

BOOK REVIEWS

THE DEFENSE INDUSTRY

By Jacques S. Gansler

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Reviewed by James E. Dalton *

In a recent appearance before a panel of the House Armed Services Committee, Jacques Gansler opened his prepared statement with the following comments:

The United States is the only nation in the world that does not treat its defense industry as a critical national resource. In spite of the significant level of defense expenditures during the last 25 years, the defense industry has been allowed to deteriorate—particularly in the post-Vietnam era—so that now it is neither economically efficient in the production of military goods nor capable of rapidly responding to strategic demands for increased outputs. Only recently have people begun to recognize this deterioration.

Gansler's testimony followed earlier appearances of leading industrialists and four-star flag officers responsible for weapon-system acquisition. Their messages had a consistent thrust—the “arsenal of democracy,” which produced 5,000 aircraft of all types in the month of April 1944, now produces less than 500 a year for our use, has jet engine leadtimes of almost three-and-a-half years, has an inflation rate for aerospace equipment well above twenty percent, and finds itself totally dependent on foreign sources for some critical raw materials.

In a period when a consensus has developed regarding the need to increase defense expenditures, sobering statements about the ability of American industry to respond to these demands have created serious doubts as to whether our “national resource” is in any condition to deal effectively and efficiently with the challenge. There is little doubt that the issues of defense requirements and America's ability to meet those requirements will be key issues for Congress and the new administration.

Gansler's book provides an excellent framework to begin the dialogue which must inevitably take place regarding the health of our defense industry. With a varied executive background in both industry

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and government spanning twenty-five years, he provides insights from both perspectives and proposes solutions that should be of mutual interest to both government and business. The book is well-organized and well-researched, and the supporting tables and figures furnish excellent graphic support for the points presented in the text. Gansler begins with a historical overview because many of the current problems stem from the manner in which the industry has evolved. He moves quickly, however, to narrow his focus to the post-Vietnam period and provides an insight into the underlying economic factors and structure of the industry, including its sectoral differences, its industrial mobilization capability, and its subcontractor and supplier substructure. Exploration of these areas establishes the basis for his later consideration of other issues and leads to proposed solutions. Certain basic themes regarding the nature of the post-Vietnam defense industry appear in various forms throughout the book and provide a sense of Gansler's principal concerns.

The author wastes little time in destroying the argument that free-market principles are operative in the defense arena. He argues that because of this situation and the fact that some constraints to the free-market operation cannot be removed, we should seek "second best" solutions. This approach would require that policies not be designed to create free-market conditions in an industry whose structure and operation militates against such policies; rather, policies should be tailored for a specific sector of the defense industry.

Gansler highlights his view that the defense industry is not a single industry, but rather a number of different industries, by contrasting the aircraft industry and the shipbuilding industry. In the former, excess capacity is the rule, with a significant portion of the production capacity government-owned. In the latter, privately-owned shipyards suffer from high labor turnover and inadequate capacity to meet expected demands. Policy alternatives tailored specifically to the problems of each industry are presented and serve to underscore differences and the need for tailored policy treatment.

The shrinking second- and third-tier supplier base, where over half of defense hardware dollars are spent, has begun to receive greater recognition in discussions of defense industry ills. Gansler's analysis describes the pressures which flow from a "winner-take-all" struggle at the prime contractor level, featuring cost-plus-fee contracts to subcontractors and suppliers faced with a prime contractor request for a fixed-price contract. There is also a lingering concern on the part of suppliers that the prime contractor will decide to manufacture the items himself. In this high risk environment with its relatively lower profit, it is not surprising that attrition is high. Gansler emphasizes that the government must approach this "duel economy" separately in formulating policies and regulations.

The author's treatment of weapons-system "cost" as the major de-

sign criteria, in lieu of "performance," enables him to explore several key points. Competition for weapons systems among contractors begins with the development phase, where the expectation of meeting performance goals establishes the basis for selection. Yet Gansler points out that the lower cost development phase often leads to "sole sourcing" in the production and support phases, where the large dollar costs occur. Major contractors must, therefore, possess both research and development (R&D) and production capability, and eventually absorb major amounts of R&D funding. Gansler sees the need to separate R&D from production, to compete on a cost basis for design and production, and to provide R&D funding to smaller inventor-lead firms, which have a higher probability of making technological breakthroughs.

An oft repeated theme of the testimony before the House Armed Services Committee was the inability of the industrial base to respond rapidly to demands for increased amounts of equipment, parts or supplies. This essential aspect of defense has been slipping at an accelerated rate. Gansler reviews the fundamental aspects of industrial preparedness planning and its relationship to mobilization and bellicose demands; he concludes that current planning is "largely worthless." His recommendations in the area are extensive and among the most detailed in the book.

Gansler examines other factors such as multinational considerations, future trends, and foreign approaches to defense industry management, before proposing his solutions. His proposals deal with the basic problems identified throughout the book. They are capped with a call for institutionalized consideration of the industrial base by the government. This would reduce the overemphasis on policy formulation and devote more attention to execution and evaluation. Gansler acknowledges that his proposals in this area may take years to implement; however, they go to the heart of data collection and analysis, management of facilities, regulatory objectives, macro versus micro management, contracting approaches, combined procurements, and lastly, the basic attitude of the Department of Defense.

Jacques Gansler's book is extremely informative and thought provoking. It has the added benefit of arriving at a time when it is most needed. The author's claim that three billion dollars a year could be saved if current inefficiencies were corrected, should provide an irresistible lure for those who make defense policy or authorize resources for defense. Whether one fits either of those categories or not, *The Defense Industry* should be required reading for all who hope to understand the coming debate over the health of the "arsenal of democracy."

DOUBLETALK: THE STORY OF SALT I

By Gerard Smith

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Reviewed by William O. McLean*

It seemed inconceivable in the late 1960's that the world's two super powers, whose ideologies were polarized, could voluntarily go to the negotiating table and reach an agreement to limit their own strategic nuclear arms. But as the 1970's approached, the state of world affairs made it propitious to try to do just that, and a new acronym, SALT (Strategic Arms Limitation Talks), entered the lexicon of international relations. In November 1969 strategic arms limitations talks between the United States and the Soviet Union were opened in Helsinki and continued through seven negotiating sessions, for over two and one-half years. These undertakings culminated in a summit meeting in Moscow in May 1972 when President Nixon and Chairman Brezhnev signed four nuclear arms limitations agreements. Five months later their governments ratified these agreements which remain in effect today.

Ambassador Gerard Smith served as the Chief American Negotiator at SALT; *Doubletalk: The Story of SALT I* is his account of these negotiations.

SALT I was a notable first step in a difficult effort to limit nuclear armaments. Smith explains the four agreements, the most significant of which was a treaty to stringently limit anti-ballistic missile deployments. The acceptance of this treaty amounted to the joint endorsement of a mutually assured destruction strategy, a theory about which there was considerable sparring in the early sessions of SALT I. Two companion executive agreements were less publicized. The first agreement delineated measures aimed at preventing an unwanted, escalating nuclear exchange which could result from a nuclear accident or provocation by a third country. The American delegation was somewhat surprised at the priority given this subject by the Russian delegation. The second executive agreement provided for technological upgrading of the communications "hot-line" between the two countries. Upgrading the "hot-line" was important because the superpowers could best avert nuclear war by communicating rapidly on matters of uncertainty, and the existing hot-line system utilizing radio links to terminals in third countries was subject to disruption. All three of the agreements are of

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unlimited duration and have operated with little controversy in the intervening decade. The fourth agreement called for a five-year freeze on the number of land-and-sea-based strategic missile launchers that each country currently had operating or under construction. Finally, SALT I provided for a new round of negotiations (SALT II) to convert the five-year freeze of offensive systems into a more permanent agreement and possibly to make further limitations.

Ambassador Smith merits acclaim for two major contributions to the objective of constraining nuclear weaponry: guiding SALT I to a productive conclusion and recording in great detail the complex processes that ultimately led to the accords. When the Nixon administration took office in January 1969, the American mood was to conclude the Vietnam conflict, avoid further military confrontations, and turn attention to social issues. Meanwhile the strategic weaponry of the Soviet Union was growing toward parity with that of the United States, with intelligence projections suggesting that Soviet production capacities could provide the Soviets with a situation of destabilizing nuclear superiority. The alternatives perceived by the Nixon administration were to accept a position of inferiority, to resume strategic nuclear weapon production, or to negotiate limitations at levels of "sufficiency." The last option was chosen, but many skeptics doubted the wisdom of this decision to enter into what some called "joint strategic planning" with the Soviet Union.

President Nixon's choice of Gerard Smith to head the American delegation helped defuse opposition to SALT. As a public servant of every preceding administration since President Truman's, Smith had established a reputation as one who could be trusted to protect our vital national security interests in this new venture. The trust proved to be well placed, as not once did Smith come under serious fire during either the negotiations or the subsequent ratification process. A final vote of confidence was reflected in the overwhelming endorsement of the SALT I agreements by the United States Congress.

Eight years of negotiations produced the SALT II agreements which have been the subject of so much current controversy in this country. As a major issue in the recently concluded Presidential campaign, former President Carter argued that the products of SALT II should be ratified once the international furor over the Soviet Union's move into Afghanistan had subsided. President Reagan argued during the campaign that the SALT II accords were fatally flawed and should be withdrawn from the congressional ratification process.

With Reagan as President, one can anticipate the demise of the SALT II agreements. President Reagan foresees a SALT III, but only after the United States has taken steps to rebuild its military strength.

Smith's detailed, and to the casual reader perhaps laborious, account of the pioneering efforts at controlling nuclear arms is indispensable to the understanding of SALT II and further negotiations. The

recent Presidential campaign evinces that the American public is concerned about nuclear weapons, although it does not fully comprehend the abstractions to which it is most often exposed, such as "multiple independently-targetable reentry vehicles," "the mutual assured destruction strategy," and "the nuclear arms race." For the serious reader, Smith sheds great light on these catch phrases and clothes them in the political realities of such complex subjects.

The title, *Doubletalk* was probably chosen for marketing purposes, and perhaps implies some exciting intrigue that led to the ultimate success of the talks. Smith's account makes it clear that such was not the case. SALT I proved that international negotiations of such great consequence as to involve national security, when undertaken voluntarily, are not won or lost through "one-upmanship." Success is achieved through utmost good will, serious study, coordination at every level, privacy in negotiations, and the perception by each side that what is agreed upon is in its best interest. Mutual agreement occurs when convergence of these perceptions takes place and only lasts as long as each side continues to perceive that abiding by the accord is in its national interest.

Nonetheless, there was "doubletalk" at various levels during SALT I because of numerous maneuverings for position. The author outlines the Washington process in which various vested interests operated to influence the instructions to be given the American delegation. The final instructions emanated from the President, following a National Security Council meeting, in the form of a National Security Decision Memorandum (NSDM). The domestic negotiations which preceded the decision were often more fiery than those with the Russians. It can be surmised that similar happenings were occurring in Moscow. Then there was the doubletalk at the negotiating site. The Russians were adept at talking endlessly, finding a different way to make the same point without changing their position one iota, all the while awaiting further instructions from Moscow. They undoubtedly drew the same conclusion with regard to the Americans.

Closest to an element of intrigue was the occasion when President Nixon and National Security Advisor Henry Kissinger dealt directly with Moscow to break deadlocks, without fully apprising Smith and the American SALT delegation. This was the one facet of SALT I which clearly disturbed the typically mild-mannered Smith. The author effectively makes the point that matters of such import are not best resolved secretly with only a few people involved; more properly the entire American National Security leadership should openly scrutinize them.

For those who believe that nuclear arms should be limited, and the SALT process is the means to pursue this goal, Ambassador Smith's account of SALT I should serve as a foremost reference work for years to come.