

March 31 2013

CHUCK
HAGEL'S
"FIRST SUPPER"

BY

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As the new U.S. secretary of defense turns his attention to the defense industrial base, he should reach out to leaders of companies that provide our armed forces with the equipment required to underwrite national security. A good way could be by breaking bread in a collegial group gathered to consider the future of democracy's arsenal.

Before sending out invitations, Chuck Hagel should compare and contrast this, his "first supper," with the "last supper" hosted by Defense Secretary Bill Perry two decades ago. Then, at the end of the Cold War, the United States went through a significant drawdown in defense resources, somewhat similar to the environment facing the Defense Department and its supporting industry today.

In 1993, the defense secretary brought together the captains of industry to convey the message that reduced defense spending would require them to consolidate their businesses to cope with a dramatically reduced budget. Within a decade, about 50 major firms consolidated into fewer than 10. Yet core competencies and competition were preserved, and a streamlined industrial base was ready and agile enough to meet the nation's security challenges after 9/11.

Upon reflection, Hagel will realize that today's situation is considerably altered, and is not likely to be solved through mergers, acquisitions or large commercial firms divesting defense portfolios. Today's defense industrial base has been characterized by Pentagon officials as "more global, more commercial and more financially complex and competitive than ever before."

Thus, although those same officials are leaving the door open to industry consolidation, promising "longer-term benefits," and implying greater efficiency and innovation, much of the low-hanging fruit of mergers and acquisitions has already been harvested. More likely will be large firms diversifying in what was once called "conversion" to commercial enterprises. More worrying will be when subtier firms start to exit the business. What, then, should be the secretary's message to the CEOs as they tuck into their dessert?

The first is to reassure them that despite the vagaries of sequestration and the inability of Congress to come to grips with sensible and sustainable budgets, DoD has no intention of abandoning a vibrant defense industrial base.

Acknowledging the Herculean efforts by the Aerospace Industries Association to point out the implications of sequestration on the defense industry would be a good start. But in this time of uncertainty and diminishing resources, specifying DoD priorities to show a way ahead for the next five years would be more comforting to the leaders and shareholders of defense companies than any apologies for the disorder Hagel has inherited.

Here, he can fall back on his résumé documenting his understanding of how businesses operate and how they are incentivized. Also, his years heading the Atlantic Council should have encouraged him to value the input of outsiders in the policy process (presuming he has now accepted the policymaking responsibilities of his position).

As he awaits the results of his internally directed strategic review, Hagel should have his policy shop synthesize the findings of studies on the industrial base by major think tanks such as the Brookings Institution, the Center for Strategic and Budgetary Assessments and the Heritage Foundation. These can be used to outline the priorities that economically meet the future security environment and suggest paths for investment.

His staff will find remarkable consistency in these studies, although each acknowledges the uncertainty in, as Hagel has described it, a “complicated” world order.

In terms of investment priorities, consensus forms around the following: build and sustain special operations forces; develop new UAVs that can operate in contested airspace and be launched from aircraft carriers; emphasize cyber offensive and defensive capabilities; pursue conventional long-range strike systems; shift the emphasis of research and development (R&D) to science and technology and to basic research to enable long-term, game-changing capabilities, such as directed energy weapons; and field theater and continental missile defenses.

The industry needs to know what capabilities will be downsized to provide the resources needed for investment. Personnel reductions in the Army and Marine Corps can provide fast money for bill-paying, and the secretary can promise to pursue more management, acquisition and compensation reforms within the Pentagon to free up funds for procurement and R&D.

Nuclear weapons and systems, although not a big percentage of the defense budget, can also pay a fair share. Platforms and systems supporting large-scale armored and amphibious warfare also appear less relevant in the near term.

All of these issues may not fit around a single dinner table, so the secretary’s “first supper” may have to be followed by others. But a positive message to the captains of defense industry would be a timely and needed boost for companies being pulled and hauled by the bureaucratic tomfoolery in Washington.

What might be an appropriate after-dinner toast? If Hagel’s prior enlisted service will abide some mock Latin, it might be “Here’s to the defense industrial base: *Illegitimi non carborundum*.”

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