fiscal year 2025 [budget materials](#), excluding overviews and other information, is transmitted in 126 volumes totaling 42,081 pages. For Research, Development, Test & Evaluation (RDT&E), the median unclassified program element is less than \$25 million, or 0.02 percent of the appropriation title. More than one-third of program elements listed are less than \$10 million.



The Fiscal Year 2025 Defense Budget Materials Next to the Complete Works of Shakespeare

As an analogy, imagine a household budgeting every \$15 it spends three years in advance and requiring approval from the bank to move \$5 dollars from buying hamburgers to hot dogs. This is no way to run a household, let alone the Department of Defense. A budget category of “groceries” makes more sense than separate budget lines for hamburgers, hotdogs, steak, chicken, salmon, and so forth.

This analogy closely mirrors the way the non-investment accounts already work. DOD would grind to a halt if, for example, the Operations & Maintenance account specified funding for “humanitarian aid in Haiti,” “joint exercise Valiant Shield 2024,” or “defensive maritime operations in the Red Sea.” Many operational needs cannot be predicted years in advance. Complex weapons programs should be managed similarly.

## ANALYSIS

*PPBE Recommendations.* The Commission on PPBE Reform (the Commission) released its [final report](#) in March 2024. Many of its recommendations should be adopted over the FY 2026 through FY 2028 budget cycles. The first step should be the combined retirement of the PPBE process and the transformation the budget structure. Most of these activities require the initiative of the president and do not require statutory changes, but Congress holds the power of the purse and must be consulted closely throughout.

*Budget Restructuring.* The Commission recognized that appropriation titles that control life cycle phases, such as RDT&E, Procurement, and Operations & Maintenance (O&M), create arbitrary barriers to transitioning programs, particularly for software which is in continuous development and operations. Their findings suggest that appropriation titles should identify military services or components which decompose into major capabilities or activity areas (such as tactical aviation or military personnel) where movement between such accounts would require transfer authority. These accounts should decompose into portfolio budget lines where reprogramming would be controlled.

*Line Item Consolidation.* The Commission recommended consolidating budget activities and individual line items into portfolios for managing multiple programs or systems that would currently have distinct lines, including major defense acquisition programs and military intelligence programs. Statutory requirements for dedicating program elements or budget line items to overly specified activities should be repealed. Below the budget line, life-cycle phases would be an informational breakout where realignments require no external approvals.

*Implementation.* When the administration sends over the FY 2026 budget request, Congress should work with DOD to consolidate budget line items into portfolios of programs along the lines of organization and administration within the current appropriation account structure. Program executive offices already represent capability portfolios such as PEO fighters and advanced aircraft, PEO ground combat systems, and PEO ships. Consolidating budgets to mirror each PEO would enable their ability to execute the authorities they gain when upgraded to portfolio acquisition executives. These new budget lines should become the basis of the FY 2027 budget request, at which point DOD and Congress should work together to restructure the appropriations accounts to remove the life cycle phases and incorporate major capability or activity areas for the FY 2028 budget request.

*Reprogramming Authorities.* Restructuring the budget provides greater responsiveness within budget lines and enables portfolio management. The Commission also recommended increasing values for Below Threshold Reprogramming (BTR) and new starts. BTR values should be reset to historical norms – \$25 million for RDT&E, \$40 million for Procurement, \$30 million for O&M, and \$15 million for military personnel. When the budget restructuring is complete, the Commission recommends providing DOD with authority to move funds within an appropriation account up to a total percentage of the account without prior approval unless congressional special interest items are involved.

*New Starts and Continuing Resolutions.* New start thresholds should also be increased in line with BTR values. Moreover, new starts should be controlled by dollars required in the first fiscal year rather than the lifecycle of the expected program. For example, for a new start that requires \$10 million of RDT&E in FY 2026 but would require \$100 million to complete, the proposed rule would treat it as a \$10 million new start that does not require prior approval and not a \$100 million new start that would. Continuing resolutions should also be mitigated by allowing new starts, terminations, and planned changes in development or procurement rates to the minimum level allowed by any of the four defense congressional committee marks.

*Transparency.* In return for budget flexibility, DOD should provide real-time information and improved collaboration. For example, the Defense Innovation Unit provides regular updates on program changes, funding realignments, and contract actions during the year of execution. This form of reporting should be expanded considerably. DOD and Congress have been working together to provide access to modern information systems that will provide real-time dashboards on programs and funding that will establish effective oversight. This shared information system can help eliminate the need for many requests for information where responses can be inconsistent and take excessive time.

## Conclusion

“Good ideas are not adopted automatically. They must be driven into practice with courageous impatience.”

### Admiral Hyman Rickover

The recommendations and legislative language provided in this report are just the start of a necessary and sustained campaign to promote efficiency and innovation in the way that our Department of Defense acquires weapons. It will take dedicated leadership from the president and Congress to remove the bureaucratic barnacles that have built up over the past 50 years.

As the incoming Chairman of the Senate Armed Services Committee, I will not waiver in my effort to secure peace by rebuilding our strength.

This effort addresses more than just giving our warfighters an advantage over any adversary. It is about stripping the bureaucratic mindset from how we run the largest government organization in the Western world. It is about giving our workforce the belief that they can contribute their creativity to solve the hardest national security problems. It is about making our national defense an accelerator for entrepreneurship and the reindustrialization of America. The Department of Defense must once again demonstrate its ability to harness human ingenuity, technical advances, and good management – for our present and future peace and prosperity.

