



TESTIMONY OF WILLIAM D. HARTUNG

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*Hearing on Waste, Fraud, Cost Overruns and Auditing
at the Pentagon*

Senate Budget Committee

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First, I want to thank Chairman Sanders, Ranking Member Graham, and the members of the committee for this opportunity to testify today. My name is William Hartung, and I am the director of the Arms and Security Program at the Center for International Policy (CIP). CIP's mission is to make a peaceful, just and sustainable world the central pursuit of U.S. foreign policy.

I want to focus my remarks on the subject of Pentagon waste, starting with a broad definition of the term.

I see four major types of waste in the Pentagon budget, starting with the big picture and moving down into specific examples. The four areas include misguided strategy; purchasing ineffective weapons systems that don't serve our strategic interests; overpaying for basic items; and maintaining excess overhead.

The first form of wasteful spending has to do with strategy. A strategy that ignores our most urgent challenges while overstating other risks wastes tens of billions of dollars while making us less safe. In terms of both short-term and longer-term threats to human lives we need to look at pandemics, the ravages of climate change, white supremacy and racial and economic injustice. The tools needed to address these challenges are not primarily military in nature. Our budget should reflect that reality.

In 2019, my organization issued a report from our Sustainable Defense Task Force – a group of former White House, Congressional and Pentagon budget officials, retired military officers, and think tank experts from across the political spectrum.¹ We found we could save \$1.2 trillion over the next decade by pursuing

¹ "Sustainable Defense: More Security, Less Spending," Report of the Center for International Policy's Sustainable Defense Task Force, June 2019, https://static.wixstatic.com/ugd/fb6c59_59a295c780634ce88d077c391066db9a.pdf and William D. Hartung and

a more realistic strategy, avoiding unnecessary and counterproductive wars, putting diplomacy first in addressing regional challenges, adopting a deterrence-only nuclear posture, and cutting excess bureaucracy. Doing so would entail cutting peacetime overseas troop deployments by about one-third, from 180,000 to 110,000; reducing the size of our armed forces by 10% as we avoid future Iraq- and Afghan-style wars; forgoing the Pentagon's \$1.5 trillion nuclear modernization plan; and reducing the use of costly private contractors. Even with our proposed reductions, the United States would have by far the best-funded military in the world – more than two and one-half times what China spends and ten times what Russia spends.²

Current spending on the Pentagon and related work like nuclear warhead development at the Department of Energy is substantially higher than U.S. spending at the peak of the Korean or Vietnam Wars or the Reagan buildup of the 1980s.³ There is plenty of room to reduce the Pentagon budget while improving our security by better aligning our spending to address our most urgent challenges. I'd be glad to talk more about our findings and would ask that our Sustainable Defense Task Force report be submitted for the record along with my written testimony.

A second area of waste is spending on weapons that are either unworkable, unnecessary or unaffordable – or in some cases all three.

Examples of systems that should be carefully scrutinized include the F-35 aircraft, which is not fully ready for combat after 20 years of development and is still being retrofitted with costly technical fixes even as production goes forward. The aircraft is not only immensely costly to purchase, but it will be enormously expensive to operate and maintain. At up to \$1.7 trillion over its lifetime, it is the most expensive weapons program ever undertaken by the Pentagon.⁴ And the costs are growing. Bloomberg News has reported that Lockheed Martin had a 63% cost overrun on an upgrade of the cockpit computer for the F-35, a total of \$444 million. Other problems include more than 800 design flaws, engines with blades that crack too soon, and an operating cost of \$38,000-per flying hour for the Air

Ben Freeman, "Sustainable Defense: a Pentagon Spending Plan for 2021 and Beyond," Center for International Policy, December 2020, https://3ba8a190-62da-4c98-86d2-893079d87083.usrfiles.com/ugd/3ba8a1_84180a1b3cdf478f8023d8ca96cb682a.pdf

² Stockholm International Peace Research Institute, "Trends in World Military Expenditure, 2020," April 26, 2021, https://sipri.org/sites/default/files/2021-04/fs_2104_milex_0.pdf

³ Sustainable Defense Task Force Report, op. cit., p. 27.

⁴ Anthony Capaccio, "Pentagon Reportedly Estimates That It's F-35 Budget Plan is Running \$10 Billion Short Through 2025," *Bloomberg News*, September 11, 2020, <https://www.stripes.com/news/us/pentagon-reportedly-estimates-that-the-f-35-budget-plan-is-running-10-billion-short-through-2025-1.644700>

Force model.⁵ The F-35's automatic logistics system spews out so much incorrect information that it is being replaced, but the new proposed system has already developed problems. The Government Accountability Office has determined that the F-35 is simply unaffordable at the Air Force's current projected budget for the program – it will take billions of additional funding *per year* to close the affordability gap. In addition, problems with engine production and repair mean that 43% of the fleet could be grounded for lack of functioning engines by 2030.⁶

In December, House Armed Services Committee Chair Adam Smith said he was “tired of pouring money down the F-35 rathole.”⁷ Air Force Chief of Staff Gen. Charles Brown recently acknowledged that the plane could not meet its original purpose as a low-cost fighter and would have to be supplemented with a less costly plane. He referred to the plane as a being like a “Ferrari” and said, “you don’t drive your Ferrari to work every day, you only drive it on Sundays.”⁸ This is a stunning admission given original promises that the F-35 would be an affordable, lightweight fighter that would be a workhorse of U.S. air operations.

An analysis by Winslow Wheeler and Dan Grazier for the Project on Government Oversight has noted that “it should be a straightforward proposition to suspend additional F-35 appropriations for further production until Congress has reliable certifications from the Director, Operational Test & Evaluation and GAO that the F-35 can perform fully effectively and suitably and at least nominally better than the aircraft it’s supposed to replace.”⁹ A pause in the F-35 program until it can be proven effective, and that it aligns with future defense needs, would be a prudent step. If it cannot meet these requirements, the program should be phased out. Doing so could save more than \$200 billion in procurement costs that could be devoted to other priorities.¹⁰

⁵ Anthony Capaccio, “F-35 Overrun Sticks U.S. Taxpayers, Allies with \$444 Million Tab,” *Bloomberg*, <https://www.bloomberg.com/news/articles/2021-04-21/f-35-overrun-sticks-u-s-taxpayers-allies-with-444-million-tab>

⁶ United States Government Accountability Office, Testimony Before the Subcommittees on Readiness and Tactical Air and Land Forces, Committee on Armed Forces, U.S. House of Representatives, “F-35 Sustainment: Enhanced Attention to and Oversight of F-35 Affordability Are Needed,” Statement of Diana Maurer, Director Defense Capabilities and Management, April 22, 2021, <https://www.gao.gov/assets/gao-21-505t.pdf>

⁷ Aaron Gregg, “Powerful Lawmaker Calls F-35 a ‘Rathole,’ Suggests Pentagon Should Cut Its Losses,” *Washington Post*, March 5, 2021, <https://www.washingtonpost.com/business/2021/03/05/adam-smith-f35/>

⁸ David Axe, “The U.S. Air Force Just Admitted That the F-35 Has Failed,” *Forbes*, February 23, 2021, <https://www.forbes.com/sites/davidaxe/2021/02/23/the-us-air-force-just-admitted-the-f-35-stealth-fighter-has-failed/?sh=7ed91f921b16>

⁹ Winslow Wheeler and Dan Grazier, “F-35 Changes Needed While Still in Infancy,” April 7, 2021, <https://www.pogo.org/analysis/2021/04/f-35-changes-needed-while-still-in-infancy/>

¹⁰ Ibid.

A second case is the new ICBM, known officially as the Ground-Based Strategic Deterrent, or GBSD. As former Secretary of Defense William Perry has noted, ICBMs are “some of the most dangerous weapons in the world” because under current policy the president would have a matter of minutes to launch them on warning of an attack, increasing the risks of an accidental nuclear war. Northrop Grumman has received a sole source, \$13 billion contract to develop the system, which will cost at least \$100 billion to procure and \$264 billion to build and operate over its lifetime.¹¹ We can maintain a robust deterrent without building a new ICBM.

Last but not least, one can look at the question of whether to build more aircraft carriers. The latest model has cost an enormous \$13 billion to construct, and it has had serious performance issues including a failure of its launch system.¹² It will be vulnerable to high speed, long-range missiles, and the need for 11 aircraft carrier task forces is dubious at a time when our strategy should be pulling back from one of global interventionism to one that emphasizes diplomacy and looks to allies to do more in service of genuine defense needs.¹³

The third area of concern is waste, fraud, and abuse. This category ranges from overcharging for spare parts, to cost overruns on major weapons systems, to the provision of shoddy components, to criminal conduct such as the submission for reimbursement for goods and services that were never provided. An egregious case in point is TransDigm, a company took profit levels of up to 4,451 percent on spare parts provided to the Pentagon. Other examples of overcharges include the Army being forced to pay \$71 for a pin that should have cost less than a nickel, and \$80 for a drainpipe segment that should have cost \$1.41.¹⁴ In another case Boeing overcharged the government \$13 million for 18 parts. Avoiding these overcharges requires a variety of changes in the procurement process, most notably requiring the provision of certified cost and pricing information so that

¹¹ William D. Hartung, “Corrupt Bargain? – One Company’s Monopoly on the Development of Long-Range Nuclear Missiles,” Center for International Policy, September 2020, https://3ba8a190-62da-4c98-86d2-893079d87083.usrfiles.com/ugd/3ba8a1_71f1d54835f7421b8cc0e0435adfa7a6.pdf; and Anthony Capaccio, “New U.S. ICBMs Could Cost Up to \$264 Billion Over Decades,” *Bloomberg News*, October 3, 2020, <https://www.bloomberg.com/news/articles/2020-10-03/new-u-s-icbms-could-cost-up-to-264-billion-over-decades>

¹² Anthony Capaccio, “The Navy’s \$13 Billion Aircraft Carrier Had Launch System Failure,” *Bloomberg News*, June 8, 2020, <https://www.bloomberg.com/news/articles/2020-06-08/navy-s-13-billion-aircraft-carrier-had-launch-system-failure>

¹³ Robert Farley, “U.S. Navy Aircraft Carriers Are Even More Vulnerable Than We Thought,” *The National Interest*, March 6, 2020, <https://nationalinterest.org/blog/buzz/us-navy-aircraft-carriers-are-even-more-vulnerable-we-thought-130022>

¹⁴ Mandy Smithberger and Scott Amey, “In For a TransDigm, Out For Billions,” Project on Government Oversight, May 29, 2019, <https://www.pogo.org/report/2019/05/in-for-a-transdigm-out-for-billions/>; see also Department of Defense Inspector General, “Review of Parts Purchased from TransDigm, Inc.,” February 25, 2019, <https://media.defense.gov/2019/Feb/27/2002093922/-1/-1/1/DODIG-2019-060.PDF>

Pentagon contracting officers aren't flying blind in assessing prices submitted by spare parts contractors.

My colleagues at the Project on Government Oversight have done a detailed analysis of measures that should be taken to prevent price gouging in the acquisition of necessary weapons components. Their conclusion was sobering:

"The laws have contracting officers so hamstrung that it's too administratively burdensome to negotiate prices and ensure that the government – and therefore the American taxpayer – is getting a good deal. . . . Without a significant overhaul of buying laws, profiteering and waste will continue to unnecessarily increase costs for the military and siphon valuable resources from other Defense Department programs and from the warfighters."¹⁵

Fourth and finally, there is the issue of excess overhead. In this regard, the focus is often on Pentagon civilian employees, but an even larger source of potential redundancy and excess costs comes from the estimated 600,000-plus private contractors employed by the Pentagon.¹⁶ In many cases contract employees do jobs that overlap with those done by Pentagon civilians, and generally at substantially higher cost.¹⁷ The Sustainable Defense Task Force recommended cutting spending on private contractors by 15% at a potential savings of \$26 billion per year.¹⁸ This would still leave an enormous work force of roughly half a million private contractors to carry out any needed functions at the Department of Defense.

Another source of overhead comes from major weapons contractors like Lockheed Martin, Boeing, General Dynamics, Raytheon, and Northrop Grumman.

¹⁵ Smithberger and Amey, *op. cit.*

¹⁶ The Pentagon does not do consistent estimates of how many private contractors it employs. According to U.S. Department of Defense, Office of the Undersecretary of Defense for Acquisition, Technology, and Logistics, "Report to Congress: Fiscal Year 2014 Inventory of Contracted Services," August 31, 2015, the Pentagon employed 641,000 Full-Time Equivalent (FTE) service contractors at a cost of \$130 billion, <https://fas.org/man/eprint/contract-2014.pdf> Spending on service contractors has risen by more than 50% since that time to \$210 billion, suggesting that the number of service contractor FTE's should be even higher. Yet a Congressional Research Service analysis – "Defense Primer: Department of Defense Contractors, February 2021," puts the contractor figure at 464,000 for FY2017, the most recent year for which a count has been made, <https://fas.org/sgp/crs/natsec/IF10600.pdf> The difference appears to be a result of counting contractor FTEs at fewer DOD units. More rigorous accounting for service contractors and the functions they perform should be a first step towards trimming the contractor work force.

¹⁷ Paul Chassy and Scott Amey, "Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors," Project on Government Oversight, September 13, 2011, <https://www.pogo.org/report/2011/09/bad-business-billions-of-taxpayer-dollars-wasted-on-hiring-contractors/> The report found that contractors hired by the government make on average 83% more than federal government employees.

¹⁸ Report of the Sustainable Defense Task Force, *op. cit.*, p. 47.

To cite just one example, these five companies, the majority of which get the bulk of their revenues from the U.S. taxpayer, pay their CEOs an average of \$21 million per year. And the top named executives that these companies are required to provide data on received \$275 million in compensation last year, well over a quarter of a billion dollars. By comparison, the average new enlistee in our armed forces receives roughly \$40,000 in basic pay and benefits, or one five-hundredth of what a defense company CEO receives. And a general receives in the range of \$200,000 per year, or one one-hundredth of what a defense CEO receives. If the \$275 million that went to defense company executive salaries in 2020 was invested in clean energy, infrastructure, health care, or education it would create between 2,500 and 4,000 well-paying jobs.¹⁹ The disparity is staggering.

Executive pay represents a small fraction of the \$750 billion-plus per year that goes to the Pentagon and related work like nuclear warhead development at the Department of Energy, but it is indicative of a larger problem. While much of the conversation about the Pentagon budget is rightly focused on meeting the needs of the troops and their families, it is not widely known that roughly half of the Pentagon budget -- \$370 billion per year -- goes to contractors.²⁰ The top five contractors alone receive over \$150 billion in prime contracts per year, nearly one out of three dollars in awards given out by the Department of Defense each year.²¹ If we want to make Pentagon spending more efficient, we need to go where the money is. An investigation by the Government Accountability Office of contractor compensation, profits, and overhead would be a useful tool in getting contractor costs under control. Strengthening the roles of inspectors general and the independent testing office in the Pentagon would be other ways to control runaway costs.

Whatever one thinks about the proper level of Pentagon spending, I think everyone can agree that Pentagon waste benefits no one and does nothing to enhance our security. I thank the committee again for holding this important hearing and I look forward to your questions.

¹⁹ William D. Hartung, with Leila Riazzi, "Executive Excess: CEO Compensation in the Arms Industry, 2020," Center for International Policy, May 2020, https://3ba8a190-62da-4c98-86d2-893079d87083.usrfiles.com/ugd/3ba8a1_53cf880837cd4b178a80adfd0f00812f.pdf

²⁰ Heidi Peltier, "The Growth of the 'Camo Economy' and the Commercialization of the Post-9/11 Wars," Costs of War Project, Brown University, June 30, 2020, <https://watson.brown.edu/costsofwar/files/cow/imce/papers/2020/Peltier%202020%20-%20Growth%20of%20Camo%20Economy%20-%20June%2030%202020%20-%20FINAL.pdf>

²¹ Federal Procurement Data System, Top 100 Contractors Report, FY2020, <https://beta.sam.gov/reports/awards/static>