Keynote and Conversation

Introduction:

Rachel Hoff, Policy Director, Ronald Reagan Institute

Moderator:

Roger Zakheim, Director, Ronald Reagan Institute

Speaker:

Hon. Kathleen Hicks, U.S. Deputy Secretary of Defense

Rachel Hoff:

Thank you so much. As we come to the close of our program today, we're so grateful to everyone who's participated in our second annual Summit on the National Security Innovation Base, both to those of you who have joined us here in person, and to everyone who's been watching online. It's been a productive day of discussions with leaders from across the NSIB landscape. We've tackled some of the most important issues facing the NSIB ecosystem in the innovation race. Many of those challenges start here at home. We've heard from our speakers today about the atrophy of our domestic manufacturing capabilities, about supply chain risks and vulnerabilities, and about the corrosive effect of budget uncertainty. Meanwhile, the global threat environment we face hasn't been this dire since the Cold War. With active conflict in Europe and the Middle East and the forces of authoritarianism in China, Russia and Iran banding together to overturn US leadership and neutralize our military advantage.

We all know that technology sits at the heart of this competition, but as our adversaries pour massive amounts of state directed funding toward their efforts, they lack the key ingredient that has propelled US leadership since our founding: The dynamism of a free and open system enriched by American ingenuity. In the face of these challenges and to maximize our strengths, what our nation needs is a strategist who also has deep experience converting strategy into the defense program. Deputy Secretary Kathleen Hicks is one of those leaders. In her role at the Pentagon, she's worked to make innovation a central focus rather than a side project. She's introduced groundbreaking
initiatives like Replicator to upend the way the Department does business and guide the DoD toward capability rather than convention. It's a privilege to have Dr. Hicks here with us today to deliver the keynote address at our NSIB Summit. Following her remarks, she'll join Reagan Institute Director Roger Zackheim on stage for a moderated conversation, and that'll close our conference. Without further ado, please join me in welcoming the United States Deputy Secretary of Defense, Kathleen Hicks.

Hon. Kathleen Hicks:

Thank you to Rachel, and good afternoon to everyone here. I really wanted just to tell you that by hosting this Summit, the Reagan Institute is doing an incredible job helping to bring attention to the importance of the defense industrial base, which is a mission I think we can all get on board with. Whether in DoD, or Congress, or beyond, we all have a responsibility to foster a broad national security innovation base. New entrants are vital to that mission, but so too is the health of longstanding partners in the defense industrial base. And I often speak to the former, but today I'd like to focus some of my remarks on the latter. So to all of those of you who build things primarily for the military or even that only the military needs, I want to say thank you and we need you in our innovation base from aircraft carriers, destroyers, and nuclear submarines, to stealth bombers, tanks, and troop carriers, and machine guns, missiles and more.

And I'm not only talking about the prime contractors that so often serve as our large system integrators. I'm also talking about the thousands of sub-tier suppliers, many of them small businesses in communities all over America. The military and the industrial base are mutually dependent. Without warfighter demand and taxpayer dollars, the US defense industry as we know it could not exist. And without the capabilities that industry provides to support America's security, then America as we know it would cease to exist. So we're in this together, because wars are fought by militaries, but they are won by nations. Now part of being a capitalist system means that businesses should be able to make a fair profit provided that the customer is getting what they pay for. Indeed, as we've seen with the People's Republic of China, alternative systems are often rife with corruption, riddled with inefficiency, and better at stealing intellectual property than generating it.

Because ingenuity and creativity thrive the most when they're enabled and surrounded by free minds, free markets, and free people, not when they're forced to tow the party line. In the context of this system, the US defense industrial base has typically traced the ebb and flow of peacetime and wartime. Mobilizations, demobilizations. Buildups, surges, and peace dividends. A key trend today is disruption, a new generation of
defense tech startups and scale-ups, and that's welcomed. We should all welcome that because competition is good for the taxpayer and good for the warfighter too. Think about it: if you are down-range in some austere location under fire from dozens of one-way attack drones, you don't want just one type of system for counter-UAS, that's too risky. You want as much protection as you can get. So we want roadrunners and coyotes for instance. We want to see more market competition for defense dollars. More small businesses and suppliers pioneering solutions that can make a difference for the warfighter.

More companies that want to work with us, whether for the first time or after doing so for a long time. And we should expect to see more opportunities for all of that to come together even within the scope of a single program. For example, this month the Army awarded a software company the prime contract for a hardware intensive program focusing on fusing and disseminating sensor data across domains. That alone may be a first, but allow me to highlight what happened at the subprime level. It brought together a mix of traditional and non-traditional defense companies, from Sierra Nevada, to Northrop Grumman, to Anduril. Hopefully such teamwork is a harbinger of things to come, and hopefully we'll see the power of continuous iterative development of software and hardware to accelerate capability delivery. At the very least, we need everyone designing and building their systems from the ground up to play well with others, leveraging modular open system architectures to be not only interoperable, but also interchangeable so we can more rapidly integrate emerging technology. And we mean this both internationally and domestically.

Under AUKUS for example, we've worked with Congress to make it easier for our defense industrial base to work closely and collaboratively with industry in Australia and the United Kingdom. Today, America's defense industrial base is at a pivotal moment, and not just because of the new kids on the block. The COVID pandemic revealed how fragile and brittle supply chains had become. The war in Ukraine has revealed how nation-state aggression is a real threat, requiring information age ingenuity and industrial era capacity. And the need to modernize and stay ahead of our pacing challenge reveals how the DIB has been affected by decades of yo-yo dieting, inconsistent funding, and blinkered demand signals. Together, our task is to deliver combat credible capabilities to the warfighter at speed and scale, so they can deter aggression and win if called to fight. But the truth is the engines of production never spin up from 0 to 60 overnight.

In President Reagan's time, we could tolerate years- and decades-long timelines when our main strategic competitor was relatively slow and lumbering. However, this is not
the Cold War or the post-Cold War era. With the PRC, we are in a persistent generational competition for advantage, and we have to double down with urgency and confidence. That’s why the Biden-Harris administration’s focus on American innovation, manufacturing, and production has been so important for national security, because our military strength depends in part on our overall economic strength here at home. So we’ve made serious, significant and sustained investments across now four annual defense budgets and multiple supplemental funding requests to Congress to strengthen the health workforce, supply chains, viability, and productivity of the US defense industrial base, short-term and long-term to help prime the pump. Our investments since this administration’s first defense budget request have included $2.4 billion for casting and forging batteries, kinetic and critical materials; $10.3 billion in microelectronics augmented by historic funds in the CHIPS and Science Act; $12.9 billion for industrial base infrastructure and facilities, including shipyards; $9 billion alone in submarine industrial base investments to support both our domestic production goals and AUKUS commitments; and $24.7 billion from multi-year procurement of key munitions, from Patriots to long range anti-ship missiles.

In fact, the budget that we released last week for FY ‘25 increases LRASM procurement quantities by over 70% compared to FY ‘24, taking advantage of newly expanded production capacity. Of course, we’re investing in many other areas as well, from quadrupling production of 155-millimeter artillery shells, to expanding co-development, co-production, and even co-sustainment with key allies and partners. Our procurement budget has been consistently more than our R&D budget. We buy a lot of things, $167.5 billion in procurement requested in our fiscal 2025 budget. All of these investments and more have been aligned with the needs of our National Defense Strategy and the National Defense Industrial Strategy that builds upon it. The latter, which we released in January, is the first of its kind in DoD, born of a recognition that our defense industrial base is something we must actively and strategically shape to meet this generational strategic moment.

Because production matters, production is deterrence. Now the military may be a singular customer for the defense industrial base, but we are not a unitary actor. We have to succeed through teamwork with both industry and Congress. And while I believe we all agree on the urgency to innovate, I must say one of the most serious obstacles to doing so has been the lack of stable, predictable, timely funding. For the 11th time since I became Deputy Secretary, DoD is operating under a continuing resolution, and we look to be headed toward a 12th time. As many here know, these stopgap measures are really half-measures. They inhibit us from starting new programs. They can compress our time to do talented acquisition work with our professionals who have to award contracts
ensuring taxpayer investments are safeguarded. And they rob us of critical momentum, forcing us to stand still while Beijing, Moscow and Tehran move to modernize their militaries, coerce their neighbors, and work to outpace us.

Shutdowns are even more damaging, so we need Congress to pass bipartisan FY '24 appropriations as soon as possible. We're almost six months into the fiscal year, so it's long overdue, and the delay has already been devastating. It wasn't always like this. For all eight years of Ronald Reagan's presidency, and even when Roger's father was DoD Comptroller in the early 2000s, DoD on average spent 45 days a year under CRs, about six weeks. Not great, but doable. Some years it was less. But over the last three years, that number has more than tripled. DoD has operated under CRs for an average of 143 days a year since 2010. We've lost nearly five years in total to CRs. No amount of money can buy that time back. It's impossible to compete with and outcompete the PRC with one hand tied behind our back 3, 4, 5, or 6 months of every fiscal year.

Washington has to do better, and I know it's possible. Just think: for seven presidential election years in a row, 1984, '88, '92, '96, 2000, 2004, and even 2008, Congress passed DoD's base budget before Election Day. We hear the right words, but actions matter most. In Congress, industry, and even in the Pentagon, we need everyone to set aside differences, come together, and work together around our shared recognition that we are in a generational era of strategic competition with the PRC, and central to that competition is investing to take care of our troops and their families. Let me get to a concluding message. To have a healthy, resilient, dare I say, thriving American arsenal of democracy, we also need a healthy, resilient and thriving American democracy. The two cannot be separated, because enforcing contracts and protecting IP depends on upholding the rule of law. Hiring a talented workforce depends on good schools and universities and immigration.

The prosperity of all Americans depends on ensuring equal rights and equal opportunity for all. And starting a business, investing in others, inventing a product and taking it to market depends on safeguarding the institutions that provide the blanket of liberty under which you do. So, if we want to keep changing the world, then we have to strengthen the democratic principles that make this nation so worth defending and make changing the world even possible. Our country is not immune to the authoritarian winds that sweep the globe. We have seen America routinely tested, and while she has withstood, we cannot take that for granted. Institutions can be degraded, belief in institutions can fade, both endanger the health of our nation and our industry's success.
We want private sector innovation to succeed. We need the private sector to feel the same about American democracy, because neither can thrive unless the other survives.

How we do this matters. Our ends and our means for achieving them are intertwined, because the end we seek is for American democracy and industry to continue to long endure. I want to thank all of our workers across the defense industrial base. American ingenuity and hard work are why US military equipment is the best in the world, and why foreign military sales requests continue to increase to all-time highs. You'll remain one of our greatest enduring advantages long into the future. 40 years ago this fall, then President Reagan visited Palmdale, California and spoke to some of the many defense industry workers building the B-1 bomber and secretly multiple stealth aircraft. There he recalled a pledge he'd made a few months earlier at Omaha Beach: to always remember, to always be proud, to always be prepared, so that we may always be free. And he said there was no higher responsibility than to honor that pledge, because no one, absolutely no one should ever ask the sons and daughters of America to protect this land with less than the best equipment that we can provide. That responsibility guides us still today, and it always must, and it always will. Thank you.

Roger Zakheim:
Well, Secretary Hicks, it's a pleasure to have you back at the Reagan Institute, and thank you for invoking Ronald Reagan and Dov Zakheim's 10 years as Comptroller.

Hon. Kathleen Hicks:
I didn't even see him there. Hi Dov.

Roger Zakheim:
There we go. Checked both boxes, it's great. I can go to the family dinner next week. Really interesting—I'm going to react to your remarks, and really an interesting kind of entry into this discussion on the innovation base by talking about the defense industrial base. And I wonder if before February of 2022 that might've happened, but I think it makes a lot of sense. And part of the discussions we've had today, and I know you were trying to track that as you were also trying to track the progression in the GOP conference discussions today, is talking about transforming our military capabilities for tomorrow. Autonomy is the obvious one to speak to, but then there's also what you're describing about the industrial base to take the platforms we have today and innovating on them as well. Reflect on your tenure, your tenure now as Deputy Secretary in terms of how you've shaped your thinking about innovation in both of those areas. The today
problems, which you're managing perhaps more than you wanted to, and then the
tomorrow challenges, which of course you've always been focused on.

Hon. Kathleen Hicks:
I think the biggest takeaway I could give you is that the answers are “yes, and....” And
any attempt to simplify to some kind of silver bullet system, fix to the system, those will
fail. We have needs across the Department that are vast and that fall all across the
spectrum. Software, hardware, everything in between, and most importantly integration
of all of that. So the way in which we interface, who we interface with to get that, the
researchers in the university communities, to private companies, to large companies,
small companies, traditional, non-traditional, to some extent, these start to lose their
meaning after a point as distinct groups because we're a reflection of the overall US
economy. We have very specific needs, which I spoke to here, and then we have very
common needs, and we can leverage a lot of what's in the commercial sector. So I think
the big takeaway, if you will is it's “yes, and....” We need all of the above, and too often I
think people go to those sectors and their communities rather than thinking holistically
about how do we bring down barriers across the system.

Roger Zakheim:
And one of the remarkable things that we've seen, and you referenced this in your
remarks, you referenced the TITAN program, I'm not sure by name, but this idea how
you have new entrants actually working with the traditional primes. I'm curious if that is
something that's happened organically from where you sit, or has that been something
you've been kind of pounding heads? When Ash Carter started DIU, my imagination of
that conversation is he probably brought both sides in and said, “okay, work together.”
And each side said, “pound sand, they're going to squash me.” That's what the new
entrants would say, and the primes would say, “well these guys just want to go public,
they don't want to work with us.” Why is it happening now?

Hon. Kathleen Hicks:
I think there's some necessity is the mother of invention in there. The types of
capabilities that are evolving in the outside of defense realm are so clearly applicable to
our needs, particularly in software, that it's very encouraging. I think the traditionals, if I
could maybe speak on their behalf, see the value in bringing them in. For the non-
traditionals, we've really seen a sea change. I don't know how much you all have already
talked about this today in terms of the desire to work with the Department, and I think
there the PRC's done the heavy lifting. The heavy lifting is in their actions. Folks saw
what happened, for instance, for Hong Kong, they've seen the aggressive advances in
their military modernization, they've seen the threat to Taiwan. So they've seen the theft
of -- at a much more, as I mentioned in my remarks, at a much more company level, they've seen the stealing of intellectual property, the cyber intrusions, things of that sort. So whatever those reasons are, we are absolutely thrilled that folks want to work with us. We want to throw those doors as wide open as we can. We know we are very challenging for folks to work with, and that's part of my job and the job of other leaders in the Department, it's to try to find ways to lower those barriers.

Roger Zakheim:

One of -- a quote you had in your speech was a reference to the National Defense Industrial Strategy. It says, “production is deterrence,” which I think is spot on, and I know your colleague Bill LaPlante has been saying the same. But one of the elements that came into this Report Card, was looking at that and saying, okay, well the program of record is the coin of the realm. I don't know if you agree with that, but generally –

Hon. Kathleen Hicks:
I don't.

Roger Zakheim:

Okay, so we'll give you an opportunity to tell me why in just a moment. And I guess the question is, is that -- explain why that is or is not the case, because so many feel that they can't get to that program of record and therefore they can't produce. Right? If production is deterrence and people want to produce, but they're not getting there because they can't penetrate into an existing program of record or see a new one come out -- Alright Kath, take it down.

Hon. Kathleen Hicks:

No look, first of all, I want to listen and be open to the way in which those who are trying to enter into our market believe they can show value back to those who've invested in them. So I take that, I do think program of record is a 20th century way to think about the way in which we are investing in capability and technology

Roger Zakheim:

We like the 20th century here at the Reagan Institute, just so you know.

Hon. Kathleen Hicks:
Wasn't so bad, right.
Roger Zakheim:
Yeah, now it's getting personal.

Hon. Kathleen Hicks:
So yeah, I mean I think the reality is that the way in which we feed the warfighter capability goes well beyond programs of record. Obviously the adaptive acquisition pathways, with Ellen Lord sitting right here, is a huge way in which that had already begun to transform several years ago. We are building on that. Software acquisition is a clear other example whether, through the pathway formally or other approaches, OTAs, et cetera. That said production does matter. And so I just don't know that I would equate all production with programs of record. I also think that those who've worked with the DOD a long time, particularly the traditionalists, I was saying the other night, they've built up their calluses. I think for those who are newer, working with us, it's tough. We're not the easiest to work with, and I can see where there's a desire to get to program of record as the measure of performance or their measure of success, and I think we have a lot of work to do to make us easier to work with for them.

Roger Zakheim:
A lot of discussion today referenced this thing called Replicator. Have you heard of it?

Hon. Kathleen Hicks:
Yeah. Yeah, I have.

Roger Zakheim:
Okay, but interestingly I didn't hear it in your remarks. And so I would love for you to talk a little about Replicator, perhaps hitting on the following items: When you spoke about it, perhaps in -- I guess in August or so, was this 12 to 18 month window --

Hon. Kathleen Hicks:
18 to 24. Good try.

Roger Zakheim:
Okay, you're right. It's just a timeline, I was looking for it. 18 to 24. You're talking about attritable autonomous systems at scale, multiple thousands in multiple domains, as you said, within the next 18 to 24 months. How are we doing? It's not something you're seeing in the budget request as you told.
Hon. Kathleen Hicks:
It is in the budget request.

Roger Zakheim:
So outline how we're doing against it.

Hon. Kathleen Hicks:
Sure. So we are on plan. The ‘24 approach, we, like everyone, I think Mike McCord likes to say he's hitting refresh on his browser to see if we will get the bill. We put in a reprogramming request that was very well received in all four corners off of our ‘23. That is still a viable pathway. However, we also are led to believe it's possibly in the ‘24 bills. So we need one of those two pathways to move forward. And our whole goal with Replicator really was to be listening especially to the appropriators, and their report language last year in both the House and the Senate, which was essentially work with what you have. You guys have a lot of authorities, you can come back and ask for reprogramming, you could even come back and ask for reprogramming under a CR, let's play ball. And that is exactly what we have done in Replicator.

So we need to see that come to fruition. They've been very positive about it, but of course we don't have a bill, and the reprogramming request I think continues to move through as an alternative path. So that's '24. We've built it into our budget for '25. And let me pause there to just say a little bit about what Replicator is. Replicator is a process inside the department we learned from several other efforts that we've undertaken. RDER, everything's got a great name, right, RDER and CAP. And so, Replicator is the latest version of that, really focused on production. What we've learned is that when we can bring senior leader attention in a systemic way and look enterprise-wide at how to lower those barriers I talked about, we think we can create -- really catalyze activity in capability areas that are important. So we know from war fighters that this area of attritable autonomy is very important.

The concepts that they are building out, particularly as we looked into PACOM, we know how they want to apply the capabilities, we are about trying to get that capability into their hands as quickly as possible. And the multiple thousands and multiple domains in 18-24 months meets that INDOPACOM near-term requirement. It is not a substitute for autonomy for the Department of Defense. That is not the goal of Replicator. But it is going to show we're going to lower barriers, burn down risk across a whole panoply of challenge areas from requirements. This is why the Vice Chairman chairs it with me.
The fact that we have, just in the first five months that we had it, moved through the requirements, just alone -- requirements process, got capabilities identified, got systems identified, got resources identified, that's knocking years off of the efforts where the Department was headed already. But what will happen at the end of this process when we've burned down the risks, when we've created these integrated capabilities, when we've provided it in a test environment to INDOPACOM and others, and when they've delivered and fielded, there's still the need across the Department to better integrate autonomy, attritable or otherwise, into what the Department is doing. That is a much broader challenge set where we think Replicator is a tool, not the only tool we're using, but a tool to get the services to start to get comfortable with the burn-down of risk. Obviously, as is quite clear, I am bearing the risk on Replicator.

I think it's a very good risk to take if the Ukrainians and Russians can put out thousands of UASs every month, every month, and we are having heart attacks over whether the Defense Department of the United States of America can put out multiple thousands over 18 to 24 months. If we can't do that, we have a much bigger problem than whether Replicator was

Roger Zakheim:
Violent head nodding in this room.

Hon. Kathleen Hicks:
...was a good success, and we say we want us to take risk. This is a good example. Do we want us to take risk? Are folks on board for this? But the bigger transformation in the Department, these senior-level led Pathfinders I think are incredibly important for changing culture. It's a “show me” culture, show them that people are willing to take risks, show you'll put your reputation on the line to make change, and then maybe they'll make change happen. But the actual investment, that's going to be service-centric, and the production engines are service-centric.

Roger Zakheim:
We had Mac Thornberry, former Chairman of the Armed Services Committee, here earlier today, may still be, and was praising Replicator, and also noted how it is resting on the Deputy Secretary's shoulders. It seems like you're comfortable with it resting on your shoulders. That's great. Last question before we open up to the audience here. And because you approach this, I know from years prior to your current position, through a strategic lens, the National Defense Strategy, you look overall across the horizon, the
strategy, the budget, the programs. There's a concern out there, I share this, that it's shrinking. The force is shrinking and then we can't realize our strategic objectives, however you want to manage it. And instead of being the force that can go ahead and dominate in three regions of the world and deter and if necessary prevail in conflict, we're actually going to have to make some choices this year to the point where we're not going to be able to do it in all those places where we need to be, where the strategy says we need to be. And you're managing the outcome of the Fiscal Responsibility Act. You didn't pass that, that was the President signed the bill that the Congress passed. But what can you do? You're working under the hood of the budget, but overall the top line is driving you towards a smaller force. I think you can measure it whether it's by people, platforms, whatever. Give me your take on that and whether you view it differently.

Hon. Kathleen Hicks:

Yeah, I think what I would say is our ‘24 budget requests, which we very much hope to have enacted very soon, that budget request is matched to our strategy. It's built upon the NDS, and we think it does meet the ambitions of that strategy. The ‘25, the cap being imposed for ‘25 in the FRA, we have to absolutely make some tough choices. We chose to take risk, first of all, on things that are on the bubble about their executability. If they didn't look like they could really perform well, they were more on the chopping block. That's always true. But I would say we had to particularly focus there. And then we also had to focus on things that wouldn't -- we don't expect to deliver until the 2030s. I think we've made acceptable choices there. If we get top-line growth in the out years, I've been very clear even when I've rolled out the budget that our strategy depends on that.

We've laid that in our fit-up. But if we were to look at not a one-year capped-down at ‘24 and ‘25, but a continuing cap, that would be a problem for us. We also need supplemental funding. The Department of Defense has always required for operational purposes, whatever you want to call it, OCO, supplemental, reset funding, in order to replenish and reset ourselves and to make up for the operational costs that are over and above what we're doing. Those are resource needs that we have. But I don't think fundamentally our issue is about topline. I care a lot about topline. You can't be the Deputy Secretary and not care about top line. I think we've advocated very, very well for the resources we need. I think that's part of it, but the predictability, a bird in the hand is worth two in the bush. I have no birds in hand and we have not for a long time. I could do a lot with appropriations at the topline at the FRA level that I just can't do if we spent six more months arguing about what the right topline is. So I just don't want the topline argument to get out of proportion to the reality that we just need resources to operate under.
Roger Zakheim:
Okay. I'm getting the stop sign. I'm going to offer one question to the audience and ignore the stop sign. Alright. Over here, Val. She got her hand up quickly there.

Valerie Insinna:
Hi, Valerie Insinna with Breaking Defense. Thank you for taking my question. So, it's been about two years since you and Secretary Austin hosted CEOs from all of the various hypersonic companies, big and small, at the Pentagon, and imparted a message about how urgent it was that companies needed to move more quickly so that there were systems that could be fielded, get those into production. And two years later we still haven't seen that. So why, what happened? And whose fault is this? Is industry not moving fast enough or is the congressional yo-yo dieting, is it constraining the DoD's ability to sort of move as fast on these critical programs as needed? What -- What's going wrong here?

Hon. Kathleen Hicks:
Sure. So I don't think I'd characterize our meeting that way. We were very focused and remain very focused on hypersonic defense. And I think you had Heidi Shyu here today, I would – I don't know if you got into this with Heidi, but her devious mind, blessedly, is working this problem very hard, and I'll leave it at that. So that was really part of the focus. Also, we have had success. We've had success in systems like ARRW, the Army has had success, and now the question really is what makes sense to integrate to the concepts that we have. And I think I'd leave my answer with that final thought, which is the way in which the Chinese, for example, or the Russians use hypersonic weapons is not how we would use hypersonic weapons. The Russians in fact have used hypersonic weapons to very little effect in Ukraine. And I do think that's a good example of how we can get overly exercised in an arms race mentality around new system use. Not that those technologies aren't relevant. We obviously are invested in hypersonics ourselves. We have a program we want to pursue, but we're pursuing it in order to advance the war fighter concepts that we have out there, not to their own end. And I do think we are on plan to do that. Resourcing will make a big difference.

Roger Zakheim:
With that, we'll conclude. Please join me in thanking the Deputy Secretary for joining us here today.

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