



Statement Before the  
House Committee on Oversight and Accountability  
National Security, the Border, and Foreign Affairs Subcommittee  
“Wasteful Spending and Inefficiencies: Examining DoD Platform Performance and  
Costs”

# **Beyond the Status Quo: Bolstering Military Strength and Fiscal Responsibility Simultaneously**

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Chairman Grothman, Ranking Member Garcia, and distinguished members of this Committee, thank you for the privilege of testifying on these important issues facing our military today.

The US military and its supporting workforces are one of the largest organizations on Earth. It is bigger than all federal agencies combined, with an employee base of roughly 2 million people on direct payroll. The biggest expense of the Department of Defense is the cost of professionals; not weapons or technology.<sup>1</sup>

This sprawling agency is so large in peacetime because, as Thomas Paine warned, it would not be enough to “expect to reap the blessings of freedom.” Americans would have to “undergo the fatigues of supporting it.”<sup>2</sup>

America’s Founders believed that peace through strength is preferable—militarily, financially, and morally—to allowing war to come through weakness. That is why over 200 years ago Thomas Jefferson advised George Washington that “the power of making war often prevents it.”<sup>3</sup> Washington has regularly had to relearn this wisdom, often at great cost in money and lives.

As the agency overseeing such a sacred duty to protect the nation, our way of life, and our citizens, the Defense Department stands alone. As such, Congress conducts vast and detailed oversight of this organization—more than any other federal agency—to great effect. This partnership between the two branches, to provide for the common defense of Americans, is essential to being so strong as to avoid war by being always prepared for it in peacetime.

### **US Military Confronts the “Terrible ‘20s” and Increasingly Aligned Peer Competitors**

American conventional military deterrence is at a nadir, at the same time the nuclear deterrent must be entirely modernized<sup>4</sup> and great power competitors are increasingly sophisticated, lethal, and collaborative.<sup>5</sup> Efforts to recalibrate a shrinking military amidst crises at sea and wars on two continents have stretched our armed forces thin.

Inefficiencies and Pentagon waste are but one challenge which hinders the military’s ability to effectively meet current threats. Program cost overruns, schedule slippage, platform performance issues, and scattered instances of waste, fraud, and abuse stunt the ability to adapt, equip, and ready warfighters to deter threats.

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<sup>1</sup> Mackenzie Eaglen, “Beyond Monopsony: Pentagon Reform in the Information Age,” AEI, March 2023. <https://www.aei.org/wp-content/uploads/2023/03/Beyond-Monopsony.pdf?x85095>

<sup>2</sup> Thomas Paine, “The American Crisis,” 1776. <https://www.loc.gov/resource/rbpe.03902300/?st=text>

<sup>3</sup> Thomas Jefferson, “From Thomas Jefferson to George Washington, 4 December 1788,” December, 1788. [https://founders.archives.gov/documents/Jefferson/01-14-02-](https://founders.archives.gov/documents/Jefferson/01-14-02-0111#:~:text=The%20power%20of%20making%20war,the%20price%20of%20our%20neutrality.)

[0111#:~:text=The%20power%20of%20making%20war,the%20price%20of%20our%20neutrality.](https://founders.archives.gov/documents/Jefferson/01-14-02-0111#:~:text=The%20power%20of%20making%20war,the%20price%20of%20our%20neutrality.)

<sup>4</sup> Mackenzie Eaglen, “The 2020s Tri-Service Modernization Crunch,” AEI, March 2021. <https://www.aei.org/wp-content/uploads/2021/03/The-2020s-Tri-Service-Modernization-Crunch-1.pdf?x85095>

<sup>5</sup> “Coalition Against Democracy,” AEI, November 2023. <https://www.aei.org/wp-content/uploads/2023/11/Coalition-Against-Democracy-One-Pager-Infographic-11.13.2023-1.pdf?x85095>

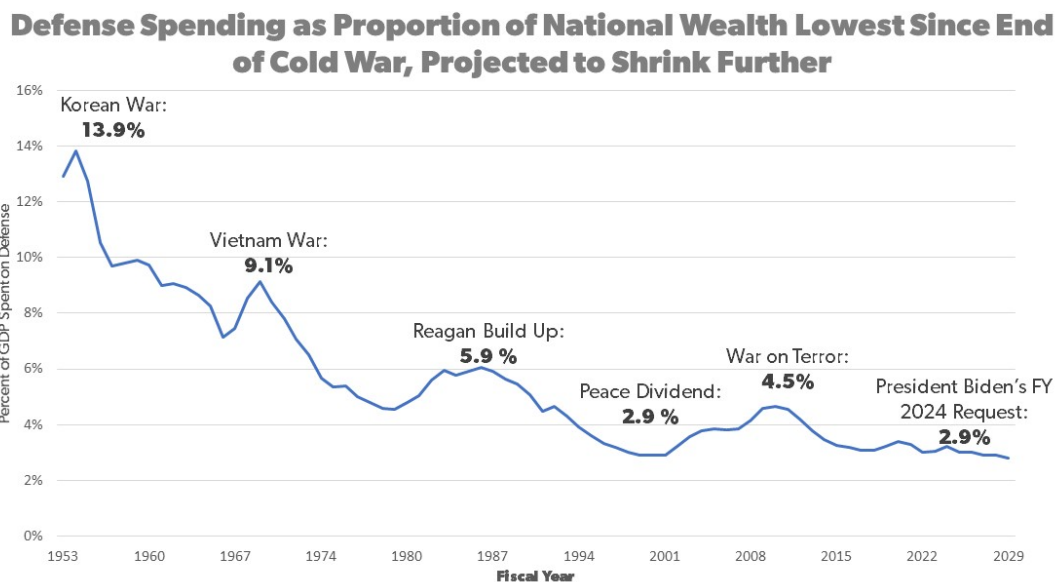
Similarly, vast amounts of spending within the defense budget (ranging from \$100 to \$200 billion annually) that do not yield credible combat power and would be better parked elsewhere, diminish the Defense Department’s buying power and its top focus on warfighting.<sup>6</sup>

These are not merely fiscal discrepancies but strategic obstacles that compromise readiness and diminish strength across three theaters globally. The US military, arguably in a constant state of reform, needs even more help from Congress to succeed. Real defense reform demands leadership, political courage, alliance-building, education of stakeholders, and money up front.

This Committee’s oversight is important to bridge the gap between our defense objectives and the bureaucratic and fiscal constraints that bind them. Ensuring every defense dollar is being spent to maximum effect and greatest impact is a task worthy of your time and talents.

### Three Decades of Decline

Despite a substantial topline, the Defense Department continues to shrink and age its active duty forces and capital assets with budgets regularly enacted below inflation. Defense spending by every metric is falling—including as a percentage of the economy, as a portion of federal spending, and in real terms.<sup>7</sup>



Source: DOD National Defense Budget Estimates for FY 2025, Tables 7-2 and 7-3.



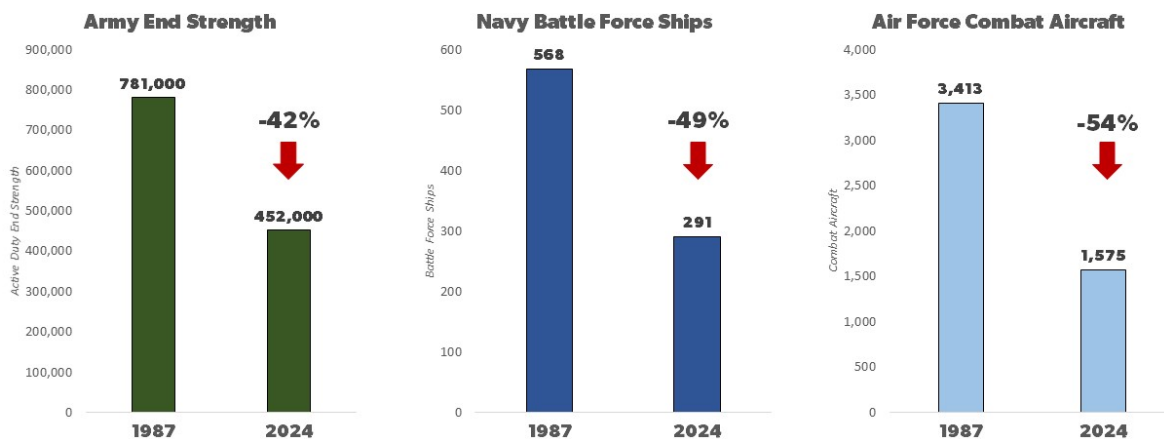
<sup>6</sup> Elaine McCusker, “Defense Budget Transparency and the Cost of Military Capability,” AEI, November 2022. <https://www.aei.org/wp-content/uploads/2022/11/Defense-Budget-Transparency-and-the-Cost-of-Military-Capability.pdf?x85095>, and Anthony Brown, “The case for a robust defense budget,” Defense News, May 14, 2021. <https://www.defensenews.com/opinion/commentary/2021/05/14/the-case-for-a-robust-defense-budget/>  
<sup>7</sup>Mackenzie Eaglen, “The U.S. Military Needs More Capital for Capital Assets,” RealClearDefense, May 22, 2023. [https://www.realcleardefense.com/articles/2023/05/22/the\\_us\\_military\\_needs\\_more\\_capital\\_for\\_capital\\_assets\\_900836.html](https://www.realcleardefense.com/articles/2023/05/22/the_us_military_needs_more_capital_for_capital_assets_900836.html)

This has led to a modernization crunch where military platforms bought during the Cold War are all approaching the end of their service lives during this decade in the aptly nicknamed “Terrible 20s.”

However, despite these massive bills coming due after repeated deferral and amidst budgetary decline, sequestration, and budget caps, procurement of military platforms has historically served as a billpayer. This has left the United States with the smallest Army since the Second World War, a Navy half the size as it was in 1987, and an increasingly aging fleet of Air Force aircraft.<sup>8</sup>

In the recent past when defense spending fell (e.g., the post-Cold War procurement holiday and peace dividend followed by two wars and the Budget Control Act-era and sequestration), leaders raided procurement.<sup>9</sup> Cutting or canceling needed weapons programs sounds tough and smart until its replacement program gets underway late-to-need for the warfighter and with fewer options to choose from and often at higher cost.

### Modernization Serves as the Billpayer for the Pentagon, Resulting in Smallest Army, Navy, and Air Force since World War II



Source: DOD National Defense Budget Estimates for FY 2025, Table 7-5, Congressional Research Service “Navy Force Structure and Shipbuilding Plans,” The Heritage Foundation “2024 Index of U.S. Military Strength”, 2024 Air & Space Forces Almanac.



Willfully avoiding buying in bulk means the Defense Department and taxpayer do not benefit from the savings accrued by economies of scale. Across the services, early retirements of aging capital assets continue to outpace new construction.

The consequences of always-high operations tempo wearing out man and machine faster than planned, alongside under-investment and divestment of future warfighting capabilities without a follow-on purchased and fielded at scale, are rippling through the force today.

<sup>8</sup>Mackenzie Eaglen, “The 2020s Tri-Service Modernization Crunch.”

<sup>9</sup>Mackenzie Eaglen, “The U.S. Military Needs More Capital for Capital Assets.”

**Table 1. Canceled Modernization Programs, FY 2002–FY 2012, Millions of FY 2021 Dollars**

Service	Program	Sunk Cost	Future Funding Deferred	Follow-On
Army	FCS	\$22,058	\$172,283	Numerous
Army	RAH-66 Comanche	\$10,845	\$54,893	ARH
MDA	ABL	\$5,444	\$3,167	—
Air Force	TSAT	\$4,246	\$25,841	AEHF/WGS
Navy	EFV	\$4,001	\$14,911	ACV 2.0
Army	MEADS Fire Unit	\$3,736	\$21,722	PAC-3 Mod
Air Force	NPOESS DWSS	\$3,696	\$9,769	N/A (JPSS)
Navy	VH-71 Presidential Helo	\$3,292	\$5,054	VH-72A
Army	Crusader SPH	\$3,104	\$13,057	—
Army	JLENS	\$2,650	\$6,549	—
Air Force	C-130 AMP	\$2,597	\$4,840	AMP Inc 1
Army	ATACMS-BAT	\$2,044	\$5,838	—
Army	JTRS GMR	\$1,951	\$20,613	JTRS (Harris)
Army	Inc 1 E-IBCT	\$1,499	\$1,822	—
Air Force	ECSS	\$1,139	—	TBD
Joint	DIMHRS	\$1,013	—	Multiple
Navy	ASDS	\$979	\$1,723	JMMS, DCS
Air Force	B-1 CMUP	\$926	\$1,333	—
Army	Land Warrior	\$847	\$10,680	Nett Warrior
Navy	RMS	\$835	\$886	TBD
MDA	KEI/MKV	\$827	\$6,375	RKV/MOKV
Air Force	E-10	\$790	—	JSTARS Recap
Navy	ADS	\$683	\$1,141	—
Army	ARH	\$665	\$5,876	FVL CS 1
Navy	ERM	\$505	\$1,377	TBD
MDA	PTSS	\$462	\$1,363	—
Army	Joint Common Missile	\$400	\$10,718	JAGM
Navy	CG(X)	\$180	—	FSC
<b>TOTAL</b>		<b>\$81,415</b>	<b>\$401,832</b>	

Source: US Department of Defense, Selected Acquisition Reports, FY00–FY12; and Under Secretary of Defense, “National Defense Budget Estimates for FY 2021 (Green Book),” April 2020, Table 5-6, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2021/FY21\\_Green\\_Book.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2021/FY21_Green_Book.pdf).

Canceling programs does not eliminate need or slow down our enemies; only ourselves. As seen in Table 1, the US military has invested tens of billions in recent modernization programs which were never fielded.<sup>10</sup> Additionally, the defense industrial base will size and upskill its workforce as directed by its primary customer in Uncle Sam. The last three decades of defense decline saw industry respond accordingly by consolidating, shrinking, or exiting the national security business. This acquisition death spiral leads to fewer contracts, which create winner-take-all

<sup>10</sup> Mackenzie Eaglen, “The 2020s Tri-Service Modernization Crunch.”

awards that typically eliminate future competition (and therefore savings and innovation), driving up program costs.<sup>11</sup>

### **Defense Acquisition: A Soviet-Style Purchasing System Mostly Unfit for the Digital Age**

The state of the industrial base is the direct result of U.S. government policies after the Cold War ended. The Pentagon actively encouraged consolidation and lean production in the 1990s and placed lowest cost above other purchasing priorities.<sup>12</sup>

Just as in the commercial market, there are good and bad military firms, as well as cheap and expensive products. There have been plenty of programs in the past that have run over budget or delivered too late. However, high prices for advanced military equipment are not solely the result of widespread waste, fraud, and abuse, but often inefficient program management and an inability to implement best practices.<sup>13</sup>

The Government Accountability Office (GAO) recently confirmed as much by revealing increased timelines for many Major Defense Acquisition Programs (MDAP) and Middle Tier of Acquisition (MTA) programs,<sup>14</sup> with the average time for a big program to deliver capability increasing from eight to 11 years, while the time for some MTAs, a system developed for speedier delivery of capability, has increased from 5 years to 10 years in some cases.<sup>15</sup>

Nowhere are these delays felt more heavily than in the United States Navy. Service leaders have released their own report on shipbuilding delays as nearly every class of ship is years behind schedule.<sup>16</sup>

The Navy's new frigate is an example of what is often overlooked as part of the problem, however. The Pentagon is a difficult and poor customer who lacks flexibility in contracts to

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<sup>11</sup>“Surge Capacity in the Defense Munitions Industrial Base: Report of the Fiscal Year 2023 Study,” Army Science Board, September 14, 2023.

[https://asb.army.mil/Portals/105/Reports/2020s/ASB%20FY%2023%20DMIB%20Report%20\(E\).pdf?ver=jZRw9v2VxCIqIvsBFsDG4g%3d%3d](https://asb.army.mil/Portals/105/Reports/2020s/ASB%20FY%2023%20DMIB%20Report%20(E).pdf?ver=jZRw9v2VxCIqIvsBFsDG4g%3d%3d)

<sup>12</sup>“Numbers Matter: Defense Acquisition, U.S. Production Capacity, and Deterring China,” Govini, 2024.

<https://www.govini.com/insights/numbers-matter-defense-acquisition-u-s-production-capacity-and-deterring-china>, Mackenzie Eaglen, “The Pentagon Must Pay for Competition,” Defense News, March 10, 2022.

<https://www.defensenews.com/opinion/commentary/2022/03/10/the-pentagon-must-pay-for-competition/>, and “The National Defense Industrial Strategy,” Department of Defense, November 16, 2023.

<https://www.businessdefense.gov/docs/ndis/2023-NDIS.pdf>

<sup>13</sup>“DOD Cost Overruns: Trends in Nunn-McCurdy Breaches and Tools to Manage Weapon Systems Acquisition Costs,” Government Accountability Office, March 29, 2011. <https://www.gao.gov/assets/gao-11-499t.pdf>

<sup>14</sup> Mackenzie Eaglen, “The Pentagon’s Weapons Budget Needs a Jumpstart,” National Security Journal, July 1, 2024. <https://nationalecurityjournal.org/the-pentagons-weapons-budget-need-a-jumpstart/>.

<sup>15</sup>“DOD Weapon Systems Annual Assessment: DOD Is Not Yet Well-Positioned to Field Systems with Speed,” Government Accountability Office, June 17, 2024. <https://www.gao.gov/products/gao-24-106831>.

<sup>16</sup> The Columbia-class submarine is facing delays between 12 and 16 months. New block IV and V Virginia-class submarines will be 36 and 24 months late respectively, the aircraft carrier Enterprise is roughly 18 to 26 months behind schedule, and the first ship of the Constellation-class Frigate is delayed for 36 months. Justin Katz, “Navy lays out major shipbuilding delays, in rare public accounting,” Breaking Defense, April 2, 2024. <https://breakingdefense.com/2024/04/navy-ship-delays-columbia-constellation-virginia-enterprise-del-toro/>.

match shifting technology in real-time and often changes its mind after low-balling cost estimates based on rosy assumptions about development, design, and engineering.<sup>17</sup>

In May, the GAO found that the Constellation-class frigate<sup>18</sup> delay is almost exclusively based on Navy-directed design changes. The original purpose of choosing a pre-made ship design based on the preexisting Franco-Italian “multi-purpose frigate” design was to go faster, as using a premade design should have reduced both cost and delivery time to sailors.

The opposite happened after Navy bureaucracy strangled the program and bogged down the contractor with repeated change requests and upgrades. These atrocious outcomes are not because of fraud by shipbuilders but poor program management. The design of the Constellation class has been egregiously changed from the original Franco-Italian design—initially the Constellation was to have 85 percent commonality with the parent, whereas the current design has just 15 percent commonality.<sup>19</sup> Despite having started construction, the 3-D modeling and the functional design of the ship is yet to be completed, which the GAO has stated is “inconsistent with shipbuilding leading practices, which call for completion of these design activities prior to construction start.”<sup>20</sup> U.S. Senator Roger Wicker (R-MS) has put the blame squarely on the Navy, noting that “70 percent of the requirements have changed since the Navy signed a contract.”<sup>21</sup>

Of course this was all well-known and documented. Making changes before completing the design have historically led to cost increases, according to extensive research from the RAND Corporation.<sup>22</sup>

### **It’s Not All Bad News**

Though stories of ballooning costs make headlines, many major Pentagon programs are running smoothly and without incident. Recent higher-profile defense acquisition success stories include

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<sup>17</sup> Mackenzie Eaglen, “You Go to War with the Industrial Base You Have,” 19FortyFive, April 16, 2024. <https://www.19fortyfive.com/2024/04/you-go-to-war-with-the-industrial-base-you-have/>.

<sup>18</sup> “Navy Frigate: Unstable Design Has Stalled Construction and Compromised Delivery Schedules,” Government Accountability Office, May 29, 2024. <https://www.gao.gov/products/gao-24-106546>.

<sup>19</sup> Mallory Selbourne and Sam Lagrone, “Constellation Frigate ‘Unplanned Weight Growth’ Could Limit Service Life, Says GAO,” USNI News, May 29, 2024. <https://news.usni.org/2024/05/29/constellation-frigate-unplanned-weight-growth-could-limit-service-life-says-gao>.

<sup>20</sup> “DOD Weapon Systems Annual Assessment: DOD Is Not Yet Well-Positioned to Field Systems with Speed,” Government Accountability Office.

<sup>21</sup> “Miss. Senator Takes Opportunity To Express How Integral Mississippi’s Contributions Are To The Navy’s Future And Our National Security,” Office of Senator Roger Wicker, May 16, 2024.

<https://www.wicker.senate.gov/2024/5/senator-wicker-led-armed-services-republicans-in-navy-marine-corps-hearing#:~:text=For%20example%2C%20the%20Constellation%2Dclass,the%20Navy%20signed%20a%20contract>

<sup>22</sup> Joseph G. Bolten, Robert S. Leonard, et al, “Sources of Weapon System Cost Growth: Analysis of 35 Major Defense Acquisition Programs,” RAND Corporation, 2008. [www.rand.org/content/dam/rand/pubs/monographs/2008/RAND\\_MG670.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG670.pdf).

the B-21 Raider, which has remained on-schedule and cost despite rapid development.<sup>23</sup> The key to the B-21's success has largely been stability, both in funding and requirements.<sup>24</sup>

The Pentagon's contracts with industry should always be subject to oversight and vigilance to ensure the American taxpayer is getting the most bang for their buck. Amid calls to work with industry partners to rebuild the defense industrial base, however, key administration officials' comments railing against corporate profit are at best unhelpful and at worst a mischaracterization. In November of 2023, Secretary of the Navy Carlos Del Toro said "federal contractors [are] operating at historically high margins, resulting in costs to taxpayers that are simply too high," citing profit margins have grown to 15 to 17 percent from the historical norm of 6 to 10 percent, and has continued to blast industry for "record profits" amid shipbuilding delays.<sup>25</sup>

While certain instances of contractor price-gouging do exist and should be met with swift and harsh discipline and public shaming,<sup>26</sup> analysis from AEI expert Bill Greenwalt disproves these claims. Profits from American defense contractors have trended downwards in the last decade. General Dynamic's shipbuilding unit has seen profits fall from a peak 9.9 percent in 2013 to 6.5 percent last year, and the average operating margin for the entire defense and aerospace industry came in at 9.7 percent in 2023—lower than that of green and renewable energy at 24 percent.<sup>27</sup>

Some companies are even choosing to accept financial loss when doing business with the Pentagon. Boeing recently absorbed \$7 billion in cost overruns for its KC-46A tanker program due to faulty risk estimates and ongoing design changes under a previously negotiated fixed price contract.<sup>28</sup>

Furthermore, this war on profits does little to incentivize industry to be involved in the defense market, especially those in the commercial sector trying to break into defense work. Non-traditional companies' involvement in the defense sector is necessary as the Pentagon has shifted from being an inventor to an innovator of existing commercial technology. Indeed, in "many

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<sup>23</sup> Mackenzie Eaglen, "More Boom for the Buck: How the Air Force's New Bomber Became a Rare Pentagon Acquisition Success Story," Hudson Institute, December 2023.

[https://s3.amazonaws.com/media.hudson.org/America%E2%80%99s+B-21+Raiders+Dec+2023+\(1\).pdf](https://s3.amazonaws.com/media.hudson.org/America%E2%80%99s+B-21+Raiders+Dec+2023+(1).pdf)

<sup>24</sup> Ibid.

<sup>25</sup> "Fact Sheet: Biden-Harris Administration Announces New Better Contracting Initiative to Save Billions Annually," The White House, November 8, 2023. <https://www.whitehouse.gov/omb/briefing-room/2023/11/08/fact-sheet-biden-harris-administration-announces-new-better-contracting-initiative-to-save-billions-annually>, and "SECNAV Del Toro Delivers Keynote Address at WEST 2024," US Navy, February 15, 2024. <https://www.navy.mil/Press-Office/Speeches/display-speeches/Article/3677940/secnav-del-toro-delivers-keynote-address-at-west-2024/>.

<sup>26</sup> "Audit of Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing," Office of the Inspector General, December 13, 2021. <https://media.defense.gov/2021/Dec/27/2002914678/-1/-1/1/DODIG-2022-043%20508.PDF>.

<sup>27</sup> William C. Greenwalt, "The Navy Secretary's Misguided War on Profits," Breaking Defense, May 14, 2024. <https://breakingdefense.com/2024/05/the-navy-secretarys-misguided-war-on-profits/>.

<sup>28</sup> Michael Marrow, "Inside Boeing's Plans to Fix Its Troubled KC-46A Tanker," Breaking Defense, January 18, 2024. <https://breakingdefense.com/2024/01/inside-boeings-plans-to-fix-its-troubled-kc-46a-tanker/>.



areas of technology, the commercial marketplace is moving faster than the normal acquisition timeline for complex weapon systems.”<sup>29</sup>

A better way to keep programs humming without incident is a consistent demand signal to industry, as evidenced by money under contract.<sup>30</sup>

### **The Defense Audit as a Work-In-Progress**

The Pentagon began a department-wide financial statement audit in 2018. This was considered a groundbreaking initiative given its vast scope of \$3.8 trillion in assets and \$4 trillion in liabilities and therefore complexity.<sup>31</sup> From the outset this endeavor revealed significant challenges, often resulting in disclaimers rather than affirmations of financial integrity. These initial outcomes underline a crucial truth: while the Pentagon has made commendable progress in managerial accounting which supports internal control, it faces substantial hurdles in fully integrating these practices across the Defense Department.

Similarly, the process has exposed the Pentagon’s woefully outdated business systems that are still being updated. As they are modernized and the audit continues, senior leaders have gained greater insights into detailed expenditures. Better data analytics have saved taxpayer money that would have otherwise expired or been canceled and therefore considered wasteful.

For now, steady progress is perfection on the Pentagon’s audit, with a deadline of 2028 to complete.<sup>32</sup> While the path to full auditability presents numerous challenges, each audit cycle is a step toward refinement and improvement.

The inability to receive a certified clean audit should not be confused as evidence of widespread Pentagon waste, fraud, and abuse. In fact, to date, financial auditors have reported no evidence of fraud within the defense budget.<sup>33</sup> The oft-cited notion that the Pentagon has failed to pass an audit is not an indicator that the military is rife with waste, fraud, and abuse.

As my AEI colleague and former Pentagon Acting Comptroller Elaine McCusker has expounded, it is important to dispel common misconceptions about the Pentagon’s audit.<sup>34</sup> Failing to pass a comprehensive audit does not necessarily indicate mismanagement. Just because the Pentagon has yet to receive a clean opinion from financial auditors does not mean the American public does not know where its defense budget is being spent. Additionally, the lack of a full clean report does not mean that funds are unaccounted for. Rather, the Pentagon’s

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<sup>29</sup> Sandra I. Erwin, “Kendall: Pentagon Struggles to Determine ‘Fair’ Prices for Commercial Items,” National Defense Magazine, September 2, 2015. <https://www.nationaldefensemagazine.org/articles/2015/9/2/kendall-pentagon-struggles-to-determine-fair-prices-for-commercial-items>.

<sup>30</sup> Mackenzie Eaglen, “The Pentagon’s Weapons Budget Needs a Jumpstart.”

<sup>31</sup> Jim Garamone, “DOD Makes Incremental Progress Toward Clean Audit,” DOD News, November 16, 2023. <https://www.defense.gov/News/News-Stories/Article/Article/3590211/dod-makes-incremental-progress-toward-clean-audit/>.

<sup>32</sup> H.R.2670 - National Defense Authorization Act for Fiscal Year 2024. <https://www.congress.gov/bill/118th-congress/house-bill/2670/text>.

<sup>33</sup> Elaine McCusker, “What Should You Know About the Defense Audit?” AEI, April 2021, <https://www.aei.org/wp-content/uploads/2021/04/What-Should-You-Know-About-the-Defense-Audit.pdf?x85095>.

<sup>34</sup> Ibid.

systems, originally designed for budget execution and tracking expenditures, are not yet fully compliant with modern financial reporting standards. The current lack of a clean audit reflects these systemic issues rather than financial misconduct.

Since the effort to receive a department-wide financial statement began in 2018, the Pentagon has undergone extensive internal audits.<sup>35</sup> The “department-wide audit” itself is actually comprised of 29 standalone component audits, of which roughly one-third (comprising 50 percent of Pentagon assets)<sup>36</sup> received positive “unmodified” or “outstanding” by auditors.<sup>37</sup>

Additionally, hundreds of program and compliance audits are conducted across the Pentagon each year, and several defense entities have also undergone successful audits. Additionally major accounts, such as the Military Retirement Fund (which has \$900 billion in assets, representing 30 percent of all defense assets), have received a clean audit opinion for nearly three decades.<sup>38</sup>

Still, a complete audit of the Pentagon is with merit, and Congress should continuously push political appointees to make it one of their top priorities. In addition to overall fiscal accountability to the taxpayer, the Pentagon’s financial audit process offers value beyond mere regulatory compliance which all Americans can appreciate. It is demonstrably resulting in improved accuracy, accountability, and modernized record-keeping of Pentagon assets, all of which improve military readiness.

A GAO report on recent Pentagon audits lists numerous examples of services uncovering key assets that had been long forgotten, such as the Navy identifying nearly \$2.4 billion of unrecorded inventory or the Air Force identifying and correcting approximately \$5.2 billion worth of discrepancies.<sup>39</sup> These findings illustrate that progress is being made, as demonstrated by the Marine Corps successful completion of an audit—the first service to do so.<sup>40</sup>

## **Moving Beyond Defense Reform Theater**

When targeting wasteful spending within the federal government, the sheer size, scope, and reach of the Pentagon make it a tempting target for constant reform. While many in Washington rightly call for acquisition and other changes, little has been done in recent years to make serious modification to bureaucratic processes, holding employees accountable, cutting bureaucratic fat and redundancy, and eliminating non-core missions and expenses.

There have been plenty of recent attempts in recent years to bring about reform, to mixed success. While well-intentioned, a common theme was that these were short-term, budget-bogey

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<sup>35</sup> Elaine McCusker, “The Defense Financial Audit: Why It Matters,” AEI, April 2023. <https://www.aei.org/wp-content/uploads/2023/04/The-Defense-Financial-Audit-Why-It-Matters.pdf?x85095>.

<sup>36</sup> Ibid.

<sup>37</sup> “Department of Defense Fiscal Year 2023 Audit Oversight Report,” Department of Defense, 2023. [https://comptroller.defense.gov/Portals/45/Documents/afr/fy2023/Audit\\_Oversight\\_Report.pdf](https://comptroller.defense.gov/Portals/45/Documents/afr/fy2023/Audit_Oversight_Report.pdf).

<sup>38</sup> Elaine McCusker, “What Should You Know About the Defense Audit?”

<sup>39</sup> “DOD Financial Management: FY 2023 Financial Statement Audit Progress and Challenges,” Government Accountability Office, July 11, 2024. <https://www.gao.gov/products/gao-24-107478>.

<sup>40</sup> Megan Eckstein, “Marines Pass Full Financial Audit, A First For Any US Military Branch,” Defense News, February 23, 2024 <https://www.defensenews.com/global/the-americas/2024/02/23/marines-pass-full-financial-audit-a-first-for-any-us-military-branch/>.

exercises that yielded few new dollars for reinvestment into higher priorities.<sup>41</sup> This is due in part to defense reform being over-focused on the acquisition of expensive military hardware. Despite the fact that the majority of what the military purchases is no longer weapons systems but rather services and technology, zealous reformers continue to over-focus on weapons buys when hardware is increasingly the commodity.

Mackenzie's five rules of defense reform follow:

1. Serious defense reform is often the patient work of many years.
2. To effect meaningful change within entrenched defense priorities, coalitions must be built and sustained.
3. Almost without fail, there is an upfront cost to change before any meaningful savings can be reaped years later.
4. The more money there is to be harvested for other purposes in the defense budget, the harder that change typically is to achieve politically.
5. Not undertaking hard but overdue reforms in the military bureaucracy does not help the troops.

While it would be nice if there was an “Easy button” or a line item to rescind for “fraud, waste, and abuse,” more needed reform is far more difficult. Inefficiency is marbled within the budget and across programs, accounts, services and agencies, as well as time wasted by staff on non-critical tasks.

Major reform takes time and money to implement. Even cancelling a weapons system requires paying out termination costs to contractors, which likely exceed the one-year cost of the contract.<sup>42</sup> But upfront costs shouldn't be an impediment to needed change. It's better to bite the bullet and take the hit now, rather than continue to waste money, priorities, and time.<sup>43</sup>

Perhaps counterintuitively, budgetary excess is also conducive to cost-saving transformation. Change is never free in Washington: reform often has a price tag up front—in procuring new software systems, training staff, or initiating commissions with bipartisan ideas and buy-in. These can include the costs of acquiring new software systems, training personnel, or conducting studies. Under the scarcity of artificially capped budgets, the Pentagon and Congress do not have the resources or strong incentive to make internal reforms to how the Department of Defense operates and manages its resources.<sup>44</sup>

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<sup>41</sup> Mackenzie Eaglen, “The US Military Must Move Beyond Defense-Reform Theater,” *Defense News*, April 21, 2023. <https://www.defensenews.com/opinion/commentary/2023/04/21/the-us-military-must-move-beyond-defense-reform-theater/>.

<sup>42</sup> Thomas Spoehr and Wilson Beaver, “Defense Dollars Saved Through Reforms Can Boost the Military's Lethality and Capacity,” *The Heritage Foundation*, May 26, 2023. [https://www.heritage.org/sites/default/files/2023-05/BG3770\\_0.pdf](https://www.heritage.org/sites/default/files/2023-05/BG3770_0.pdf).

<sup>43</sup> Mackenzie Eaglen, “Just Say No: The Pentagon Needs to Drop the Distractions and Move Great Power Competition Beyond Lip Service,” *War on the Rocks*, October 28, 2019. <https://warontherocks.com/2019/10/just-say-no-the-pentagon-needs-to-drop-the-distractions-and-move-great-power-competition-beyond-lip-service/>.

<sup>44</sup> Mackenzie Eaglen and Thomas Spoehr, “Congress: Find the Savings, Hold the Defense Budget Cuts,” *19FortyFive*, March 27, 2023. <https://www.19fortyfive.com/2023/03/congress-find-the-savings-hold-the-defense-budget-cuts/>.

This upfront price tag can make serious reform too costly—literally and therefore politically—when budgets are tight as adding new bills is naturally counterproductive when cuts must be made. Forward-thinking change requires sustained commitment from stakeholders to see through and ensure outcomes.<sup>45</sup>

The more money there is to be harvested for other purposes in the defense budget, the harder that change typically is to achieve politically. Some of the avenues of major reforms like updating the civil service workforce, closing bases or eliminating select organizations, are often stalled due to parochial interests, unionized workforces, and a defense budget that often favors retirees over active duty personnel and needs.<sup>46</sup>

Yet as the single largest employer in the federal government, defense civil service reform is overdue. Better weapons program accountability is linked to the ability to pay top performers competitive wages, update hiring authorities, and the ability to fire people when they perform poorly. Arbitrary constraints on compensation, rigid regulations, intra-departmental competition, and the inherent inflexibility of the current system all contribute to an inefficient use of civil talent to support our military's mission.<sup>47</sup>

These are not problems that age well. Bills only increase as time drags on, as equipment, service members, and facilities are overworked to pick up the slack.<sup>48</sup> Sticking our heads in the proverbial sand does nothing for servicemembers needing quality military housing, defense health care, as well as the overall lethality and readiness of the force.<sup>49</sup>

The most helpful reform of all is not bureaucratic, but rather rests with this body. Those seeking to rightly combat wasteful Pentagon spending should work to rectify Congress' inability to enact an on-time defense budget each year. The operational effectiveness of the military is compromised when forced to operate under continuing resolutions.

These spending freezes create countless budgetary inefficiencies, by locking amounts and accounts at previous year's levels—handcuffing the ability to change investments, buy more or less of a certain item, and shift course as needed to reflect reality on the ground. Characterized by Former Secretary of Defense Ash Carter as a “straitjacket,” continuing resolutions prohibit

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<sup>45</sup> Mackenzie Eaglen, “The Paradox of Scarcity in a Defense Budget of Largesse,” AEI, July 2022. <https://www.aei.org/wp-content/uploads/2022/07/The-Paradox-of-Scarcity-in-a-Defense-Budget-of-Largesse.pdf?x85095>.

<sup>46</sup> Mackenzie Eaglen, “Beyond Monopsony: Pentagon Reform in the Information Age.”

<sup>47</sup> Senator Roger Wicker, “21<sup>st</sup> Century Peace Through Strength: A Generational Investment in the U.S. Military,” The Office of Senator Roger Wicker, May 2024. <https://www.wicker.senate.gov/services/files/BC957888-0A93-432F-A49E-6202768A9CE0>.

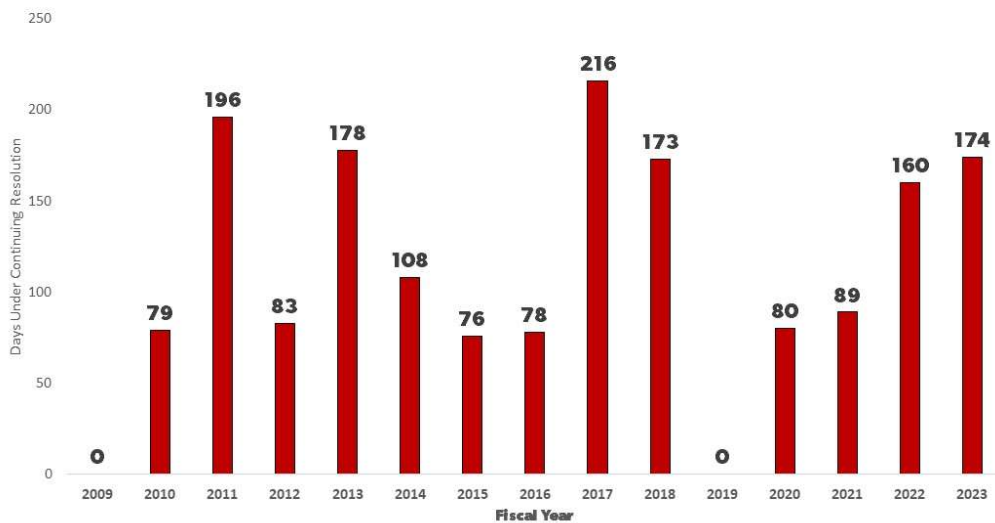
<sup>48</sup> Mackenzie Eaglen, “U.S. Military Bases Are Literally Falling Apart,” 19FortyFive, December 2, 2022, <https://www.19fortyfive.com/2022/12/u-s-military-bases-are-literally-falling-apart/>.

<sup>49</sup> Mackenzie Eaglen, “If Congress Wants to Invest in Servicemembers, They Need to Buck the Budget Caps,” AEI, February 27, 2024. <https://www.aei.org/foreign-and-defense-policy/if-congress-wants-to-invest-in-servicemembers-they-need-to-buck-the-budget-caps/>.

the Pentagon from initiating new programs, adjusting existing ones, or shifting funds to emergent warfighting needs.<sup>50</sup>

The latest continuing resolution subjected the Department of Defense to these ailments for almost half a year: 174 days at a cost of \$52 billion in lost buying power last year alone.<sup>51</sup> Those in uniform have spent a cumulative five of the last 15 years operating under a continuing resolution, which accounts for hundreds of billions in wasted, inefficient, and misaligned funding across the force.<sup>52</sup>

### Pentagon Has Weathered Five of Last Fifteen Years Under Continuing Resolution, Wasting Time and Resources



Source: Congressional Research Service, "Continuing Resolutions: Overview of Components and Practices."



### Falling Behind the Chinese Communist Party Military

The kinds of defense budget reforms needed today to meet the moment fall into two categories:<sup>53</sup>

- (1) Change with respect to reduction—whether of rules, head count, regulations, laws, provisions, workload, or others; and,
- (2) Modifications that increase accountability for passing appropriations on time and realizing the true costs of running the Department of Defense.

<sup>50</sup> "Defense Spending Under an Interim Continuing Resolution: In Brief," Congressional Research Service, August 15, 2019. <https://crsreports.congress.gov/product/pdf/R/R45870>.

<sup>51</sup> Elaine McCusker, "Defense Losing \$300 Million Per Day in Buying Power," AEI, January 25, 2024. <https://www.aei.org/wp-content/uploads/2024/01/McCusker-Buying-Power-One-Pager-Final.pdf?x91208>.

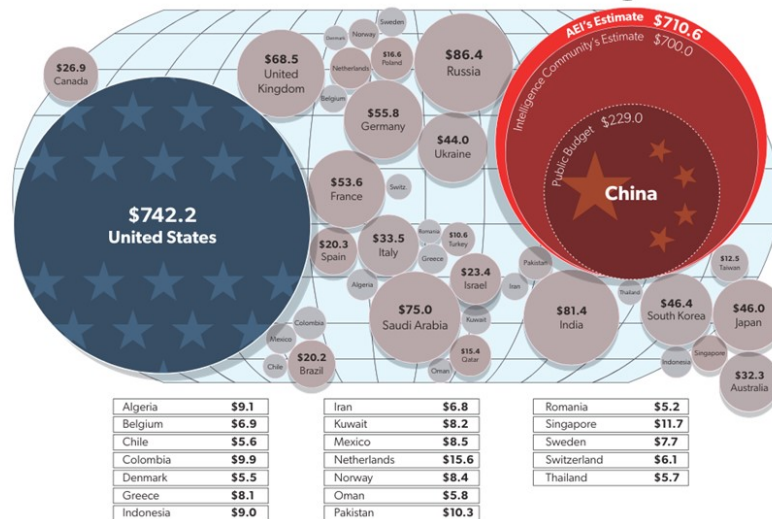
<sup>52</sup> "Deputy Pentagon Press Secretary Sabrina Singh Holds a Press Briefing," Department of Defense, February 20, 2024. <https://www.defense.gov/News/Transcripts/Transcript/Article/3682022/deputy-pentagon-press-secretary-sabrina-singh-holds-a-press-briefing/>.

<sup>53</sup> Mackenzie Eaglen, "Beyond Monopsony: Pentagon Reform in the Information Age."

While our military struggles with modernization and resourcing, Beijing is racing ahead. Over the past 28 years, China’s defense budget has seen a consistent average increase of about 9 percent annually.<sup>54</sup> During this period, Beijing’s officially reported defense budget more than tripled, reflecting rapidly expanding military capabilities and strategic ambitions.

Deeper analysis estimating the true military spending by the Chinese Communist Party shows a more worrisome picture from the frontlines of the Indo-Pacific region. Last year, it was publicly disclosed by the American intelligence community that the true size of the Chinese military budget is likely around \$700 billion. This suggests that China’s defense budget is nearly on par with that of the United States. AEI research supports these claims, appraising the true size of China’s military budget as even larger, having reached at least \$711 billion in 2022 (or 96 percent of the Pentagon’s budget for that same year).<sup>55</sup>

### China’s True Defense Budget Is on Par with the United States’ and Dwarfs Those of Its Indo-Pacific Neighbors



All dollar amounts are in billions. Source: American Enterprise Institute, “Keeping Up with the Pacing Threat: Unveiling the True Size of Beijing’s Military Spending” and Stockholm International Peace Research Institute “Trends in World Military Expenditure, 2022.”



This not only underscores the rapid growth of China’s military but also highlights the potential challenges this poses to U.S. military competitiveness and strategic balance around the world. While estimates of China’s military spending vary, there’s no denying that China is rapidly increasing its combat power, production capacity, training and doctrine development, and

<sup>54</sup> Mackenzie Eaglen, “China’s Hidden Military Spending,” National Review, June 13, 2024. <https://www.nationalreview.com/magazine/2024/08/chinas-hidden-military-spending/>.

<sup>55</sup> Mackenzie Eaglen, “Keeping Up with the Pacing Threat: Unveiling the True Size of Beijing’s Military Spending,” AEI, April 2024. <https://www.aei.org/wp-content/uploads/2024/04/Keeping-Up-with-the-Pacing-Threat-Unveiling-the-True-Size-of-Beijings-Military-Spending.pdf?x85095>.

technological know-how. According to the Pentagon's latest report on military power, China is not only catching up but in key areas exceeding the capabilities of the United States.<sup>56</sup>

Comprehensive reform with robust resources together will help reverse the yawning strategy-resources mismatch, restore the military's size and strength, and better secure our strategic objectives. Congress is a pivotal partner and must act decisively to provide the troops with timely and adequate resources while jumpstarting real defense reform.

Change for change's sake is not helpful, nor is defense-reform theater.<sup>57</sup> Serious crusaders must chart a different course for modernizing defense bureaucracy; one fit for the information age where urgency, flexibility, transparency, and action are the watchwords. Reform through reduction rather than the addition of new laws and rules that further slowdown an already glacial organization should be a main goal—alongside more and better targeted investments in combat power to restore sagging American deterrence.

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<sup>56</sup> Mackenzie Eaglen, "10 Ways the US Is Falling Behind China in National Security," AEI, August 9, 2023. <https://www.aei.org/wp-content/uploads/2023/09/10-Ways-the-US-Is-Falling-Behind-China-in-National-Security.pdf?x85095>.

<sup>57</sup> Mackenzie Eaglen, "The US Military Must Move Beyond Defense-Reform Theater."