

Remarks on Government Contracting

March 4, 2009

Good morning. Even if these were the best of times, budget reform would be long overdue in Washington, and we have here some folks who have been working on these issues for a long time. But these are far from the best of times. By any measure, my administration inherited a fiscal disaster. When we walked in the door, we found a budget deficit of \$1.3 trillion, the largest in American history. And this fiscal burden has been compounded by the most severe economic crisis since the Great Depression. It's a crisis that requires us to take swift and aggressive action to put Americans back to work and to make the long-delayed investments in energy, health care, and education that can build a new foundation for growth.

As we get our economy moving, we must also turn the tide on an era of fiscal irresponsibility so that we can sustain our recovery, enhance accountability, and avoid leaving our children a mountain of debt. And that's why even as we make the necessary investments to put our economy back on track, we're proposing significant changes that will help bring the yawning deficits we inherited under control. We are cutting what we don't need to make room for what we do.

The budget plan I outlined last week includes \$2 trillion in deficit reduction. It reduces discretionary spending for nondefense programs as a share of the economy that—by more than 10 percent over the next decade, to the lowest level in nearly half a century. I want to repeat that. I want to make sure everybody catches this, because I think sometimes the chatter on the cable stations hasn't been clear about this. My budget reduces discretionary spending for nondefense programs as a share of the economy by more than 10 percent over the next decade, and it will take it to the lowest level in nearly half a century.

In addition, today I'm announcing that part of this deficit reduction will include reforms in how government does business, which will save the American people up to \$40 billion each year. It starts with reforming our broken system of Government contracting. There is a fundamental public trust that we must uphold. The American people's money must be spent to advance their priorities, not to line the pockets of contractors or to maintain projects that don't work.

Recently that public trust has not always been kept. Over the last 8 years, Government spending on contracts has doubled to over half a trillion dollars. Far too often, the spending is plagued by massive cost overruns, outright fraud, and the absence of oversight and accountability. In some cases, contracts are awarded without competition. In others, contractors actually oversee other contractors. We are spending money on things that we don't need, and we're paying more than we need to pay. And that's completely unacceptable.

This problem cuts across the Government, but I want to focus on one particular example, and that is the situation in defense contracting. Now, I want to be clear, as Commander in Chief, I will do whatever it takes to defend the American people, which is why we've increased funding for the best military in the history of the world. We'll make new investments in 21st century capabilities to meet new strategic challenges, and we will always give our men and women the—in uniform, the equipment and the support that they need to get the job done.

But I reject the false choice between securing this Nation and wasting billions of taxpayer dollars. And in this time of great challenges, I recognize the real choice between investments that are designed to keep the American people safe and those that are designed to make a defense contractor rich.

Last year, the Government Accountability Office, GAO, looked into 95 major defense projects and found cost overruns that totaled \$295 billion. Let me repeat: That's \$295 billion in wasteful spending. And this wasteful spending has many sources. It comes from investments and unproven technologies. It comes from a lack of oversight. It comes from influence peddling and indefensible no-bid contracts that have cost American taxpayers billions of dollars.

In Iraq, too much money has been paid out for services that were never performed, buildings that were never completed, companies that skimmed off the top. At home, too many contractors have been allowed to get away with delay after delay after delay in developing unproven weapon systems.

It's time for this waste and inefficiency to end. It's time for a Government that only invests in what works. And what's encouraging is, is that there is broad bipartisan consensus on behalf of reform, and we are committed to taking swift action that changes our system of contracting to save taxpayers' money.

So here are a couple of immediate steps we're going to take. First, with the Presidential memorandum that I'm signing, I am instructing my administration to dramatically reform the way we do business on contracts across the entire Government. So starting today, Peter Orszag, my budget director, will work with Cabinet officials and agency heads to develop tough new guidelines on contracting by the end of September. We will stop outsourcing services that should be performed by the Government and open up the contracting process to small businesses. We will end unnecessary no-bid and cost-plus contracts that run up a bill that is paid by the American people, and we will strengthen oversight to maximize transparency and accountability. Altogether, these reforms can save the American people up to \$40 billion each year.

Second, we must make investments to keep our country safe while cutting back on the waste and inefficiency that isn't. And that's why I'm so pleased to support the goals of the bipartisan effort on procurement reform that has been led by our own Carl Levin and John McCain in the Senate. They have done extraordinary work trying to push this issue to the forefront. We want to see if we can partner with Senator McCain and Senator Levin to get this done as soon as possible. And thanks to Secretary Gates, some of the reforms that they've talked about are already beginning to take shape. And I've asked him to work with Senators Levin and McCain on developing this legislation as it moves forward. And Bill Lynn, who is heading up procurement issues at our White House as Deputy Secretary of Defense, is going to be leading the charge on this as well.

I can assure you that this will be a priority for my administration. It's time to end the extra costs and long delays that are all too common in our defense contracting. We need to invest in technologies that are proven and cost-effective. We need more competition for contracts and more oversight as they're carried out. If a system isn't ready to be developed, we shouldn't pour resources into it. And if a system is plagued by cost overruns, it should be reformed—no more excuses, no more delays. The days of giving defense contractors a blank check are over.

Now, none of this will be easy. We'll have to end old ways of doing business. We'll have to take on entrenched special interests. We'll have to break bad habits that have built up over many years. But we can't keep spending good money after bad. All across America, families are making hard choices, and now we're going to have to do the same. I can promise you that this is just the beginning of a new way of doing business here in Washington, because the American people have every right to expect and to demand a Government that is more efficient, more accountable, and more responsible in keeping the public's trust.

And I also want to acknowledge a couple of Congressmen—Congressman Towns and Congressman Welch, who have been working diligently on this issue, and Claire McCaskill in the Senate, who has been sharpening her pencils and working with IGs across departments to see if we can make some significant reforms and improvements as well.

And again, thank you to Senators McCain and Senators Levin for their outstanding leadership on this issue. We look forward to getting it done. This is going to be just one more aspect of the kind of reform that's going to be critical in the months and years to come.

Thank you everybody.

NOTE: The President spoke at 10:20 a.m. in Room 350 of the Dwight D. Eisenhower Executive Office Building. In his remarks, he referred to Peter R. Orszag, Director, Office of Management and Budget.

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