

# DoD Concerned About Defense Industrial Base

JIM GARAMONE

**W**ASHINGTON (Nov. 8, 1999) —DoD must work to improve the health and well-being of the defense industrial base, Deputy Defense Secretary John Hamre said.

Hamre spoke here Nov. 3 at the Strategic Responsiveness Conference, sponsored by the Army and the Tufts University Fletcher School of Law and Diplomacy. He said he is concerned the stock market “has pummeled” defense companies in recent weeks.

The stock market, he remarked, seems more concerned with quarterly earnings than long-term company health — and the consequence of investor shortsightedness is that managers make bad long-term decisions to look good for the next quarter.

“Who’s going to defend this country 10 years from now and 15 years from now?” he asked rhetorically. “It’s going to have to be these companies who we work with, who we need. All of us in DoD are indispensably tied to health and well-being of our partners in the private sector.”

Hamre said defense companies must resist the urge to cut overhead by cutting research and development funds. Finally, he said, Wall Street may reward companies that cut costs by downsizing, but DoD must ensure the slashing doesn’t bleed the industrial base of badly needed scientific and managerial talent.

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*—John Hamre  
Deputy Secretary of Defense*

He detailed some principles the Department must follow if it is to support defense contractors. First, the government must provide steady, stable defense budgets that allow defense companies to plan work, costs, and personnel.

“We loaded a lot of downsizing on the back of acquisition,” he said. “There comes a point where you can’t lose the design and engineering expertise we have invested in through our private sector. We are at that point.”

Second, DoD must emphasize stability, he said. “We’ve got to promote multiyear contracts that mean stable programs managers can count on.”

Third, DoD must be careful about its acquisition practices, Hamre said. “We have to eliminate policies that put all the risk on our partners in the private sector,” he said. “It is a partnership. We have to manage it together.”

Hamre said the company consolidations in the U.S. defense industrial base — especially at the prime contractor level — have gone about as far as they can go. DoD will look hard at company mergers because “we’re at a point now where we’re losing competitive opportunity

with concentration,” he said. DoD will apply tough tests for companies that seek to merge.

“We can’t afford to slip by default into a sole-producer world,” he said.

Hamre said he believed “trans-Atlantic megadeals” between defense companies is in the cards for the future, but not now.

“The technological gap between us and our very good allies is widening,” he said. “Alliance interoperability has become an enormous challenge for all of us. We’re not going to be able to keep the alliance together technologically unless we find ways for greater collaboration between our industrial sectors.”

Even with these considerations, he said, the United States and its close allies do not have in place the security infrastructure needed before such mergers can take place. “We’re close with some countries like the United Kingdom, but we’re not there yet,” he said.

Hamre said now is a time for real change. “For the last 10 years, we really haven’t stood back and asked how should we shape our future,” he said. “In those wonderful days after the fall of the wall, it looked like such a glowing future. We thought it would be so different,” he said. “It’s so much more challenging and complicated now. Certainly in those days we didn’t have the vision we now have, and even now we don’t see terribly clearly all the details of the new landscape.

“This is a historic opportunity for us to make a new future,” Hamre concluded. “This future is ours to make, but is also ours to lose if we don’t step up to this opportunity.”

**Editor’s Note:** Garamone is on the staff of American Forces Press Service. This information is in the public domain at <http://www.defenselink.mil/news>.