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Hearing of the House Small Business Committee on
The Defense Acquisition System

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Chairman Williams, Ranking Member Velázquez, members of the committee, thank you for holding this hearing on *Restoring America's Industrial Base: The Role of Small Businesses in National Security*. The views expressed below largely represent those of the National Defense Industrial Association (NDIA), but some of the views are my own and not necessarily those of NDIA.

Our defense acquisition system takes too long to deliver capability, costs more than it should, and often does not access or fails to adopt the most cutting-edge capabilities industry has to offer. In addition, our defense industrial base has been shrinking. This is not by happenstance. Many companies have chosen not to work with the Department of Defense (DoD). These are serious problems.

The good news is that in my more than 20 years working on defense acquisition policy, I have never seen this level of focus on improving defense acquisition, from the administration and from Congress. This hearing is a prime example of that focus.

In this testimony I would like to make four points.

(1) Small business plays a critical role in defense—and all government—acquisition.

In 1953, President Eisenhower signed the Small Business Act (PL 163-83). President—and General—Eisenhower, knew well the importance of having a level playing field to ensure that small businesses are treated fairly and given equal protection under the law to compete for government contracts. That is an appropriate role for the federal government. As the first section of the Federal Acquisition Regulation states, one of the primary goals of the acquisition system is to “conduct business with integrity, fairness, and openness” to all.¹

President Eisenhower also knew firsthand the importance of small businesses to national security. Small businesses are incubators of new ideas, promote competition, are often at the cutting edge of technology, and are the large companies of the future. Companies like Hewlett-Packard (which started in a garage), Microsoft (which started in a dorm room), and Bloomberg (which was conceived by one man who left a large company to revolutionize financial information) are all examples of economic powerhouses that started as small businesses. This is why the Small Business Act states clearly that its purpose is to

¹ Federal Acquisition Regulation, 1.102-Statement of Guiding Principles of the Federal Acquisition System.

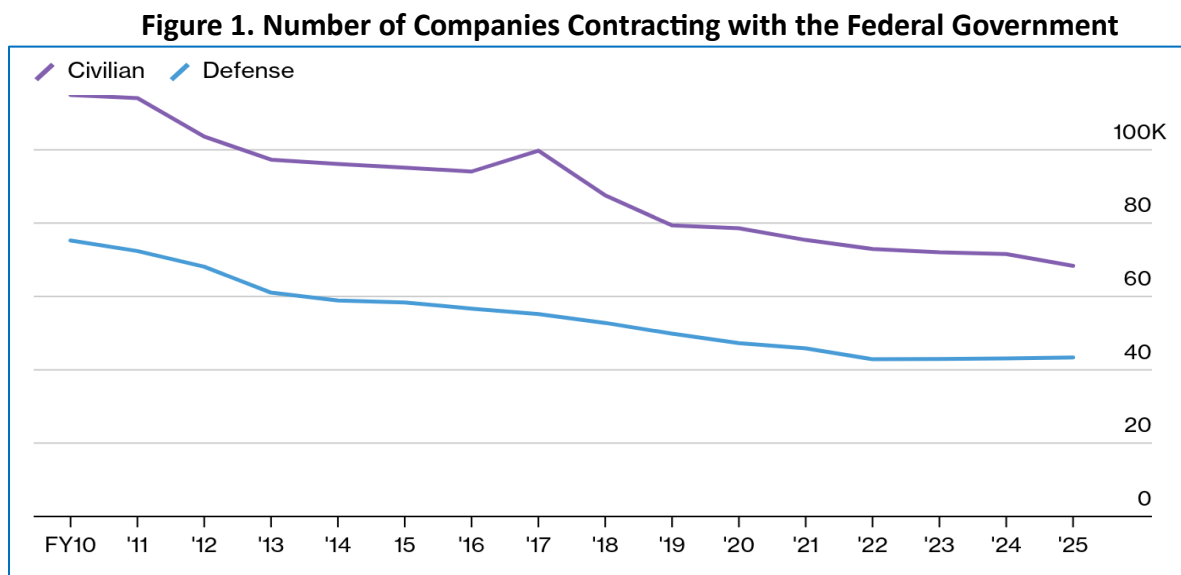
- promote competition
- ensure that small businesses get a fair share of government contracting and subcontracting, and
- strengthen the economy and security of the nation.²

Small businesses are delivering, representing approximately 70 percent of the defense industrial base.³ Companies like Onebrief, which supports military operations by providing AI-powered workflow software to enhance force deployment, and Aurora Engineering, which provides AI/machine learning and simulation to support NASA missions, are directly contributing to mission success. The Department of Homeland Security’s (DHS) website lists numerous small business success stories, from helping DHS enhance public safety, to promoting cyber security, and detecting hazardous gases.⁴

(2) The defense industrial base is shrinking.

The defense industrial base has been shrinking because, among other reasons, fewer companies are willing or able to work with the government. The consequence of this trend is that the government may not be able to access some advanced technologies and capabilities that commercial markets have to offer, there is less competition (which often results in increased costs), and the supply chain is less robust and resilient.

A recent analysis by Bloomberg found that both the defense industrial base and the civilian agency industrial base have shrunk significantly since FY2010 (see Figure 1).



² 15 USC 632 et seq.

³ Department of Defense, *Small Business Strategy, 2023*, January 2023, p. 20.

⁴ <https://www.dhs.gov/science-and-technology/sbir-success-stories>.

Small businesses are a large part of this story.⁵ A Government Accountability Office (GAO) report found that from fiscal years 2011 to 2020, the number of small businesses receiving DoD contract awards decreased by 43 percent, even as obligations to small businesses increased by approximately 15 percent.⁶ According to a Bloomberg analysis, in fiscal years 2021 and 2022, the number of small and other businesses contracting with DoD slid further, with small businesses decreasing by 5 percent and 7 percent respectively, and other businesses decreasing by 1 percent and 5 percent, respectively.⁷

The same decline in small business participation is occurring in the civilian agency industrial base, which is part of the national security story. Agencies like the National Aeronautics and Space Administration and the Departments of Homeland Security, State, and Justice all play vital roles in national security. According to Bloomberg, the number of small businesses selling to the federal government dropped from more than 100,000 in fiscal year 2014 to approximately 67,000 in fiscal year 2023. In 2024 alone, the number of federal contractors dropped by 2 percent.⁸

This decline is occurring precisely when the federal government increasingly relies on commercial technologies. From artificial intelligence to autonomous vehicles, cybersecurity to space launch, industry is at the forefront of technological evolution.⁹ The reason for the decline was explained by Secretary of Defense Hegseth when he stated earlier this year

We have got to look at ourselves first. The way we do business, we have been impossible to deal with. A bad customer who year after year changes our mind on what we want and what we don't want...we have to fix our own house first: provide clarity, simplify the system, allow more people to access it, give that steady demand signal.¹⁰

(3) We need to streamline the acquisition rules and help small businesses find the front door.

⁵ Bressler, Amanda, Bressler, Alex *Analyzing the Composition of Department of Defense Small Business Industrial Base, May 2, 2022.*

⁶ U.S. Government Accountability Office. (2021, October 14). Small business contracting: Actions needed to implement and monitor DoD's small business strategy. Bloomberg Government. <https://www.gao.gov/products/gao-22-104621>.

⁷ Nieberg, P. and Murphy, P. (2023, February 8). Labor shortages in US hamper defense manufacturing efforts. Bloomberg Law. <https://news.bloomberglaw.com/immigration/labor-shortages-in-us-hamper-defense-manufacturing-efforts>.

⁸ Murphy, P. (2024, May 6), Rising Contract Spending Fails to Lure, Keep Vendors in Market. <https://www.bgov.com/next/news/SD254WT0AFB4>.

⁹ Under Secretary of Defense for Research and Engineering. (2022, February 1). Technology vision for an era of competition. https://www.cto.mil/wp-content/uploads/2022/02/usdre_strategic_vision_critical_tech_areas.pdf.

¹⁰ Secretary of Defense Pete Hegseth, Press interview, February 9, 2026.

There are too many acquisition rules, and the rules are overly complicated. In a recent poll by NDIA, companies were asked “What do you find most difficult about government processes?”¹¹ Fifty-six percent of companies cited the burden of the acquisition process and paperwork, and 33 percent cited regulation. When acquisition processes that are not overburdened by regulation have been used, such as Other Transaction Authority, the results have generally been positive. Some regulations that apply only to selling to the government also drive up the cost of goods and services.

This is not a call to remove all or even most, regulation. This is a call to create a more effective regulatory framework by rationalizing and streamlining regulations. Some will argue that streamlining is code for repealing necessary oversight. On the contrary. Done right, streamlining will increase accountability by clarifying lines of authority, as well as shortening timelines and improving outcomes, without undermining oversight. This is the approach industry takes: fewer regulations, more consistently applied, by an empowered workforce. Streamlining and eliminating certain regulations can even result in companies investing more resources in areas that will directly benefit the government. As the Chairman’s Mark for the FY2027 National Defense Authorization Act states,

Compliance burdens are a significant barrier to entry for potential defense contractors, particularly small- and medium-sized businesses. Companies are increasingly forced to choose between investing in innovation and maintaining compliance, contributing to attrition from the defense industrial base and reduced resilience across defense supply chains.¹²

¹¹ National Defense Industrial Association, [*Vital Signs, 2026: The Health and Readiness of the Defense Industrial Base*](#), April, 2026.

¹² Page 496.

Less Regulation for Better Results: A Cybersecurity Case Study

Overregulation in government contracting requires companies to spend money on compliance instead of on what really matters. Cybersecurity regulations are a case in point. A 2024 report released by the Office of the National Cyber Director raised the concern that

[t]he lack of harmonization and reciprocity [of government regulations] harms cybersecurity outcomes while increasing compliance costs through additional administrative burdens. Many respondents noted that **compliance spending drew resources from cybersecurity programs.*** (Emphasis added.)

This has a direct impact on small businesses, which have limited resources. One company spent \$100,000 last year to get Cybersecurity Maturity Model Certification (CMMC) and is spending \$100,000 this year for the audit. Such expenditures represent a significant investment for a company whose annual budget is \$3 million.

While cyber security is important and cannot be compromised, steps can be taken to reduce the burden on industry, including by harmonization cyber regulations.

Source:

* Office of the National Cyber Director. "2023 Cybersecurity Regulatory Harmonization Request for Information," June 2024.

** Conversation with CEO of an engineering company that is on contracts for NASA and DoD, May 21, 2026.

In addition to making it easier to work with the Department, we can do more to help small businesses get in the door. There are numerous paths to government contracting. One is to work on government contracts by subcontracting. Small businesses often represent 55-60 percent of all subcontracts, which translates to tens of billions of dollars of government contracting. One prime contractor I spoke to works with more than 8,500 small businesses.¹³ Integrators provide a focused pathway for small businesses with little experience in government contracting to bring their unique expertise to the government. In this context, helping small businesses compete for subcontracting—and helping primes subcontract with more small businesses—is an important part of the puzzle.

Another path for small businesses is the mentor-protégé program, which connects new businesses with more established businesses in a way that benefits both parties. In the program, small businesses are mentored in business operations and how to work on federal contracts or subcontracts; the mentors may receive credit toward subcontracting goals or financial incentives.

Subcontracting, paired with the mentor-protégé program, becomes a powerful tool for small businesses. To its credit, DoD appears to be putting significant time, effort, and resources into expanding the mentor-protégé program as a way to bring innovation to the

¹³ Based on conversations and data provided with prime contractors, May 2026.

Department. Even if innovation was not the original intent of the program (it has generally been about building up the business acumen of the small business), this evolution to focus on innovation could spawn more collaborative technology development and mentoring between small businesses and more established defense contractors.

Two other pathways for small businesses are

- the Small Business Innovation Research (SBIR) program, which was established in 1982 to provide funds to small businesses for innovative R&D with commercial potential, and
- the Small Business Technology Transfer (STTR) program, which was established in 1992 to facilitate the commercialization of university and federal R&D by small businesses.

All these pathways deliver proven benefits to both small businesses and national security. But we can do more.

(4) We can be smarter in helping small businesses.

Even though the Department has consistently met its overall small business target, the number of small businesses working with DoD is declining. When the spending targets are seen as an end in themselves, rather than a catalyst for expanding small business participation or identifying critical capabilities, the government may prioritize getting large dollars on small business contracts over recruiting and retaining a more diverse industrial base. This approach also sometimes does not incentivize the Department to invest the time needed to work with some of the fast-moving, innovative small businesses that are critical to promoting lethality and operational success. There are other methods that can be just as impactful—or more—in helping small business. Here are four specific proposals to improve small business participation in the defense industrial base:

Further streamline regulation, with an eye to small business.

When regulations placed on prime contracts are required to be included in subcontracts at lower tiers, *we are placing regulations on small businesses*. Congress and the Department could review regulations to see when the benefits of flowing down requirements to all lower tiers are outweighed but the costs imposed on subcontractors.

Improve communication and support, making it easier to work with government.

One example of this is DoD's cybersecurity regulation for contractors, CMMC, which is a barrier to small businesses entering or remaining in the defense industrial base.^{14,15} DoD recognizes this challenge, noting in its *Small Business Strategy* that

¹⁴ Bressler, Amanda, Bressler, Alex [Analyzing the Composition of Department of Defense Small Business Industrial Base, May 2, 2022](#). p. 16.

¹⁵ The CMMC program requires third-party assessors to certify the compliance of defense contractors who handle controlled unclassified information (CUI) with the standards in NIST SP 800-171, Rev. 2.

[t]he resources required to safeguard data and systems from common and advanced persistent threats can put a strain on companies of any size, but resource-constrained small businesses are particularly vulnerable.¹⁶

Two of the challenges with CMMC implementation have been the constant moving goal posts and delays in implementation, and the need for clear and consistent communication on what requirements to expect, on what timeline.

According to one small government contractor, they still don't know if the independent requirements are going to be required by October 1 of this year, making it difficult for the company to make investment and business decisions. The company stated that the Space Force official managing the contract did not receive clear guidance on when enforcement would begin or the parameters of enforcement, which made it impossible to convey clear information to the contractor.¹⁷ Better communication and a clearer implementation strategy would help small businesses make sound business and resource decisions.

Help small businesses submit better SBIR applications.

A number of companies have stated that they often do not get meaningful feedback on SBIR proposals that were not awarded contracts. Better communication with losing bidders, explaining the weaknesses of the offer and what they can do better next time, would help small businesses learn how to improve their bids and help DoD by increasing the quality of future offers.

Provide resources that put small businesses on a more level competitive playing field.

According to the 2026 *Vital Signs* survey, 32 percent of small businesses cited “delays obtaining necessary security clearances or accessing classified facilities” as a significant challenge in government contracting.¹⁸ Even without delays, many small businesses do not have the resources to build or maintain Secure Compartment Information Facilities (SCIF), creating a barrier to entry. Promoting shared SCIF spaces could help small and other businesses, which would increase competition and provide more options and capabilities for the Department. DoD could encourage more use of companies like Nooks, which offers secure, high-end SCIF spaces for lease. (And by the way, Nooks is a small business, another example of small businesses providing creative solutions to national security challenges). DoD, the General Services Administration, and other agencies could also provide access to underutilized government-owned SCIF space.

Thank you for the opportunity to share these thoughts. I look forward to your questions.

¹⁶ Department of Defense, [Small Business Strategy, 2023](#), January 2023, p. 20.

¹⁷ Conversation with company owners, May 2026.

¹⁸ *Vital Signs, 2026*, p. 44.