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## Building Strength from Fiscal Adversity

By HAROLD J. RAVECHÉ

**The “fiscal cliff” is a signal that large spending cuts must be made, even in national defense. But wise cuts can strengthen the nation.**

Standing on the edge of the “fiscal cliff,” the U.S. faces tax increases and spending cuts, unprecedented in size and scope. Virtually every taxpayer will pay more, and virtually all programs except the big entitlements will grow more slowly than their advocates believe to be necessary.

Even national defense, which is generally regarded in Congress and among the citizens as the highest priority, faces serious cuts to projected spending, on the order of \$50 billion a year from a \$670 billion annual budget for fiscal 2013.

The defense industry, the Pentagon, and pro-military lobbying groups are rising in high indignation to stop what a former Secretary of Defense, Robert Gates, calls “mindless across-the-board spending cuts.” He adds, “The result would be grave damage to the U.S. military, homeland security, aviation safety, and virtually all other essential operations.”



*Tim Foley for Barron's*

It doesn't have to be that way. If the military, defense industry, and elected leaders seize the budget reduction as an opportunity, numerous benefits will emerge for U.S. defense, the taxpayers, the economy, and America's global leadership.

America's global interests and objectives can be safeguarded by maintaining a strong military with the most advanced technology.

America's defense strength rests on superior technology, to protect soldiers and achieve military objectives. Defense R&D must be safeguarded as a top priority—and not just for military reasons.

Storied centers of entrepreneurship, which every nation seeks to emulate, such as Silicon Valley in California and the Route 128 corridor in Massachusetts, grew from innovation for defense needs in electronics, radar, and high-performance computing. Corporate investments have followed where military money led, spawning a rich diversity of technologies and a culture of entrepreneurship.

The Internet, medical lasers, semiconductors, and global-positioning devices arose from defense needs. High-resolution satellites and unmanned aerial vehicles are technologies that originated in defense contracts.

Can we do this again? Today a vital infrastructure is at risk. The Defense Department employs approximately 80,000 engineers and scientists in nonclassified areas. Defense contractors also employ thousands of engineers and scientists, as do the numerous small and medium-size enterprises that develop specialized technologies.

**FEDERAL INCENTIVES, SUCH AS** R&D tax credits for U.S. defense contractors, should be used to encourage private-sector investment in research. U.S. citizens should be encouraged to obtain advanced degrees in engineering and science through federal sponsorships of graduate fellowships. The Defense Advanced Research Projects Agency and other funders of military R&D should initiate national competitions for multimillion-dollar research grants to U.S. universities to seek superior technological capabilities.

Equally important is a strategy for optimizing the Pentagon's purchasing power for essential acquisitions. This is easier said than done, as the opposition to the forthcoming "mindless cuts" makes clear.

Gates, the former defense secretary, warned Sept. 17 about reducing national expenditures without a strategy. "According to most experts, taking so much money out of the U.S. economy so soon and without any strategy, rationality, or prioritization would likely send the country back into recession, thus only worsening the government's fiscal situation," Gates said at a Washington think-tank seminar.

Former Senator Alan Simpson, a Wyoming Republican, spoke to the same meeting and put the emphasis on Pentagon waste. He focused on the politically sensitive veterans' health program. Combat veterans, he said, have given up a lot. "Let's all admit that. They gave up time, family, absence, the whole works," he said. "But for heaven's sakes, there's only 2.2 million of them. The majority of vets never were in a combat area or combat theater, and they have their own health-care plan called Tricare. And the premium is \$470 a year, and no co-pay. It takes care of all dependents and costs you and me \$53 billion a year."

The Pentagon's procurement process screams for streamlining. The focus must shift to the functionality of defense-system acquisitions to realize strategic military objectives, with the product details being the responsibility of the defense contractors. Change orders, driven by the Pentagon's zeal to have the latest advances, increase costs and cause delays. This must be curbed by prioritizing military objectives.

Because of rotation of military personnel, procurement suffers from a lack of continuity. Programs bumble along, running on momentum that was generated years ago.

Cost overruns and time delays erode support of Congress and the American public. For example, the much-needed F-35 jet fighter is already late and billions over budget. In a classic penny-wise, pound-foolish pattern, the Pentagon plans to slow development and purchase of this high-tech plane to avoid immediate outlays—but this will increase costs in the future.

Prime contractors, including the Big Five—Boeing, Lockheed Martin, Northrop Grumman, Raytheon, and General Dynamics—must better control costs, performance, and schedules. The whole military-industrial culture suffers from management neglect and a lack of budgetary discipline.

The president and Congress must take an all-inclusive approach in formulating the national budget. Without a national strategy for emerging stronger from the process of defense cuts, the U.S. military will squander resources on short-term, low-impact budget gimmicks that fail to address its most pressing problems, risking America's future and its global leadership.

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