

**The Pentagon Is Serious About Saving Money**  
**The Wall Street Journal**  
**September 21, 2010**  
**By Dr. Ashton Carter**

Secretary of Defense Robert Gates has tasked me with improving the Pentagon's buying power. We have set out to save you at least \$100 billion over five years in our purchasing of goods and services, which accounts for \$400 billion of the \$700 billion in annual defense spending. (The rest is spent primarily on salaries and facilities.) The Pentagon can meet its goal only if we fundamentally change the way we do business.

Our challenge is to sustain a military at war, take care of our troops and their families, and invest in new capabilities—all in an era when defense budgets will not be growing constantly as they were in the years following 9/11. Last year, we identified savings in the defense budget by cancelling unnecessary programs. Now we must find savings within programs and activities we do need. The department must achieve what economists call productivity growth: Learning to do more without more.

My plan covers five major areas.

First, as we begin new programs for nuclear-missile submarines, long-range strike aircraft, ground combat vehicles and even a new presidential helicopter, we will establish affordability requirements that have the same force as high-priority performance requirements.

We will also insist that our acquisition professionals and suppliers plan according to what programs should cost, not according to self-fulfilling historical estimates of what they will cost, as if nothing can be changed in how we do business. We are already using this method to drive down costs in the Joint Strike Fighter program, the department's largest and the backbone of tactical air power for the U.S. and many other countries.

Second, to incentivize productivity and innovation in industry, we must strengthen the connection between profit and performance in our business practices. Among other things, we are exploring ways—through innovative contracting practices and a pilot "Preferred Supplier Program"—to reward contractors who control their costs and demonstrate exemplary performance.

Third, we must remove obstacles to effective competition. That means we should stop deluding ourselves with the idea that "directed buys" from two designated suppliers represent real competition. We are already cutting down on direct buys with the Navy's Littoral Combat Ship, where we have established a real competition that will save more than \$1 billion in the next five years alone.

Last year, the Pentagon awarded \$55 billion in contracts that were supposed to be competitive but for which only one bid was received, usually from an incumbent contractor. Yet simple changes in how we structure evaluations and work with industry have been shown to reduce by 50% the incidence of single bids by incumbents. Competition is not always available, but the evidence is clear that the government is not availing itself of all possible competitive situations.

Fourth, we will more aggressively manage the more than \$200 billion we spend annually on services such as information technology services, weapons-systems maintenance and transportation. When most people think of the defense budget, they think of ships and planes. But more than 50% of our contract spending is for services. Believe it or not, our practices for buying such services are even less effective than for buying weapons systems.

Fifth, to reduce unproductive processes and bureaucracy, we are sifting through the mass of reports that we produce year after year and eliminating those that add no value. Even more worthy of scrutiny are the reports that the Pentagon requires from contractors, who dutifully write them and then bill the taxpayer for their busy-work.

Changing our business practices will take time and require the continued close involvement of our industry partners. But it can be done—and President Obama, Secretary Gates, Congress and American taxpayers are expecting it. The

alternative is unacceptable: broken or cancelled programs, budget turbulence, uncertainty for industry, erosion of taxpayer confidence, and especially lost capability for the warfighter in a dangerous world. We can succeed and we must.