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**BUREAUCRATIC POLITICS: EXPLAINING CANCELLATION OF
THE NAVY A-12 AIRCRAFT**

CORE COURSE 3 RESEARCH PAPER

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Bureaucratic Politics: Explaining Cancellation of the Navy A-12 Aircraft

On January 7 1991, Defense Secretary Richard Cheney terminated a \$4.8 billion contract for the A-12 Avenger aircraft, the Navy's top aviation priority. At that time, the aircraft was at least \$1 billion over budget, 8,000 pounds overweight, and 18 months behind schedule (Montgomery 44). Nearly \$3 billion had been spent on the program and not one aircraft was ever built. Originally projected to cost \$5.7 billion for 620 aircraft, the A-12 was the largest weapons contract cancellation in the history of the Pentagon (Rosenberg 7).

Just 6 months earlier, the program had enjoyed wide support in Congress and the Pentagon and appeared to be trouble-free. Secretary Cheney had appeared before Congress on several occasions and had given the A-12 program a clean bill of health. Subsequent investigations, however, revealed that contractor production, cost, and scheduling problems had existed all along, but were either ignored and/or suppressed by senior Navy or DOD officials. Cheney was irate and the stage was set for the eventual demise of the program (Montgomery 47).

What went wrong and how did the A-12 program take such a nose-dive? "Bureaucratic politics" as described by Graham T. Allison in his book Essence of Decision were clearly evident (69-76). There were several key players from different organizations involved in this A-12 fiasco, each with different perceptions, priorities and commitments. Although it is difficult to pinpoint "blame" in this complex and convoluted case, the interplay of competing interests of Department of the Navy officials, the Department of Defense, and the contractors largely explains Secretary Cheney's decision to scrap the A-12 program.

Events Leading up to the Decision

In 1984, the Navy initiated plans to develop a replacement aircraft for the aging A-6 Intruder. On January 13, 1988, a full-scale development contract was awarded to the contractor team of McDonnell Douglas and General Dynamics. The fixed-price-incentive contract established a target price of \$4.379 billion and a ceiling of \$4.77 billion for eight flight-test aircraft and five full-scale ground test articles. The program was designated a special-access ("black") program and the first flight of the A-12 was scheduled for June 17, 1990 (US Cong. 6).

On December 19, 1989, Secretary Cheney ordered a Major Aircraft Review (MAR) to validate the necessity for the B-2, F-22, C-17, and A-12 aircraft programs in light of changing world events and the diminished Soviet threat (Beach 27). Following the MAR, Cheney briefed Congress on the results and on April 26, 1990, told the Senate Armed Services Committee, "We think we ought to go forward with the A-12, it's a good system and the program appears to be reasonably well-handled" (Wilson and Carlson 17). The only change was a reduced buy from 858 to 620 aircraft (based on fewer Navy aircraft carriers and the Marine decision not to buy the A-12 aircraft) (CRS 3).

On June 1, 1990, the program began to unravel when the contractor team advised the Navy that certain performance specifications could not be met, that they would soon overrun the contract ceiling by an amount they could not absorb, and that they would have to slip the date for the first flight. The Navy initiated a no-cost contract modification that changed the first flight date to December 1991 with subsequent aircraft deliveries beginning in February 1992 (US Cong. 7). Cheney was outraged and later testified, "I'd gone forward to the Congress in good faith and presented the best information that was available to us and then subsequently

found that the information we'd been presented was not accurate `` He summoned McDonnell Douglas and General Dynamics officials to his office to express his displeasure but the damage was already done (Wilson and Carlson 17)

On July 9, 1990, Navy Secretary Lawrence Garrett ordered an administrative inquiry to determine why there was such a variance between the current status of the A-12 program and information that had been presented to the Office of the Secretary of Defense (OSD) by the Navy during the course of the Major Aircraft Review (Beach 2) Secretary Garrett appointed Navy lawyer Chester Paul Beach to head the panel and over the next 3 months, the Beach panel collected about 9,000 documents and interviewed 60 government and contractor employees (Wilson and Carlson 17) The Beach Report was completed on November 28, 1990, and concluded that Captain Elberfeld, the A-12 program manager, had "erred in judgment by failing to anticipate substantial additional cost increases His projections of completion at or within ceiling were unreasonably optimistic and not supported by the facts available to him. The program manager also erred by failing to anticipate greater risk to schedule than was briefed at the Major Aircraft Review" (Beach 38) The investigation also determined that the Navy and OSD had information that should have been considered during the MAR but was not (US Cong 7)

Secretary Garrett accepted the recommendations of the Beach Report and on that basis, two admirals and a captain were disciplined for mismanaging the A-12 program and another admiral was forced to retire. Captain Elberfeld was removed from the program and censured, and so was his boss, Rear Admiral John F. Calvert On December 13, 1990, the Under Secretary of Defense for Acquisition, John Betti, also resigned (Wilson and Carlson 28).

In December 1990, events concerning the troubled A-12 program really began to escalate in the Department of Defense and Congress and hearings were held before the House Armed Services Committee on December 10. Cheney called the “apparent schedule slippage, cost growth, and management deficiencies in this program intolerable,” and he directed Navy Secretary Garrett to “show cause” by January 4 1991 why the A-12 program should not be terminated (CRS 5)

On December 17, the Navy informed the two contractors that they had failed to meet contract requirements and issued a “cure letter” that ordered them to show cause why the Navy should not cancel the contract for default. On January 2, 1991, the contractors replied to the cure letter and stated they could not meet technical specifications and delivery schedules in accordance with the contract (Wilson and Carlson 29)

On Saturday, January 5, Cheney convened a meeting of his top aides including Chairman of the Joint Chiefs, General Colin Powell, Navy Secretary Garrett, Pentagon comptroller Sean O’Keefe and the new Under Secretary for Acquisition, Donald Yockey. “The issue,” Cheney later testified, “was whether or not I was prepared to use my authority to modify the contract - - to in effect, bail out the contractors in order to go forward with the program.” O’Keefe and Yockey argued against a bailout. But Navy Secretary Garrett and Gerald Cann (his assistant secretary for research and development) argued that the Navy needed the aircraft and the contractors should be told to find a way to continue without government help (Wilson and Carlson 29).

On January 7, 1991, Cheney directed the Navy to terminate the A-12 contract for default. “No one can tell me exactly how much more money it will cost to keep this program going,”

Cheney said in announcing the cancellation “If we cannot spend the taxpayers’ money wisely, we will not spend it” (Bond 29) After three years and \$3 billion, the A-12 program was dead

Early Warning Signs

Following the A-12 cancellation, a major controversy erupted over just when Navy and Pentagon officials became aware of projected cost overruns and delays and why that information wasn’t forwarded up the chain of command Conflicting reports make this difficult to determine but what is clear is that there was ample and early evidence the A-12 program was in trouble that went largely ignored by key officials in General Dynamics and McDonnell Douglas, the Navy Department and the Department of Defense

For major systems acquisition programs like the A-12, contractors are required to submit Cost Performance Reports (CPRs) that reflect the cost and schedule status of the contract The Beach report cited both contractors as having excellent cost and schedule performance reporting systems and that their systems did in fact identify “significant and increasing negative cost and schedule variances throughout the period of contract performance” (6) However, the report went on to say

The team failed to utilize the CPR information to identify to the Government the potential schedule and cost implications of the performance problems it encountered Notwithstanding the consistently negative trend of the cost and schedule performance data, the McAir/GDFW team continually made best case projections of cost at completion based upon overly optimistic recovery plans and schedule assumptions (6)

According to the Beach investigation, both contractors had limited experience building large composite structures and an overly ambitious and unrealistic schedule exacerbated the problem. When the program manager’s production oversight team assembled in the summer of 1989, “the contractors should have had a firm design in hand for their manufacturing elements

Assembly tooling should have been designed, built, and on the assembly floor by September 1989 ” Due to the tooling and parts flow problems, there was early evidence that the first flight date of June 1990 was unattainable (Beach 11)

A cost analyst at Naval Air Systems Command, Debbie D’Angelo, had analyzed the contractor CPR reports and identified problems as early as March 1989 and again in July. Testifying before the House Armed Services Investigations Subcommittee in July 1991, Ms D’Angelo said that she had warned that the A-12 contract would be more than \$1 billion over the budgeted ceiling costs for full-scale development (HASC Panel 106). Although her reports went to program manager, Captain Elberfeld, her superior, Bob Patterson said Elberfeld “never believed our assessment” of the severity of the A-12 problems (A-12 Mgr 123)

Tom Hafer, a former budget analyst with the Pentagon comptroller’s office also testified before the Subcommittee. He had reviewed D’Angelo’s reports in August 1989 and determined then that “the program was in very deep trouble.” Hafer’s concerns were presented to the Pentagon’s Conventional Systems Committee, which conducted a program review in November 1989, but he said his warnings were offset by Elberfeld’s “very spirited defense of the program” (Fessler 2092)

Hafer concluded that the A-12 would be 5,000 pounds overweight, two years behind schedule and \$500 million over budget. His report, titled PBD-608, recommended that the Navy withhold nearly \$1.5 billion from the contractors until they resolved the problems. PBD-608 stirred up a lot of controversy among senior Navy officials and ultimately, Hafer’s boss, Sean O’Keefe, withdrew the report. So, the bad news about the ailing A-12 program never reached Secretary Cheney (Wilson and Carlson 14-15).

Pressures and Priorities

As Graham Allison points out in his Bureaucratic Politics Model, key decision-makers often do not have the luxury of time to focus on just one issue at a time. Frequently, they are bombarded with events and deadlines that demand their attention and affect their decisions. Decision-makers are also influenced by the pressures and priorities impacting their particular organizations. As Allison said, "Where you stand depends on where you sit," meaning that the "diverse demands upon each player shape his priorities, perceptions, and issues" (Allison 75). This was certainly true with the A-12 and in part, might explain some of "what went wrong" with the program.

The defense contractors certainly had a strong and vested interest in the success and continuation of the A-12 program. At that time, General Dynamics' Ft Worth Division had only the F-16 fighter program in production which was scheduled to be complete in 1993, McDonnell Douglas' Aircraft Company had three on-going programs, with two also scheduled for completion in 1993 (Brown 21). Immediately following the contract cancellation, General Dynamics announced lay-offs of 4,000 workers and McDonnell Douglas said it would be laying-off 5,000 (GD 395A).

According to Captam Elberfeld's testimony before the Subcommittee in April 1991, cutbacks in other defense programs discouraged the contractors from devoting sufficient resources to fixing problems in the A-12 program. He said the contractors were extremely concerned about their future business base because several programs had been terminated. The AV-8B, the F-15, the Apache, the M-1 tank and Trident submarine, plus several others had been

substantially reduced the F-16, F-18, T-45, C-17 and SSN-21 attack submarine programs (Cuts 116)

The Beach Report supports Captain Elberfeld's contention

The evidence indicated that the contractor team perceived significant pressure from upper management throughout the performance of the full scale development effort to maximize cash flow. Such pressure would create an incentive to be optimistic, inasmuch as progress payments would be subject to reduction in the event of a contractor or Government estimate of an overrun (6)

Compounding the problem was the fact that the two defense contractors were competitors on the program to build the Air Force's Advanced Tactical Fighter. As a result, there was mutual distrust between them and they were not inclined to share sensitive and advanced technology to further the A-12 program (Montgomery 46)

The Navy Department also had a great deal riding on the success of the A-12 aircraft. It was projected to be a state-of-the-art stealth bomber to replace their aging A-6 fleet. In 1991, "a large part of the A-6 fleet had been either grounded or operationally restricted because of wing problems and other technical defects, and by the late-1990s most A-6s will be 25 to 30 years old" (CRS 7)

All along the A-12 program appeared to have been on solid ground politically and programmatically. As stated in a September 17, 1990 article in Aviation Week and Space Technology, "The A-12 is in good shape because the aircraft it is to replace, the Grumman A-6E, cannot stay in service long enough for the Navy to devise another alternative. The A-12 is the only aircraft available for future carrier-based medium-attack missions, and this is not in dispute" (Bond 29)

It is not surprising, therefore, that Tom Hafer's PBD-608 report (estimating the A-12 would be overweight, over budget and behind schedule) was not warmly received by the Navy hierarchy. Cheney had already canceled the A-6F, the Navy's other carrier-based bomber and now Hafer's conclusions could threaten the future of the A-12. "That would leave the Navy with no new long-range bomber, which would cede the deep-strike bombing mission to the Air Force. This would diminish the Navy's importance and, potentially, its future funding for \$4 billion aircraft carriers and other warships. These fears sent A-12 supporters to battle stations, vowing to sink Hafer's PBD-608" (Wilson and Carlson 14)

So, it is understandable that Navy officials were motivated to protect their program but to what extent their actions were justified and ethical is questionable. In the A-12 saga, there are numerous examples where unfavorable information was either dismissed or suppressed from superiors. Chester Beach also cites several instances in his report and faults the "military culture" in that officers are reluctant to bring bad news to their civilian bosses (Beach 47). But, no doubt, one of the most blatant deceptions occurred during Cheney's visit to McDonnell Douglas in March 1990 during the Major Aircraft Review. Commander Andy Melching, a Navy on-site program integrator, testified before the July 1991 Subcommittee that Elberfeld "portrayed the program as being on schedule." He said that large parts (and some defective) had been hauled over to the assembly area just before Cheney's visit to make it appear that fabrication efforts had been successful when in fact acceptable parts had not yet been produced (HASC Invest 6)

It is not surprising, then, that by early January 1991, Cheney was extremely skeptical about anything the Navy or the contractors told him about the A-12. "At that point, there was no

aircraft. There was a mock-up of a cockpit in St. Louis, but the aircraft had never been built. Still a paper airplane" (Wilson and Carlson 29)

Secretary Cheney faced a deadline on Monday, January 7, when the next payment of \$553 million was due to the A-12 contractors. However, he also had to attend to a more pressing problem - - the Persian Gulf War was just two weeks away (Wilson and Carlson 29)

Despite pressure to continue the A-12 program, especially from the Navy, Secretary Cheney's decision to cancel the program was defensible. The Major Aircraft Review should have uncovered some of the problems lurking behind the optimistic progress reports. Yet, just one month later, (and after Cheney had already briefed the Senate Armed Services Committee), glaring deficiencies surfaced. Subsequent investigations revealed dissembling by all parties and at several levels for self-serving reasons. By that time, the program was not recoverable within the budget and time criteria. In fact, due to fundamental design deficiencies, it is doubtful the A-12 program could have been salvaged under any circumstances - even if the Cold War had continued and higher defense budgets had been available.

Although Cheney ultimately decided to terminate the program for contractor default, the A-12 debacle will continue to live on in the courts for years to come. Renowned as the largest weapons contract cancellation in the history of the Pentagon - - the A-12 has now become the largest lawsuit ever filed against the federal government.

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