

# Cost Savings and Reform at the Department of Defense

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## KEY TAKEAWAYS

The Trump Administration has prioritized eliminating waste, fraud, and abuse in the federal government, including at the DOD, to use taxpayer dollars efficiently.

Redirecting funds from ineffective and non-defense programs to critical defense priorities will enhance warfighting capabilities and maintain military readiness.

The U.S. must focus its defense budget on procuring ships, aircraft, and munitions necessary for deterring conflict in the Indo-Pacific.

The Trump Administration has prioritized eliminating waste, fraud, and abuse in the federal government. The Department of Defense's (DOD's) research budget allocates billions of dollars to non-defense projects, such as medical and environmental research, which civilian agencies could manage better. Cutting non-defense research programs could save close to a billion dollars annually,<sup>1</sup> freeing funds for the advanced weaponry that is essential for military superiority.

China's military expansion poses a growing threat, with its navy now numerically larger than the U.S. Navy and defense spending possibly up to 90 percent higher than it states officially. The U.S. must focus its defense budget on procuring ships, aircraft, and munitions necessary for deterring conflict in the Indo-Pacific.

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## Strategic Necessity

Redirecting funds from ineffective and non-defense programs to critical defense priorities is particularly important at the DOD, which is tasked with protecting the national security interests of the American people. Defense spending should be tied to national defense strategy and laser-focused on increasing the warfighting capabilities of the American military. The United States is faced by a rising China that is aggressively expanding its military, so much so that the Chinese navy is now numerically larger than the U.S. Navy. Chinese defense spending has been increasing, but it is unclear how much Beijing spends on its military because of the opaqueness of the Chinese system. According to the DOD's 2024 *Military and Security Developments Involving the People's Republic of China*, "a survey of multiple models of the PRC's defense budget estimates that Beijing spends 40% to 90% more than it announces in its public defense budget."<sup>2</sup>

The United States cannot afford to have a DOD that is not spending every dollar on building warfighting capacity to meet the challenge posed by a rising China. The defense budget must be focused on the procurement of ships, planes, and munitions relevant to deterring conflict in the Indo-Pacific. The following proposed cuts and reforms are examples of where money can be saved and reallocated into the procurement of these systems.

**RDT&E Reforms: Eliminating Non-Defense Research and Development Programs.** The U.S. military's research, development, test, and evaluation (RDT&E) budget contains much that is vital for maintaining technological superiority and readiness. However, a significant portion of this budget is often allocated to non-defense programs, which do not directly contribute to warfighting capabilities. One major reform proposal is to eliminate non-defense RDT&E programs, particularly non-warfighting medical RDT&E, which has substantially drained defense resources.

A primary target for this reform is eliminating RDT&E projects that do not directly align with the military's core mission. For instance, non-defense medical RDT&E, including research on areas like disease prevention or public health initiatives unrelated to combat operations, could be redirected to civilian health agencies, such as the National Institutes of Health (NIH). Military medical RDT&E programs amounted to almost a billion dollars in fiscal year 2025.<sup>3</sup>

In addition to medical RDT&E, other non-defense RDT&E programs should be similarly re-evaluated. The military has long invested in research unrelated to its core defense needs, including projects related to environmental protection and advanced civilian technologies. According

to the Government Accountability Office's (GAO's) 2024 annual report, reducing fragmentation, overlap, and duplication among federal research and development programs—including civilian and defense sectors—can yield significant financial and operational benefits.<sup>4</sup> These savings could be reinvested in cutting-edge technologies that enhance military lethality and readiness, such as artificial intelligence, cybersecurity, and advanced weaponry.

**Depot Rule Modification: Shifting to a 60/40 Split.** Depot-level maintenance is crucial for keeping military equipment operational, ensuring readiness, and extending the life of critical assets. Currently, the DOD operates under a 50/50 depot-level maintenance rule, which mandates that 50 percent of maintenance work be performed by government depots and the remaining 50 percent be contracted out to private-sector entities. While this rule was initially implemented to maintain government capabilities, it has increasingly become a source of inefficiency and wasted resources.

A proposed reform is to modify this rule to a 60/40 split, reducing the government portion to 40 percent and opening more work to the private sector. By allowing more private-sector involvement, the DOD could capitalize on the increased competition, innovation, and efficiency that comes with the private sector's expertise in specialized and streamlined operations. According to another 2019 GAO report, a similar shift in maintenance allocation could yield substantial savings by introducing competition that drives down costs and increases efficiency.<sup>5</sup>

The RAND corporation has estimated that increasing private competition in this manner could save between 30 percent and 60 percent of current costs.<sup>6</sup> This potential savings is driven by reduced overhead costs associated with government-run operations and the ability to leverage the private sector's advanced technologies and best practices. Additionally, by shifting more maintenance work to private contractors, the military can focus its internal resources on core mission requirements, reducing bureaucratic inefficiencies.

Moreover, research from the RAND Corporation emphasizes that streamlining government operations and utilizing the private sector more effectively could create long-term savings without sacrificing military readiness. Studies show that private-sector companies often bring innovative solutions that government-run facilities lack due to bureaucratic constraints and lack of competition.<sup>7</sup>

**Commercializing Space for Strategic Advantage.** The growing importance of space in national defense and global security has made space infrastructure a critical domain for U.S. military preparedness. However,

the DOD has faced challenges maintaining and expanding space-related capabilities due to bureaucratic inefficiencies, limited resources, and a rapidly evolving technological landscape.

One proposed solution from the American Enterprise Institute (AEI) is commercializing space infrastructure aspects and partnering with the private sector to improve efficiency and technological advancement. AEI has outlined several strategies for building an enduring advantage in the Third Space Age, a new era characterized by the rapid expansion of space capabilities and the increasing role of private industry.<sup>8</sup> A key aspect of this vision is the commercialization of space infrastructure, which would enable the DOD to leverage private-sector innovations and capabilities. This would include outsourcing the construction, launch, and operation of satellites and other space-based assets to private companies. The shift to privatization would reduce costs for the government while tapping into the private sector's agility, competitive drive, and cutting-edge technology.

Historically, private companies have demonstrated their ability to revolutionize the space industry, offering lower-cost solutions for satellite launches and orbital services. By commercializing space infrastructure, the DOD could rapidly expand its space capabilities without the significant up-front costs associated with government-run programs. According to a report from the Space Foundation, space-related expenditures from the private sector in 2020 surpassed \$200 billion, highlighting the immense potential of the commercial space industry.<sup>9</sup>

Furthermore, commercial space partnerships could enable more agile responses to emerging threats in space, enhancing national security. Private companies' flexibility and innovation could ensure that the U.S. maintains its strategic advantage in space, which is crucial for defense and economic security in the coming decades.

**FAR Part 12 Reform: Streamlining Defense Procurement.** One critical reform proposal to enhance the efficiency of military spending is the modification of Federal Acquisition Regulation (FAR) Part 12, which governs federal agencies' acquisition of commercial items. FAR Part 12 was initially designed to simplify the procurement of commercial goods and services, yet it remains underutilized and often misapplied in defense procurement. By leveraging FAR Part 12 better, the DOD could streamline procurement processes, reduce costs, and accelerate acquisition timelines.

The current framework under FAR Part 12 allows the DOD to procure commercial items with fewer bureaucratic hurdles and more flexibility, benefiting from the commercial market's competitiveness and efficiency. However, the application of FAR Part 12 in defense contracting has been

limited, particularly when purchasing specialized military goods and services. This underutilization results in unnecessary delays and inflated costs, as the DOD often defaults to more traditional, complex procurement mechanisms that increase the overall expenditure and time to acquire critical capabilities.

By expanding the use of FAR Part 12 to include a broader range of defense-related goods and services, the DOD could tap into the innovations and competitive pricing structures in the commercial sector. The Heritage Foundation has pointed out that simplifying defense acquisitions through FAR Part 12 could save billions annually by reducing administrative overhead and encouraging supplier competition.<sup>10</sup> This reform would foster a more agile procurement process, enabling the DOD to respond quickly to emerging threats and technological advancements.

Additionally, a 2020 GAO study showed that commercial item contracts typically experience fewer cost overruns and schedule delays than traditional contracts, underscoring the potential benefits of this reform.<sup>11</sup> By embracing FAR Part 12 more fully, the DOD can significantly reduce waste and enhance military lethality and capacity.

**New BRAC Round: Reassessing U.S. Military Bases, Particularly in Europe.** Base Realignment and Closure (BRAC) rounds have been an essential tool for ensuring the efficiency of U.S. military infrastructure. The last BRAC process occurred in 2005, and since then, the DOD has continued to operate with an outdated network of bases that may not align with current strategic needs or provide optimal value for defense spending. A new BRAC round, primarily focusing on U.S. military bases in Europe, is a crucial reform that could lead to significant savings, enhance military readiness, and improve the overall effectiveness of military operations.

A BRAC round in Europe would allow the DOD to re-evaluate bases on the continent, most of which were established during the Cold War, but many of which no longer serve the strategic needs of the United States, which must re-posture itself for great power competition with China in the Indo-Pacific.

By reducing the number of bases or consolidating operations, the DOD could realize significant savings in infrastructure maintenance and personnel costs. Past BRAC rounds have demonstrated that base closures and realignments can save billions of dollars over time. A 2016 CBO report estimated that a new BRAC round could yield between \$2 billion and \$4 billion in annual savings.<sup>12</sup> These funds could then be reinvested in enhancing military lethality and capacity, particularly in high-priority areas like cybersecurity, space operations, and advanced weaponry.

Furthermore, as the global strategic environment shifts, a new BRAC round could also optimize the positioning of military assets to better align with modern security needs, reducing unnecessary costs and ensuring that U.S. forces are strategically positioned for future challenges.

For bases that remain open, the U.S. must renegotiate cost-sharing agreements with host nations to ensure that they contribute more to the financial burden of maintaining these installations. Many allied countries benefit significantly from the presence of American forces, and it is only fair that they shoulder a more significant share of the costs associated with their defense. Additionally, consolidation should be a priority, with overlapping or inefficient bases merged wherever possible to streamline operations and enhance military readiness. Certain bases will need to be maintained, especially air and naval bases, such as Ramstein Air Base and Naval Support Activity Naples, that enable rapid deployment and resupply.

**Make All Federal Employee Hiring At-Will.** One of the most significant reforms proposed to increase the efficiency of U.S. government operations, particularly within the DOD, is the implementation of at-will employment for all federal employees. Currently, federal employees are primarily protected by civil service laws that make removing underperforming or unsuitable personnel difficult. While intended to safeguard against political influence and ensure job security, this system often leads to inefficiency, a lack of accountability, and an inflated federal workforce that increases costs without improving performance.

By transitioning to an at-will employment system, the federal government could streamline hiring and firing practices, reducing the time and cost associated with underperforming employees. At-will employment would allow the DOD to more effectively address performance issues, ensuring that the right individuals are in place to meet the military's needs. As noted by The Heritage Foundation, this change would improve personnel management and foster a culture of accountability, where employees understand that their continued employment depends on performance.<sup>13</sup>

A key benefit of transitioning to at-will employment is that it would increase the flexibility of the federal workforce. The DOD could more easily adjust its staffing levels and skill sets to meet shifting demands in national security. For example, personnel could be hired more quickly to fill positions in emerging areas, such as cybersecurity or space operations, and removed when they no longer meet the required standards. This would enhance operational efficiency and reduce the burden of maintaining a bloated bureaucracy.<sup>14</sup>



Additionally, at-will employment could lead to a more dynamic and competitive workforce. The private sector has long embraced at-will employment, leading to better performance, higher productivity, and increased innovation. Adopting similar practices in the federal workforce could similarly drive improvements across government agencies, including the DOD.<sup>15</sup>

**Implement Smarter Contracting Practices: Shifting to Fixed-Price Contracts.** One of the most effective ways to reduce wasteful spending and improve the efficiency of defense procurement is through more innovative contracting practices. A significant reform proposal is to shift from traditional cost-plus contracts to fixed-price contracts. Cost-plus contracts, where the contractor is reimbursed for all costs incurred plus a profit margin, often lead to cost overruns, inefficiencies, and excessive contractor mark-ups. These contracts can incentivize contractors to increase costs or delay completion of the project, knowing they will be reimbursed, which can result in wasteful spending for the DOD and taxpayers.

By moving to fixed-price contracts, the DOD can establish transparent and predictable costs up front. With fixed-price agreements, contractors assume the financial risk of overruns, which incentivizes them to complete projects on time and within budget. According to the DOD's *Contract Finance Study Report*, shifting to fixed-price contracts could reduce overall defense procurement costs by up to 10 percent annually by eliminating cost inflation associated with cost-plus contracts.<sup>16</sup>

Additionally, requiring contractors to provide more accurate cost and pricing data is a key element of this reform. The DOD should strengthen its auditing and data verification processes, ensuring that contractors are transparent about pricing and deliverables. This increased accountability would give the Pentagon the necessary tools to negotiate better deals and ensure contractors are not padding their expenses.

*The Wall Street Journal* has highlighted how private-sector companies have successfully navigated fixed-price contracting with the government, offering lower-cost solutions while maintaining high-quality standards.<sup>17</sup> By applying these lessons from the private sector, the Pentagon can reduce procurement inefficiencies and focus its resources on mission-critical needs rather than excessive contractor profits.

In sum, shifting to fixed-price contracts, combined with more substantial data requirements, will help the DOD to curb wasteful spending, improve the fairness of procurement processes, and ensure better value for taxpayers.<sup>18</sup>

## Conclusion

Significant political will for sweeping reforms and savings exists at the moment, and anyone interested in a more efficient and effective Defense Department should seize the opportunity to be forward-leaning in identifying waste, fraud, and abuse at the DOD. The more dollars saved in contracting and cut from non-defense initiatives or secondary priorities, the more money can be shifted to the warfighting capabilities the military needs to deter aggression from adversaries and to fight and win wars when necessary.

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## Endnotes

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