Fireside Chat

Moderator:

Joe Gould, Defense Reporter, Politico

Speakers:

Rep. Adam Smith, Ranking Member, House Armed Services Committee

Sen. Todd Young, U.S. Senate, Indiana

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Joe Gould:

Good morning everybody. I could not be more pleased to be moderating this discussion with House Armed Services Committee ranking member Adam Smith, who has shepherded 14 -- I learned backstage, defense --

Rep. Adam Smith:

Well 13 at this point, yes.

Sen. Todd Young:

Getting ahead of ourselves.

Joe Gould:

It's about to be 14 defense policy bills into law, and Senator Todd Young, who authored and saw through the CHIPS and Science Act in 2022, which plants $52 billion towards semiconductor research and manufacturing across the country. First of all, I wanted to get us talking about the report card that was discussed in here before we walked in. I'll recap: I mean, it's a comprehensive report, packs a lot into 35 pages, a number of letter grades for the National Security Innovation Base. But to sum it up, it argues that America is experiencing a continued erosion of its military, economic and technological advantage with respect to China, with a glaring need to address deficiencies when it comes to innovation. The US excels as a leader in innovation, and there have been initiatives in the right direction, but they're struggling to scale up and do it fast enough. So is that a fair assessment from where the two of you sit?
Rep. Adam Smith:

Well, yeah, I'll start. I mean, first of all on the China's catching up part, that part is kind of understandable. I mean, understand what China was 30, 40 years ago, or even 20 years ago. I mean, very underdeveloped nation living with a horrible communist approach to economics. So realistically, it's not like, oh my gosh, we're doing something wrong. China's starting to develop. I mean, that should have been expected. That part of it makes sense. But the part that is most problematic and that we're working on is how slow we have been in the broader defense industrial base and in the Pentagon to change the way we do business, to adapt to a rapidly changing innovation economy. And -- I've used this quote many times out of an article I read about a year ago in Foreign Affairs Magazine, "The Pentagon was built to be a very effective 1950s Ford Motor Company, and it needs to be 2022 Apple." And we have not caught up with that innovation need. And I think that is the focus of the -- I always forget the name of the commission that we just did, but there is a lot of focus on this. Chairman Rogers and I are on the exact same page. We need to make changes to get there, significant problem that continues to this day that we need to work on and change.

Joe Gould:

Senator Young?

Sen. Todd Young:

Well, thank you for having me on this panel. It's a privilege to be here. And I think one of the reasons I was invited to participate in this is because in my time in the Senate, I've tried to reinforce the notion that our defense considerations, our national security concerns aren't just things that we should be thinking about within the Intel Committee and on the Armed Services Committee, but also other committees of jurisdiction from Commerce to Finance to Agriculture. Adam has recognized that, he created the new Emerging Biotech National Security Commission, that's underway right now. I have an opportunity to participate in that. Did some work on the CHIPS and Science Act, which we might get into. But the sort of common theme to those efforts is that national security is biology, national security is semiconductors. It's often these dual-use technologies. And what we haven't done effectively enough yet is to take the private sector innovations to incorporate them into some of our defense thinking, to figure out how we might utilize some of these innovations in a national security context.

And we need to get a lot better at that. We know that our allies are working on this as well, but so are our adversaries. And so to the extent we can formalize those efforts, we need to. And one of the lessons of the CHIPS and Science Act, half of which was the chips
component, was we can't wait until we give up the leading position in research development and commercialization. Some of these technologies, this hard thinking, these investments can be fairly modest investments, but it needs to occur now as opposed to trying to claw back an entire industry because it becomes far more difficult and more expensive.

Joe Gould:
The report card's lowest grade, I'd argue, actually went to Congress. There's an -- it received an F minus.

Sen. Todd Young:
Neither of us looked surprised.

Joe Gould:
The F minus, by the way, was a made-up grade. They had to make it up to describe where things stand this year with the budgets. We're coming in about six months into the fiscal year. It's the ramifications for defense, including budget delays, there's a yearlong setback on the Air Force's top development program, collaborative combat aircraft. I wanted to ask you first, Senator Young, are you seeing those destabilizing effects? What happens on the defense side is pretty well known, but are you seeing destabilizing effects in terms of implementing the CHIPS and Science Act or -- Purdue is in your state -- for research and innovation? Is there a knock-on effect outside of defense?

Sen. Todd Young:
Well, listen, I think occasionally Congress gets something very big, very right, and we did in passing the CHIPS and Science Act, we did in a bipartisan way. So let's occasionally celebrate the really big wins institutionally so that complete confidence isn't lost in these institutions. So I'm very proud of that fact that Adam and I and so many others worked together to get that across the line. Wasn't easy, implementation hasn't been without a wrinkle here and there, but to answer that entirely candidly, there've been some things that should happen so that implementation would go more effectively. For example, a permitting effort for fabs was recently negotiated. The first consequential, as I would characterize it, permitting reform that has occurred in the last number of years within Congress. And it was shot down by a prominent Republican member of the US House of Representatives because it wasn't inclusive enough. Setting aside the substantive merits of that member's concerns, we could debate it and it would be appropriate in another setting to do so.
That's a loss for the program. And that will manifest itself either in reduced commercial/national security readiness and/or more taxpayer funds required to prop up this industry and claw back key nodes of the supply chain. So that's one of -- I could name for you a half dozen other examples of things that we could have and should have done and perhaps still should do to ensure implementation goes well. But we will find workarounds, they'll just be suboptimal. And we live in a suboptimal universe. I mean, that's our value add is figuring out how to still get things done amidst all sorts of cross currents and countervailing pressures.

Joe Gould:

And then, sorry, I wanted to ask: on the budget dysfunction, I mean from where you sit, we know CRs are disruptive to the Pentagon, but how do you break the cycle that we're in?

Rep. Adam Smith:

Yeah, there's a multi-layered problem, and blaming Congress completely and totally misses the point. The reason we have the budget problem that we have is because the American people have a clear set of priorities when it comes to our budget. They want us to balance the budget. They don't want us to raise taxes, and they don't want us to cut spending. Okay? That's what they want. Now, part of the reason that the people want that is because politicians have been promising it for so long, and so who's to blame there? But we don't like to deal with reality in America. We like to believe that we can alter reality because that's just how special we are. And hey, I say that sarcastically, but sometimes it's true. We've accomplished amazing things that people would've never thought possible. World War II, went to the moon, you know the list. So having that can-do attitude has its positive side, but also sometimes it just becomes completely divorced from reality and becomes a problem.

Alright. And we're running around talking about how, again, we've got to balance the budget, not raise taxes, not cut spending, and people come up with all manner of fascinating arguments. Well, if you cut taxes, it actually increases revenue. No, it doesn't. If you spend a dollar on this program, you'll get a $5 return later. No, no, you won't. Okay. So we don't make those choices, and that is what has got us in this box, because every year, if you're voting on an appropriations bill, you know that you are not going to vote an appropriations bill that balances the budget and doesn't cut spending and doesn't raise -- it is just not possible. So every vote you take could put yourself in a vulnerable position. So I got a very lengthy budget speech, which I'll spare you at the moment, but we need to begin to have an honest conversation about the choices that we face.
I will give you just one piece of it, and that is we cannot continue running trillion dollar deficits forever. Now, I said that 15 years ago, and we've managed to do it for 15 years, so we've managed to do it for a longer period of time than I would've thought possible. But I still stand by the statement that we can't do it forever. So we need to begin to have an honest fiscal conversation. But the larger problem in terms of innovation is connected also back to what our constituents expect of us. They expect nothing to ever go wrong. And if it does go wrong, they want somebody held accountable, somebody fired, and somebody yelled at for an extensive period of time. Okay, that's what they want. So how do you avoid that? You set up a people-proof process so that when everything goes to hell, you can say, not my fault.

I followed the process. And that infects the Pentagon and it also infects Congress. We don't want to take risk. We want play the blame game and point fingers back and forth. So the big top line thing here, both at the Pentagon and in Congress, is we need to tolerate risk and we need to tolerate failure, and we need to empower individuals to make decisions. We are restricting their ability because innovation is about recognizing new important technologies and making a decision, “You know what? I want that. Let's go get it. Okay.” Now, in our system, if you get to that point, I want that. It's like, huh, yeah, but you've got 15 other people to convince, and you've got a three-year budget cycle before we're going to get there. And the innovative companies that are going to generate this stuff, they'll do it a couple times, but after a while, even if they get the right product, they're not going to be able to win because you're not going to be able to buy it for some umpteen number of years. So they're moving on. They're not going to work with the Defense Department at that point. That's what we have to change. We have to change the culture at the Pentagon and the culture in Congress, and frankly, the culture in the country to embrace what innovation is at this point in the 21st century.

Joe Gould:
Can I follow up on that to ask, you're in a unique position as the Ranking Member, you're going to be shepherding through the 14th NDAA. Do you see, one, an opportunity maybe in some of the PPBE recommendations to make a shift? Or do you think that you're going to have to because of the budget caps --

Rep. Adam Smith:
Well, here's the problem, and -- the problem, and let me say this correctly, because this is publicly broadcast and I don't want anyone to get the wrong idea. The appropriators are the challenge here, but for legitimate reasons, in my more frustrating moments, I'll get
angry with them as they get angry with us, it's appropriators, authorizers, the whole thing, but the appropriators, they want to track the money very, very carefully, and the Pentagon. So if we go through the budget process and the appropriators say, here's the budget here, exactly how you have to spend it. And then along the way, there's a need to innovate. It's hard to do. So the solution to that, which has been proposed many times, is to give more flexibility in how you spend the money. But more flexibility is less oversight, and the appropriators are reluctant to do that. Now, I'm not a risk-averse person, so I'm willing to do that.

Okay. I'm willing to risk the chance that they might mess it up in order to give them the flexibility to make the innovation we need. The appropriations committees and staffs as they're currently constructed, are very much not with me on that point. They want that oversight. They want that control. They don't want to let that money go over to the Pentagon and then have them be able to say, well, you send it over for this. But you know what? That's we need, so we're moving it here. That process is so slow and so cumbersome. We are going to have to, as a Congress and as committees, give up a little bit of control and take the heat that comes when a mistake is made, if we're going to be able to allow the type of rapid innovation that is needed. We've done some of it, small little pieces here and there, other transactional authority, something like that. We've done that in SOCOM, brilliant, but SOCOM is a small part of the budget. But that's the tension. That's the thing we're trying to balance.

Joe Gould:
Do you think that given the budget caps -- I mean we're here talking about investments that need to be made in innovation. Do you feel like you're going to have to be more judicious because of budget caps about how you spend on innovation efforts, for instance, like DIU or emerging technologies versus some of the more established programs? How do you find that balance? I've been

Rep. Adam Smith:
I've been talking for a while and give the Senator a chance here to answer -- and I have an answer to that.

Sen. Todd Young:
Oh, well, you asked about budget caps, and I think frankly that's more in Adam's realm. But I would say this relatedly, and I suspect you agree, I would enjoy the long-form budget speech. By the way, it sounds very similar to, it's so bad it a small amount of time. It sounds similar to some of the notes I strike. But one of the things I'm careful to say is
that we have to distinguish between expenditures that are investments, genuine investments in growth, in innovation, and expenditures that are for consumption purposes, which may be merited, which may be important, but they don't lead to either innovation or to economic growth. And if we make that distinction, you could do it formally by establishing a distinct sort of capital budget as actual businesses do. But that's not what we're poised to do. So instead of that, if it's an intellectual construct, we'll invest more in research, we'll invest more in innovative companies, we will give special attention to research and development, tax breaks, breaks that will lead to more innovation. So I do think a distinction has to be made. It's a slippery slope, and we have to be careful not to slide down it, but between public policies that lead to more innovation, more things that can be used incidentally for national security purposes, and things that do not in this conversation, right?

Rep. Adam Smith:

I mean, sorry, the two – the two things that I think are important about that is, one, we are going to have to live with less money than we want. Okay? That's absolutely true. And then when it comes to all kinds of creative arguments to sort of avoid that part of the conversation, but you can see what we want even in defense. Okay, forget about the rest of the budget for the moment, and we can have conversations about taxes and how much money we spend on healthcare and entitlements and all of that. But even in defense, we are going to have to live with less money than we want. And too few people even want to have that conversation. And the second thing is, if you have that conversation, I actually think you can get better. And I have a number of different quotes on that. There's the Winston Churchill, “Gentlemen, we're out of money now.” We have to think. I had a VC friend of mine who said he hasn't yet seen the entity that can't take a 10% cut and get better at what they do. Okay? I've said that to like four or five different Secretaries of Defense, and they all look at me.

And I understand there's a limitation to that enthusiasm, but I also think we just haven't quite gotten there. I've been in things before where you've looked at it and said, we do not have enough money to do what we need to do. We're done. And just about every single time we've figured it out. And I don't think we're having that conversation in earnest yet around the defense budget because we're coming up with all kinds of creative arguments for why we really don't have to. And let me just say this, we have to, there is not going to be enough money every year coming in and saying you're a defense hawk. And the reason you can prove you're a defense hawk is because you want another $40 billion for defense isn't helping. Okay.

Sen. Todd Young:
Yeah. Let's make sure I'm not on the other side of that argument.

Rep. Adam Smith:
I know you're not. I know you're not, and I wasn’t implying that.

Sen. Todd Young:
No, and I know you weren't, but I want to make sure all ears are as sensitive as your legs.

Rep. Adam Smith:
That's very fair. That's very fair, yes.

Sen. Todd Young:
So the other thing I would say, since this is a national security forum, is it's going to be very important as we think about debt to GDP. That's the number that I think all economists recognize matters. It's basic math. Let's grow the denominator. There's so much focus on the numerator, but that's something I would hope we could agree on. How are we going to do that? There would be some disagreements on the margins about what regulations are appropriate, which ones are inappropriate. There'd be certainly principled disagreement about tax reform. We'll have that early next year. What about immigration reform? Yes, no disagreement there. But we need to boldly embark on legal immigration reform so that we can get more growth oriented workers, entrepreneurs, innovators, investors in this country helping us with our economic growth. This is national security. I mean, this is a key component of national security. We need to improve our nation's education system fundamentally. Compare our pre-K through 14 testing scores to those in other countries. This is a national security issue. The Chinese, to choose one example, are thinking along these lines. We need to think along these lines as well.

Rep. Adam Smith:
And permitting reform is a huge part of that. And the shame of it is the reason those members blocked the effort at permitting reform was because they were angry that we hadn't done enough permitting reform, which it's like, I hear you, but -- I know you want the whole loaf, but here's half. So we need to get past that too. Yes.

Joe Gould:
I have a question on -- a promising area of the report card was artificial intelligence. It calls 2023 a breakout year for American leadership in artificial intelligence. And Senator
Young, you're on the Senate's bipartisan artificial intelligence working group. And I believe you said you plan a markup legislation, maybe this, maybe next month. Is that still the timeline? Can you say something about what your targets are for that legislation? And maybe Adam Smith has something to say about this. Do you think that the NDAA is a potential legislative vehicle?

Sen. Todd Young:
The NDAA legislation, I regard it as always, potentially, a legislative vehicle. And then I'll approach a number of folks on SASC, “No, that's outside of the realm.” What?

Rep. Adam Smith:
You see, I'm with you on that, by the way, right? Everyone complains, “oh, the defense authorizing bill has become the ominous authorizing bill.” And I'm like, you say that like that's a bad thing. Okay. It's an opportunity. It is an opportunity.

Sen. Todd Young:
It's an opportunity. Whole bunch of different things. So in this area, it would be absolutely merited to include it with the NDAA because I think it's broadly recognized that the extent to which the United States can remain ahead in artificial intelligence, research development, commercialization. There will be dual use and spillover benefits, sometimes direct benefits to the Pentagon. What's my goal in coming months? Next couple of months? It's to begin legislating in this space. I don't want to sound too sanguine about our ability to come up with a comprehensive AI bill. We're not ready for that. But we want to make sure that some of the risks that frankly industry is most concerned about can be addressed. We want to make sure we bring everyone along in this conversation. And I think we're prepared to do that through the committees of jurisdiction. What does that mean? That doesn't mean extensive legislating.

That means adapting our existing laws and standards to an AI-enabled world. We have privacy laws, we have consumer protection laws, we have civil rights laws. What do those regulations pursuant to the laws look like with AI? Sometimes they'll have to change, sometimes not. Occasionally we'll need to authorize new funds for things. We will need to authorize more funds for research, for example, more funds for educating people in artificial intelligence, although much of that will just be reprogramming of existing funds. What's most consequential from a national security standpoint in this conversation is --and Adam can speak to the direct DoD acquisition of AI-related systems, which has really been going on for a number of years. But to me, what's exciting is standards setting. If we can establish a coherent legal framework, maybe one that's
slightly better than the Europeans and the Japanese who have moved first, then we can try and harmonize our regulations with allies across international boundaries.

And then if the Chinese want to develop AI technologies become a world leader in any discreet subset of artificial intelligence tech, they'll need to set standards within those technologies that include our concerns about biases against certain racial and ethnic groups, our concerns about privacy implications of their monitoring technologies. So effectively, that's game, set, and match from a technology standpoint. As you set the rules of the road, you invite the Chinese to make a decision. Either they're going to comply by our tech standards, or they're just going to have to spend exorbitant amounts within their own domestic economy. And with a couple of vassal states to sell into a much more limited market. And so that effort to set standards, to harmonize the regulations and then to coordinate research, potentially production on a going forward basis is analogous to what we have done on semiconductors. And what you're starting to see is tech allies, tech allies joined together in those efforts. We'll be able to fight together in addition to living together and embedding our Western standards or Enlightenment-based standards into our lives.

Rep. Adam Smith:
One final piece, and that's the workforce that goes into this and how we get the right people working at the Pentagon. Something that I typically bring up when we have these conversations, I want to make sure I don't not bring up now, we've got to get innovative people working at the Pentagon and working for government. And there are a number of impediments to that right now. The whole security clearance issue and classified information and what we're doing and how we're making it far more difficult for people to work for the government than it should be is a major problem. And I have this quote from the Oppenheimer movie when they're questioning Oppenheimer's background and whether or not he should have been hired in the first place. And the general says, well, gosh, I wouldn't have hired any of them based on that standard. And that's sort of where we're at.

I mean, look, people are people, okay. They're going to have issues. And then once you get into, well, who are your friends? Who are you connected to? And it's like if you're connected to someone who's -- a lot of people just throw up their hands and say, I'm going to go to work for Apple because I'm going to deal with that. We have to be more focused on bringing in the type of talent that we need and less focused, again, on being risk averse, on saying, now we've got to look into you for three years to make sure that you're okay before we're going to hire you. And oh, by the way, even when we do that,
we still have people come in who spy on us. So it's not like the system is exactly working a hundred percent. There's no perfect guarantee. We're pushing the type of innovative people that we need to come in and develop the AI systems and all that and make sure that we're using them in a way that is going to be helpful to US national security interests in addition to the private sector. We're pushing those people out and we need to bring them in if we're going to get to where we need to be on the innovation that we need.

Joe Gould:
Alright. It looks like we stuck the landing. I want to say --

Rep. Adam Smith:
Overshot the runway.

Joe Gould:
Overshot the runway.

Rep. Adam Smith:
That's standard these days.

Joe Gould:
I want to say thank you to you to both for coming here for this discussion. Thank you so much. Thanks.

Sen. Todd Young:
Thanks for having us.

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