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for Applied Research on Surge Theory

# **What Secretary Hegseth Got Right—and Missed—in His Call for Acquisition Reform**

Michael Morford

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Secretary of War Pete Hegseth's remarks last Friday on acquisition reform struck the right tone and urgency. He's right that the Pentagon's industrial base mirrors its own bureaucracy: risk-averse, slow, and unable to scale in crisis. But when he spoke of producing "desperately needed technology," he revealed the same blind spot that has long weakened U.S. defense readiness. Reform isn't only about technology. Reform is also about manufacturing capacity.

The ability to sustain a fight depends on production. The bolts, castings, and components that keep fleets running come from thousands of small and medium manufacturers (SMMs) who rarely make it into Washington's conversations. Sure, they're mentioned in the National Defense Strategy (NDS), but beyond that, they've slipped back into talking-point status. Such forgetting comes easy when you're not the shiny new object like hypersonics or the F-47 sixth-generation fighter. Worse, there's a persistent assumption that these SMMs—most of them outside the formal Defense Industrial Base (DIB)—will somehow leap in when needed. That could not be further from reality. Decades of consolidation and procurement stratification have created a gulf between independent manufacturers and the Tier 1 through Tier 4 contractors embedded in the formal supply chain. The result is a bifurcated industrial ecosystem—one overburdened and one untapped. Until that divide is addressed, "surge capacity" will remain a slogan, not a capability.

## The Right Moves—if They Hold

Hegseth's Arsenal of Freedom address laid out an ambitious set of reforms—some already in motion—that could meaningfully improve defense acquisition if they survive contact with the bureaucracy. Among the most significant were the creation of **Portfolio Acquisition Executives (PAEs)**, the ongoing **termination of JCIDS**, and the **realignment of the Defense Security Cooperation Agency (DSCA)** under Acquisition and Sustainment.

The PAE model, if executed faithfully, could streamline decision authority and make accountability real. Tying compensation to delivery time, competition, and mission outcomes is a long-overdue correction. The DSCA move is equally smart—collapsing the long-standing divide between domestic acquisition and foreign military sales will help close gaps that have slowed deliveries to allies for years.

The Department also underscored its intent to prioritize **commercial-first and fixed-price contracts**, expand the use of **flexible contracting tools**, and align acquisition accounting with **Generally Accepted Accounting Principles (GAAP)**. That last point may sound technical, but it matters: common financial standards would finally make it easier for commercial firms—especially smaller, venture-backed manufacturers—to participate in defense work without reinventing their accounting systems to meet government idiosyncrasies.

Taken together, these measures represent the right instincts: speed, accountability, and competition. But the Pentagon's biggest obstacle has never been policy—it's consistency. Without steady funding and sustained leadership, even the most promising reforms will dissolve into another round of "transformation" PowerPoints.

## Accountability Cuts Both Ways

Hegseth's plan to penalize contractors for delays and tie profits to delivery performance makes sense on paper, but it ignores the reality that the Department itself is often the source of those delays. Requirements shift midstream. Funding arrives inconsistently. Oversight layers multiply. No company can plan or invest under those conditions.

If the Department truly wants industry to share risk, it must first become a reliable partner. Private capital flows toward predictability, not volatility. Until the Pentagon delivers consistent demand signals and Congress stops weaponizing the defense budget, the investment environment will remain anemic.

## The Industrial Gap

For all the talk of transformation, one truth remains largely unspoken: the Defense Department cannot buy its way out of a manufacturing shortfall. America no longer knows, with precision, what it can make, where, or how fast. That is the defining vulnerability in our defense posture.

At the **Knudsen Institute**, we see this gap every day. We're building an AI-enabled platform that identifies, connects, and activates underutilized manufacturing capacity in real time. It's not about more prototypes or pilot programs—it's about rebuilding the connective tissue of industrial readiness itself.

Surge capacity isn't a procurement term; it's a national capability. And until acquisition reform is matched by a comprehensive effort to map and strengthen the manufacturing base, the system will continue to get faster on paper but no stronger in practice.

## From Reform to Readiness

Secretary Hegseth's urgency is right. His competitive instincts are right. But acquisition reform alone will not secure deterrence. The United States must pair speed with substance—technology with production, innovation with industrial discipline.

In the next crisis, it won't be software or slogans that matter. It will be who can make parts the fastest—and who can keep making them. Until the Department's reform agenda acknowledges that reality, acquisition may get quicker, but the arsenal will not get stronger.

## About the Author

Michael Morford is the founder of the Knudsen Institute, an applied research and policy nonprofit developing data and AI systems to strengthen the U.S. and allied defense industrial bases.