

The Business of Defense Does Matter



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In Brief

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- Admiral Bill Owens

In retrospect, the list of lessons that could be learned from the Iraq experience leaves one somewhat stunned. How could so much have gone wrong?

A broader international mandate was likely possible, and we ought to have sought it. Once the initial campaign of “shock and awe” was over, we needed to better understand the vastly different culture we were working with in order to lead the country effectively. We should have immediately seized and controlled the tens of thousands of tons of munitions left in the Iraqi military magazines after we occupied Baghdad. Instead, these munitions have been used to create the IEDs which have killed and maimed far more Americans than were killed or wounded in the two wars we fought with Iraq’s military forces in 1991 and 2003, combined. It is unconscionable that the U.S. military did not have the needed stocks of body armor and up-armored vehicles. We should have deployed an effective multi-agency effort, with the presence of U.S. and international judicial, state, treasury, and intelligence agencies immediately after the military phase of operations. We could have employed lessons from the German experience with the East German military after the fall of the Berlin Wall and left the Iraqi military in place with a new set of allied-oriented, secular goals. We should have had most of our troops immediately establish the security of the cities instead of searching for and killing insurgents in the outlying provinces.

The list goes on—too long to be explained as a unique coincidence of leadership personalities, errors in judgment, hubris, and bad luck. It points to deeper, systemic flaws within an institution that has not kept up with other American institutions: the Department of Defense.

The contrast with American business processes is striking. In a time when U.S. legislative and regulatory agencies like the SEC have been putting so much effort into making our traditional businesses more accountable and attentive to shareholder interests, why have we not held the Department of Defense to the same standards and reviews? At a time when we are expanding our defense expenditures to all time highs, and when the value of the dollar is in long-term decline, why are we not making the connection between the discretionary spending taking place in this account and the collapse of the dollar? How much “bang for the buck” did we get from our investments of the past decade for this new-world kind of crisis, which we arguably should have seen coming?

We have spent hundreds of billions of dollars on this war, and trillions in the preceding 10 years building the military that fights it now. What are the forces that drive this process, and who is accountable for the capability, or lack thereof, that we have built over the years? For the resultant inefficiencies? For the loss of life (both American and Iraqi)? Specifically, who is responsible for the lack of preparation for the “battle against terrorism” which put the United States in a position from which we may not completely recover for decades?

I suggest that this is all about the “business” of American war fighting, and it is a business that is in trouble. It is not giving its stockholders—the American public and our sons and daughters who put their lives on the line—what they expect and deserve. Why is this?

Despite good intentions and good people, the business lacks transparency and accountability. I’m not talking specifically about defense contractors. I’m talking about the Department of Defense. It often cloaks its decisions and its rationale in unwarranted secrecy. The processes it uses to derive and implement them are obscure, driven by the esoteric and parochial interests of different military services, congressional districts, and defense contractors. Its congressional “board of directors” and its civilian management with direct experience in the military are shrinking. And it is slow, very slow, to change.

So, the Department of Defense invests in the past, not the future, and measures the value of its investments against the standards of an era that the world has left behind. Its investment accounts—how much it spends and on what—are out of line with the present and future.

The truth is, we should invest in the increased “jointness” that will bring synergy to our approach to fighting the new world threats. These threats do not come from Russia or China and do not require substantial numbers of bombers, targeted nuclear weapons (where perhaps 100 is enough), many dozens of nuclear submarines, fast carriers, or the extravagance of each of the four services having its own “air force.”

We should be using our resources to abandon the legacy of military bases for each of the 50 states. Indeed, it is remarkable that there continue to be no joint force bases. Yet, one can find several locations in the United States where at least two services have very large bases in the same location, at significant taxpayer cost.

Additionally, we need to move away from Cold War production lines and unduly sustained defense contractors. It is not a time to cancel a few billion dollar programs—the kinds of cuts that get the attention of the press. It is time to transform hundreds of billions of dollars of outdated legacies, both programmatic and cultural.

Instead, we ought to use our investments to expand the use of revolutionary commercial technology such as high bandwidth digital communications, GPS devices, radio-frequency identification, and unmanned aerial vehicles. Did each soldier on the streets of Baghdad have an ability to “see” his local battlefield in the way this technology and new doctrine might have allowed? We must ensure that, in the future, our forces on the ground and in the air are provided with the greatest capabilities possible. We must ensure that we spend enough, as measured by a percentage of the total military budget, on C4ISR (command, control, communications, computer, intelligence, surveillance, and reconnaissance). These systems-of-systems can provide an umbrella-like view of the battlefield for an individual soldier or Marine.

In the largest business in the world, it is critical to balance the pieces, rationalize the individual businesses, reduce or eliminate the “non-profitable pieces,” like those mentioned above, and transfer enough resources to well-understood requirements, such as mobile armored vehicles and C4ISR, and in sufficient quantity and quickly enough to matter.

Efforts over the last 15 years to address these issues failed, in part or in whole, and these failures help explain how so much could go so wrong in Iraq. Unfortunately, the pernicious effects of mismanaging our defense business are not limited to Iraq.

The U.S. defense budget stands at about \$500 billion a year, and is at least 10 times that of the next largest in the world. It is the largest discretionary part of the total U.S. budget and is directly linked to what has happened to the value of the dollar versus other currencies in the world. We could have a stronger, more relevant military if we cut defense by as much as \$200 billion each year and invested those resources instead in U.S. education or engagement programs around the world or sustainable energy solutions such as clean coal. We could even look to taxpayer refunds. Such a policy would change the value of our currency versus the Euro and Chinese RMB. Many of us living overseas can attest that this would help the competitiveness of American businesses.

In the business world, we look at the efficient use of resources to sustain and grow our market positions. One can question some of the basic parameters—or Key Performance Indicators—of the Department of Defense. For example, on average, U.S. forces deployed to Iraq have accounted for less than one-tenth the total number of forces in the U.S. military. While we talk of over deployment—and it is absolutely true for those brave troops who are in the deployable units that they are over-deployed—the grand majority of our forces (active duty, reserve, and National Guard) have not been deployed to Iraq, or have been deployed for only a small percentage of the time.

Although my own Navy and the Air Force are unlikely in the next two or three decades to be as central to our national security strategy or to our war fighting capability, it is likely, in the budget battles of the Pentagon, defense contractors, and Congress, that they will benefit as much or more than the Army and Marine Corps from the lessons learned in Iraq and Afghanistan. The case will likely be made for attractive, capital intensive airplanes and ships, and for readiness to combat a rising China or Russia, rather than for the people-heavy land forces to fight the War on Terrorism. This outcome would not serve our citizen shareholders well.

Having served in our Navy for 34 years, I have a special admiration and respect for the men and women of our four services. The American people provide a military with modern-day patriots. I served with them



for all of my years in the military, and we are reminded every day of the very special, indeed exceptional, bravery we see from them around the world. We are, as a nation, blessed to have them, and should be proud to stand in their shadow as they take the best of our will and spirit to every corner of the globe, not questioning our political leaders, but serving our country with all of their capability. We owe it to them—and to the country as a whole—to learn the lessons of Iraq very carefully.

In about a year we will have a new president and a new cabinet to lead our country. The issue of how we run our defense business will again be on the table. A strong military should not be measured by how much we spend, but by the capability (for the expected missions) that we provide. It would be good if our presidential candidates' views of these critical issues were known. Side-by-side with much-touted domestic issues, and with the critical international issues of relationships with China, Europe, and India, there is a place for this discussion in the campaign debates.

The lesson from the Iraq experience, then, is that running this most important “Defense Business” is, in the next administration, a matter requiring the most dedicated political, defense, and business leadership by both civilian and military leaders. The business of defense does matter, and significant changes are required if we are to avoid repeating these mistakes.

Bill Owens is Chairman and CEO of Hong Kong-based private equity investment group AEA Holdings ASIA and a managing director of AEA Investors. Until 2005, he was CEO and Vice Chairman of Nortel, a fortune 500 global telecommunications company; and prior to that Chairman and CEO of Teledesic LLC, and President, Chief Operating Officer and vice chairman of Science Applications International Corporation (SAIC), the nation's largest employee-owned high-technology company. Admiral Owens joined SAIC following a distinguished 34 year U.S. Navy career, serving most recently as Vice Chairman of the Joint Chiefs of Staff, the second-ranking military officer in the United States, where he had responsibility for the reorganization and restructuring of the armed forces in the post-Cold War era. Admiral Owens was the architect of the Revolution in Military Affairs (RMA), an advanced systems technology approach to military operations that is the most significant change in the system of requirements, budgets and technology for the four armed forces since World War II. Admiral Owens has written more than 50 articles on national security and authored two books, High Seas and Lifting the Fog of War.

What is IRAQ: Lessons Learned?

Five years into the Iraq war, Americans are left groping for answers. Are we safer? Can America's image be repaired? What are the lasting implications for our Constitution? Historians will spend decades examining this conflict, its causes, its conduct, and its consequences, but those left to grapple with the immediate policy implications must do so without the benefit of the perspective that time can often provide. What lessons should we draw from Iraq today so that we, as a nation, learn from this painful experience? Iraq: Lessons Learned is an initiative to begin answering those questions. The American Security Project asked some of the nation's best minds—military, policy, academic, political, business, religious, media and community—to ponder this question and provide insights from which we can all benefit.