banking and communications. In 1992 Chemical Bank merged with Manufacturers Hanover, and in 1995 they combined with Chase Manhattan to form a single company. In the Pentagon years, Deutch worked with the Hughes-Warner Communications in 1990, purchased Turner Broadcasting: Capital Cities/ABC merged with Pacific Telesis; and Bell Atlantic merged with GTE.

And defense spending has indeed fallen since the end of the Cold War. In current dollars, projected defense spending for fiscal year 1997 is estimated to be 10 percent below that of decade ago, and procurement spending is about one-third what it was at its peak in the mid-1980s. But what industry spokesmen fail to note is that the decline in defense expenditures has been greatly exaggerated and that, unlike the private-sector restructuring, the government is substituting these mavericks for the $600 toilet seats and the $500 hammers that had taxpayers up in arms during the mid-1980s. Those subsidized mergers are going to make them look like bargains. The outrageously priced toilet seats and hammers were the result of defense companies taking advantage of a loophole in acquisition requirements, the taxpayers are being fleeced at the hands of the Pentagon’s civilian leadership, whose secret interdepartmental negotiations has rained hundreds of millions of dollars upon the defense industry. To date the Pentagon has received 30 requests for reimbursement for restructuring and has told Lockheed Martin alone to expect to receive at least $1 billion to complete its merger.

Mr. Speaker, the U.S. Government should not be paying millions in taxpayers’ funds to help defray the costs of corporate defense mergers and acquisitions have long been a staple of the U.S. defense industry. But since the Clinton administration took office in 1993, the number of mergers has increased dramatically. In 1991, military mergers were valued at some $300 million. By 1993, the value had climbed to $33.2 billion. It will top $200 billion in 1996. In 1993 Martin Marietta, Martin Marietta, Ling Temco Vought (LTV), and the telltale compound names signal, mergers and acquisitions have long been a staple of the U.S. defense industry. But since the Clinton administration took office in 1993, the number of mergers has increased dramatically. In 1991, military mergers were valued at some $300 million. By 1993, the value had climbed to $33.2 billion. It will top $200 billion in 1996. In 1993 Martin Marietta purchased General Electric’s defense division and General Dynamics’ space division. At about the same time, Martin Marietta purchased General Dynamics’ missile division, while Loral purchased LTV, Ford Aerospace, and Unisys. Then in 1994 Lockheed merged with Martin Marietta to become Lockheed Martin, and a year later, Lockheed Martin purchased Loral to produce a $30 billion giant known as Lockheed Martin Loral, which now controls 40 percent of the Pentagon’s procurement budget.

During this same period, Northrop outbid Martin for the Grumman aircraft company, and the new company in turn bought the defense division of Hughes. Hughes bought General Dynamics’ missile division and Raytheon purchased E-Systems. Among the true defense giants, only McDonnell Douglas has not yet made a major purchase. Spokesmen for the defense industry cite two reasons for this sudden rush of mergers. First, merger mania is sweeping U.S. industry generally. Second, with the end of the Cold War, defense spending has fallen so dramatically that excess capacity in the defense industry has been eliminated only through consolidation. As Norman Augustine of Lockheed Martin has observed, for the defense industry this is 1929.

Supporters of the mergers reasons seem quite plausible. Merger mania has certainly hit many areas of American industry, such as services or Congress or even inform them of it. Congress found out about it accidentally nine months after the memo was written when Martin Marietta tried to recoup from the Pentagon the $508 million it paid for General Dynamics’ space division. A somewhat astonished Senator Sam Nunn (D-GA), then chairman of the Senate Armed Services Committee, remarked, “Why pay Martin Marietta [600 million]?”

Deutch’s position that he was merely clarifying rather than making policy is not supported by anyone, even those who favor the change. The procurement experts in his own administration disagree. On June 17, 1993, the career professionals at DCMA told him that the history of the FAR argues against making the nonrecurring organization’s costs allowable and noted that they had disallowed these costs in the past. The DCMA position was also supported by Don Yockey, the undersecretary of defense for acquisition in the Bush administration; the Aerospace Industries Association (AIA), the trade association for aerospace companies; the American Bar Association’s Section on Public Contract Law; and the American Law Division of the Congressional Research Service.

Yockey, who was Deutch’s immediate predecessor as procurement czar and who is both a retired military officer and former defense industry executive, wrote a letter to the professional staff of the House Armed Services Committee that by definition, structure means organization, and that that FAR does not allow reimbursement of organization costs. Indeed, it was Yockey himself who told DCMA to reject Hughes’ request for reimbursement for its purchase of General Dynamics’ missile division.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.

In a September 28, 1993, letter to Eleanor Spector, the director of defense procurement policy at his old law firm, Deutch told Spector to promptly publish notice of this policy change in the Federal Register and to consider amending the regulations. In a May 3, 1994, letter to Congress, the current acquisition czar and who is both a former chief of the Office of Management and Budget and a former congressman, Deutch also said that the FAR must be changed to allow nonrecurring organization costs.
been greatly exaggerated. As Pentagon and industry officials endlessly point out, defense spending in general, and procurement spending in particular, have declined over the past ten years. But note that between fiscal year 1985 and fiscal year 1995, the defense budget declined 30 percent in real terms and procurement spending fell 60 percent. But that doesn’t change the fact that between fiscal year 1980 and fiscal year 1985, the defense budget grew 55 percent and the procurement budget grew a whopping 116 percent. As a result, spending in real terms are still at about its Cold War average, and the defense budget for fiscal year 1996 was higher than it was for fiscal year 1980. In inflation-adjusted dollars, Bill Clinton spent about $30 billion more on defense in 1995 than Richard Nixon did in 1975 to confront Soviet communism. There is a distinction.

Moreover, the decline in the defense industry is attributable to the reengineering or slimming down that is sweeping all American industries, even those with an increasing customer base.

Finally, if one adds the $266 billion worth of U.S. arms sold around the world since 1990 (a scale that is $30 billion more than the $30 billion that the Defense Department buys in the annualized amount), one must add $43 billion for the annualized amount of $266 billion that the Defense Department acquires in the annualized amount, one must add $43 billion for the annualized amount of $266 billion that attributes to the reengineering or slimming down that is sweeping all American industries, even those with an increasing customer base.

Second, taxpayer subsidization is no more necessary today to promote acquisitions and mergers than it has been in the past. It is true that major defense company today is the product of a merger, some of them decades old. For example, General Dynamics acquired Chrysler’s tank division in the early 1960s. Even in the 1960s, defense defense industry sales are still at historic highs. Defense is still a profitable business—though company stocks are still quite high despite the demography of industry spokesmen. Over the past year Lockheed Martin stock has increased 48 percent in value, and McDonnell Douglas a whopping 80 percent. Third, the Defense Department has no business encouraging or subsidizing the restructuring of the defense industry, or as Deutch puts it, “promoting the rational downsizing of the defense industry. What is the definition of rational downsizing? What is rational?” A government bureaucracy or the market? While government shouldn’t discourage restructuring, it should stay out of the equation. If you don’t make good business sense, the company will not proceed. As Deutch did not when the price for Grumman became too high. Moreover, it is true that these mergers create megacorporations that will reduce competition and may be very difficult for the political system to control. The Lockheed Martin/Boeing giant, for example, is larger than the entire defense industry. With facilities in nearly every state and over 200,000 people on its payroll, its political clout is enormous. And it presents problems in the political world. For example, if Loral sells high-tech components to McDonnell Douglas for its plane, which is competing with Lockheed in the $750 billion joint strike fighter program. How can Loral be a partner in the McDonnell Douglas plane against the Lockheed Martin entry? Fourth, past history indicates that these mergers end up costing more than saving the government money. Both the General Dynamics acquisition of Olin Corporation’s ammunition division and the successful 1992 Bush administration challenge to the Alliant/Elanco system’s proposed acquisition of Olin Corporation’s ammunition division—both of which are now much cheaper. Moreover, under the Deutch clarification, contractors can be reimbursed now for savings that are only projected to occur in the distant future. If these savings do not occur as projected, how will the Pentagon get its (our) money back?

BRING BACK THE MERGER WATCHDOG

Mergers always have been and always will be a feature of the defense industry. And the government has a role in those mergers. But that role—as exemplified by the successful 1992 Bush administration challenge to the Alliant/Elanco system’s proposed acquisition of Olin Corporation’s ammunition division—is to ensure that the keep the competition. That competition can keep the government to get the best price for the taxpayer. It is never necessary to increase company profits and limit competition by subsidizing the merger. Not only should the Defense Department challenge new mergers, but it should follow the lead of its predecessors and scrutinize the anticompetitive aspects of all future mergers.

PLANNING FUTURE DEFENSE

(By Thomas L. McNaught)

Quietly a new defense debate is taking shape. As we have seen, the nuclear posture review (NPR) of U.S. force requirements that still governs Pentagon planning. The other train, looming on the horizon, is a surge in spending on new weapons. We have become used to such spending for nearly a decade because Reagan-era defense investments left military inventories flush with new hardware. But now that these weapons are getting replaced or improved. Barring an unexpected increase, the defense budget cannot afford both readiness and weaponry. Something has to give.

Although this debate probably won’t pick up until after this fall’s elections, early positioning in the debate suggests that U.S. forces may get smaller to accommodate more weapons procurement. Indeed, Secretary of Defense William Perry has said as much recently, although he appears to have only modest force cuts in mind. Senator John McCain (R-AZ), a prominent congressional voice on defense, would go much further. In a recent letter to his colleagues, McCain lamented the “irresponsible practice of postponing essential modernization programs” and suggested that the nation plan to meet just one major contingency while aggressively modernizing to produce high-tech forces capable of delivering fire-power from long range with minimal ground force commitment.

Whether or not this is the right answer, it’s the wrong way to frame the issues. Visualizing procurement spending as a co-equal “train” to the one for readiness. The Pentagon will rise 40 percent over the next five years, and Vietnam. Moreover, procurement spending fell 60 percent. But spending in particular, have declined over a decade or more. At a time when Penta- long-range planning, after all, since it buys weapons that won’t even enter service for the next 20 years, for a decade or more. At a time when Penta- long-range planning, after all, since it buys weapons that won’t even enter service for the next 20 years, for a decade or more. At a time when Penta-gion briefings routinely begin with the adage that “the only constant today is change,” one is justified in asking why we are com-mitting so much money to new weapons that will be with us for decades to come.

The answer lies less in a vision of the fu- ture than in habits and commitments linked to the past. We got used to treating the fu- ture like an advanced version of the present during the Cold War, when Soviet forces provided a well-understood focal point for long-range planning. We are still doing that, even in the absence of any firm vision of the future. Even the recent round of force cuts in the Cold War concepts of risk that no longer capture the realities of what our forces are doing. This is not meant as criticism. The BUR has served admirably to maintain U.S.

HONORING FATHER THOMAS J. MURPHY, S.J.

HON. ELIOT L. ENGLEL

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, July 17, 1996

Mr. ENGEL. Mr. Speaker, Father Thomas J. Murphy, S.J., has served for more than 20 years in St. Margaret’s Parish in Riverdale, in New York City, where he is known for all the good work he has performed for the community. This includes his activities with the North-West Bronx Community and Clergy Coalition and as the founder of his longtime chapter of the Pro Patria Order of the Knights of Columbus.

Besides his numerous and productive efforts with the parish, which include his leadership in