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RETHINKING OUR DEFENSE BUDGET: ACHIEVING NATIONAL SECURITY THROUGH SUSTAINABLE SPENDING

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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RETHINKING OUR DEFENSE BUDGET: ACHIEVING NATIONAL SECURITY THROUGH SUSTAINABLE SPENDING

TUESDAY, JULY 20, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m. in room 2154, Rayburn House Office Building, Hon. John F. Tierney (chairman of the subcommittee) presiding.

Present: Representatives Tierney, Maloney, Lynch, Welch, Foster, Driehaus, Quigley, Chu, Duncan, Jordan, Flake, and Luetkemeyer.

Also present: Representatives Frank and Paul.

Staff present: Andy Wright, staff director; Talia Dubovi, counsel; LaToya King, GAO detailee, Boris Maguire, clerk; Victoria Din and Alexandra Mahler-Haug, interns; Adam Fromm, minority chief clerk and Member liaison; Justin LoFranco, minority press assistant and clerk; and Christopher Bright, minority senior professional staff member.

Mr. TIERNEY. Good morning. A quorum being present, the Subcommittee on National Security and Foreign Affairs, the hearing entitled, "Rethinking our Defense Budget: Achieving National Security through Sustainable Spending," will come to order.

I ask unanimous consent that only the chairman and ranking member of the subcommittee be allowed to make opening statements.

Without objection, so ordered.

I ask unanimous consent that Congressman Barney Frank and Congressman Ron Paul be allowed to participate in this hearing if they are able to attend. In accordance with committee rules, they will only be allowed to question the witnesses after all official members of the subcommittee have first had their turn.

Without objection, so ordered.

I ask unanimous consent that the hearing record be kept open for five business days so that all members of the subcommittee will be allowed to submit a written statement for the record.

Again, without objection, so ordered.

Once again, good morning, and we thank our witnesses for being here this morning to assist us.

Today the subcommittee continues its oversight of spending of the Department of Defense. Specifically, we will examine recommendations from a number of defense experts for ways that we can reduce defense spending while ensuring that our national security interests are not compromised.

Over the last two Congresses, this subcommittee has devoted significant time and resources to oversight of defense spending. We have examined the defense acquisitions process, and have worked to ensure that adequate planning and testing is completed by multi-billion-dollar weapons systems were purchased. We have investigated contracting in our overseas military operations and discovered widespread waste, lack of management, and blindness to broader security implications of these problems.

We have looked closely at the Missile Defense Agency, military aid programs, and strategic planning for new technologies such as the unmanned aerial vehicles. We continue to try to get a clear picture from the department of the actual number of overseas military bases we have, as well as the strategic rationale for each location. Time and again we see opportunities for increased efficiency, less waste, and better use of taxpayer money.

Just 2 weeks before President Obama was sworn into office in January 2009, the Congressional Budget Office announced that the fiscal year deficit was estimated at over $1 trillion. The inauguration occurred with an anticipated estimated long-range deficit of $11½ trillion. In February of this year, President Obama established the bipartisan National Commission on Fiscal Year Responsibility and Reform. This commission has been tasked with finding ways to improve the long-term fiscal outlook of the United States. It is critical that the commission scrutinize all aspects of our budget, including the defense budget, as it formulates its suggestions.

I hope, in fact, that members of the commission will pay close attention to our discussion here today. In fact, I am scheduled to meet with the commission's co-chairs tomorrow afternoon, at which time I intend to urge them to do just that.

Today we will consider options for realigning our national defense spending. We have with us a panel of experts from diverse political viewpoints who will speak about ways that they and others who worked with them on the related report believe we can cut the defense budget while maintaining our commitment to national security.

Two of our witnesses are members of the Sustainable Defense Task Force, which has recently released a report with recommendations that, if implemented, would reduce the department budget by some $960 billion by the year 2020. Neither I nor the individual members of this subcommittee are bound to agree with each and every recommendation made by the report or in the testimony today, yet most of the Members would, I believe, welcome consideration of the topic and a number of the individual suggestions that are proffered.

We look forward to the discussion of those recommendations, as well as any additional suggestions from our panel.

To be absolutely clear, this discussion should not be dismissed, as it may be by some, as an attempt to weaken the Department of Defense or under-prioritize United States' national security. As

this subcommittee's track record demonstrates, every member of this panel takes the security of our country very seriously. Waste is waste, regardless of the context, and inefficiencies only hurt our ability to respond effectively to crises and promote our national security interests. Sound national security in an austere budget environment requires strategic choices and rational resource allocation. Bigger is not always better, especially in matters of national defense.

Budgets always involve hard choices, but in this case these choices can be made and make our Nation stronger. It is through that lens that we approach our conversation today. It is our duty on this subcommittee and in Congress as a whole to make certain that taxpayer money is spent responsibly.

As President Obama has said, "We have an obligation to future generations to address our long-term structural deficits which threaten to hobble our economy and leave our children and grandchildren with a mountain of debt." The critical importance of our national security does not in any way exempt the Defense Department from its obligations to spend money wisely and efficiently.

[The prepared statement of Hon. John F. Tierney follows:]

Statement of John F. Tierney
Chairman
Subcommittee on National Security and Foreign Affairs
Committee on Oversight and Government Reform
U.S. House of Representatives

Hearing on "Rethinking our Defense Budget: Achieving National Security through Sustainable Spending."

As Prepared for Distribution

July 20, 2010

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witnesses are members of the Sustainable Defense Task Force, which has recently released that report with recommendations that, if implemented, would reduce the Department's budget by $960 billion by the year 2020.

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Mr. TIERNEY. With that, I would like to recognize Mr. Flake for his opening comments.

Mr. FLAKE. I thank the chairman and thank the witnesses for coming in.

As the chairman noted, every member of this panel takes the defense of our country seriously, but we also recognize that we have a huge problem in terms of debt, deficit, and savings cannot be simply gained in entitlement programs or other discretionary programs; it has to be gained here, as well.

Since 2001, as was noted, nearly 65 percent of the increase in discretionary spending has come from defense, and we need to make sure that we are spending taxpayer money wisely. That is the purpose of this hearing, and I hope we are enlightened by what you have to say. Thank you for your preparation and thank you for coming.

Mr. TIERNEY. Thank you, Mr. Flake.

So the subcommittee will now receive testimony from the witness panel before us today. Before we start, I will introduce all of you, and then we will begin, going from my left to right.

Mr. Carl Conetta is the co-director of the Commonwealth Institute's Project on Defense Alternatives [PDA]. Since co-founding PDA in 1991, Mr. Conetta has authored and co-authored over 30 PDA reports and has published widely outside the Institute, including contributions to 10 edited volumes. Mr. Conetta also recently served as a member of the Sustainable Defense Task Force, and in this capacity contributed to the Task Force Report entitled, "Debt, Deficits, and Defense: A Way Forward," which represents a series of recommendations to reduce the budget of the Department of Defense by $960 billion.

Mr. Conetta has appeared extensively before Congress, the executive branch, and other governmental and non-governmental institutions, and has been interviewed by a range of major media outlets. He has also served as a consultant for the Council on Foreign Relations, the House Armed Services Committee, and the American Academy of Arts and Sciences. Before joining PDA, Mr. Conetta was a fellow at the Institute for Defense and Disarmament Studies, served as an editor of the South End Press, and taught for 2 years at the University of Connecticut.

Mr. Benjamin Friedman is a research fellow in defense and homeland security studies at the Cato Institute. He also served recently with Mr. Conetta as a member of the Sustainable Defense Task Force and contributed to the report. Mr. Friedman's areas of expertise include counter-terrorism, homeland security, and defense politics, with a focus on threat perception. He is co-editor of a book on the U.S. military innovations since the cold war, and his work has appeared in Foreign Policy, the San Francisco Chronicle, the Baltimore Sun, thewashingtonpost.com, Defense News, and several other newspapers and journals. Mr. Friedman holds a B.A. from Dartmouth College, and is a Ph.D. candidate in political science and an affiliate of the security studies program at the Massachusetts Institute of Technology.

Todd Harrison is a senior fellow for Defense Budget Studies at the Center for Strategic and Budgetary Assessments. He joined the Center in 2009 from Booz Allen Hamilton, where he supported cli-

ents across the Department of Defense, assessing challenges to modernization initiatives and evaluating the performance of acquisition programs. He previously worked in the aerospace industry, developing advanced space systems and technology, and served as a Captain in the U.S. Air Force Reserves.

Since joining the Center, Mr. Harrison has authored a number of publications, including the "Analysis of the Fiscal Year 2010 and Fiscal Year 2011 Defense Budget Request" and the "Impact of the Wars in Iraq and Afghanistan on the U.S. Military's Plans, Programs, and Budgets." He holds a B.S. and an M.S. in aeronauts and astronautics from the Massachusetts Institute of Technology.

Dr. Gary Schmitt is a resident scholar and director of the American Enterprise Institute's Program on Advanced Strategic Studies. His work focuses on long-term strategic issues that he believes affect America's security at home and its ability to lead abroad. Dr. Schmitt previously served as the staff director of the Senate Select Committee on Intelligence, and as the executive director of President Ronald Reagan's Foreign Intelligence Advisory Board.

In addition, Dr. Schmitt has served as the executive director at the project for the New American Century, as a consultant to the Department of Defense, a fellow at the Brookings Institution, and as a member of the research faculty at the University of Virginia. Dr. Schmitt has co-authored and edited several books and has published widely for scholarly journals, volumes, and newspapers in the areas of national security, foreign policy, and the American Presidency. He holds a B.A. from the University of Dallas and earned his Ph.D. from the University of Chicago.

Dr. Gordon Adams is a distinguished fellow at the Stimson Center and a professor of U.S. foreign policy at American University. Prior to that, he was the director of the Security Policy Studies Program at the Elliott School of International Affairs at George Washington University. He also previously served as the deputy director of the International Institute for Strategic Studies in London and as the Associate Director for National Security and International Affairs at the Office of Management and Budget as a senior White House budget official for national security.

He has been an international affairs fellow at the Council on Foreign Relations and received the Department of Defense Medal for Distinguished Public Service. Dr. Adams has published books, monographs, and articles, and has testified numerous times before Congress on Defense spending and national security issues. He received his Ph.D. in political science from Columbia University and graduated magna cum laude from Stanford University.

Again, I want to thank all of you for making yourselves available today and for sharing your substantial expertise.

It is the policy of this committee to swear you in before you testify, so I ask you to please stand and raise your right hands.

[Witnesses sworn.]

Mr. TIERNEY. The record will please reflect that all of the witnesses answered in the affirmative.

I remind all of you that your full written testimony will be submitted in the record and incorporated in it. We have allocated 5 minutes for each of you to give us an opening statement, synopsizing your comments, if you would. The red light is the one to let

you know that your time is up. About a minute before then it will turn amber, giving you fair warning. For the first 4 minutes you get a green light going.

We are happy to do that. We are anxious to get to the point where we can have an exchange, so we invite your testimony, starting with Mr. Conetta, please.

STATEMENTS OF CARL CONETTA, CO-DIRECTOR, PROJECT ON DEFENSE ALTERNATIVES; BENJAMIN FRIEDMAN, RESEARCH FELLOW, CATO INSTITUTE; TODD HARRISON, SENIOR FELLOW, CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS; GARY SCHMITT, PH.D., RESIDENT SCHOLAR AND DIRECTOR, ADVANCED STRATEGIC STUDIES, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH; AND GORDON ADAMS, PH.D., DISTINGUISHED FELLOW, STIMSON CENTER

STATEMENT OF CARL CONETTA

Mr. CONETTA. Chairman Tierney, Congressman Flake, members of the committee, thank you for the opportunity to appear here today before you to discuss how we might put our security posture on a sustainable basis.

You have the report of the Sustainable Defense Task Force before you, I hope. I was one of the authors of that. We have recently prepared a short, one-page summary. You might also have that before you. There are a number of proposals outlined there. I am not going to examine them in detail. Maybe we will get into that during the question period. There is quite a bit there that is controversial. The proposals need your scrutiny, they need your criticism, and we can go into detail during the question period.

What I would like to do is say something about the concerns and the criteria that we used in developing those proposals.

We began our work with the recognition that today's financial crisis and great recession have altered the context in which all Federal policy must be assessed. For the formulation of security policy, there are now three relevant reference points: 11/9/1989, when the post-cold war era began; 9/11, when we were awakened to its full dangers; and 2007, when the financial crisis commenced. The last of these affects our security prospects in two ways: first, by weakening already troubled states, diminishing their capacities, while also adding to the store of human desperation and social and economic dislocation worldwide. This is a favorable context for the spread of extremist organizations.

Second, the crisis makes the future of our economic power and influence less certain. It weakens our foundation. Considering both the size and projected duration of our current national debt, we now carry a burden greater than at any time in living memory. Bringing it under control may require budget cuts of $300 billion a year, possibly even more. At the same time, interest payments on the debt will grow from 5 percent to 15 percent of the budget over the next decade. This pincer movement will constrain our capacity to meet program needs, as well as to meet emerging ones.

The challenge to the essentials of our national strength—our economy, our infrastructure, most of all our people—is real. As we

now turn to adjust priorities and get our financial house in order, what we need to keep foremost in our minds are those essentials. They are the foundation on which our national security establishment is built.

Looking back over the past 12 or so years, we can now say that our allocation of resources was premised in part on irrational exuberance, about available wealth, and about available credit. This left us less attentive to the cost/benefit balance when making investments.

In every endeavor, in every area of policy, there is a point of diminishing return. Beyond this, the benefit of investment declines and it becomes less assured. So how far do we push beyond that point, that point of diminishing return? That depends partly on how much wealth and credit we believe is at our disposal. It is that part of the equation that we got seriously wrong over the past 10 or 12 years, and it distorted our choices.

A proper appreciation of scarcity would have led us to different choices. Since 1998, U.S. defense spending has risen by about 96 percent in real terms. This has no precedent in all the years since the Korean War. The post-1998 defense boom is nearly as great as those enacted by Presidents Kennedy, Johnson, and Reagan combined, and only about half of the recent increase is due to our recent wars and contingency operations.

Whether one looks at the total DOD budget or just that portion not attributable to today's wars, U.S. defense spending is now stabilizing at levels significantly above the cold war peaks. Clearly, what has not occasioned this surge is a neck-and-neck race with a pure competitor. There is none. But what we have seen over the past 10 or 12 years—somewhat more, actually—is a substantial expansion in the goals, roles, and missions assigned to our armed forces.

Beginning at the end of the cold war, we pushed our armed forces to prepare for and conduct more types of missions and activities faster and more frequently across a broader expanse of the earth than ever before, and we set out goals that reached well beyond the traditional ones of simple defense and deterrence. We added various forms of preventative action; not only preventative war and regime change, but also greater reliance on our military to shape the strategic environment and transform entire nations.

In this light, it is not surprising that we have moved from spending only two-thirds as much as our adversaries during the cold war to spending more than twice as much today, and that discounts our war spending. Had President Reagan sought an advantage this great, he would have had to triple his budgets.

The spending balance reflects the fact that we enjoy abundant overmatch in the conventional realm. And one criteria that we employed in the report in coming up with our recommendations was to trade down some of this over-match.

Another step we took was to roll back some of the soft uses of our military power, so-called environment-shaping functions, where costs are high and payoff is indeterminate. What we focused on were the surge requirements for war in dealing with the conventional realm.

A different picture emerges when we survey our recent experience in large-scale counter-insurgency wars, Iraq, and Afghanistan. Rather than over-match, what we see is mis-match. The task force exempted war spending from its cut options. We didn't examine the money that is spend on war; we cordoned that off. And we pegged those spending cuts that we did propose, while some would directly affect the wars, those that would, we pegged to the wars winding down.

An example would be reductions in ground forces. Likewise, we cordoned off capabilities directly relevant the counter-terrorism, such as special operations forces and intelligence, although the latter, given recent news, may deserve a second look.

This doesn't imply that we support the wars in Iraq and Afghanistan or we oppose them. That wasn't our intention. We wanted to look at the long-term budget. However, some of our options do assume that in the long term we are not likely to repeat those experiences again.

The fabulous cost, the slow progress, and the uncertain outcome of recent efforts at regime change, armed nation building, and large-scale counter-insurgency make them a poor strategic choice. There are two parts to that conclusion: one, that it is a choice that we have made, and, two, that it is a bad one.

Those are some of the concerns, some of the criteria we brought to bear in developing the options. We can discuss others later.

I think really the most fundamental point we want to make is that we need to look at this budget with new eyes, and our principal concern cannot be about guns versus butter; our principal concern has to be refurbishing and preserving national strength. That has to be the criteria that we bring to bear in all of our decisions from this point forward.

Thank you very much.

[The prepared statement of Mr. Conetta follows:]

Written Testimony of
Mr. Carl J. Conetta
Project on Defense Alternatives

Rethinking our Defense Budget: Achieving National Security through Sustainable Spending

Before the
Subcommittee on Foreign Affairs & National Security
Committee on Oversight and Government Reform
United States House of Representatives

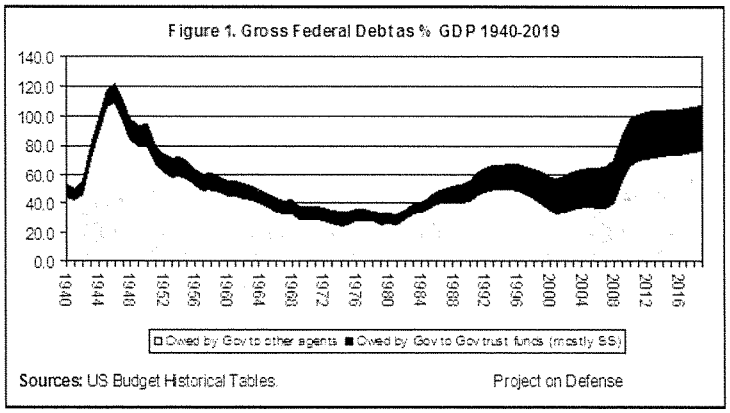
20 July 2010

Chairman Tierney, Congressman Flake, Members of the Committee, thank you for the opportunity to appear before you today to discuss with you the role of sustainable defense spending in achieving national security.

1. Introduction

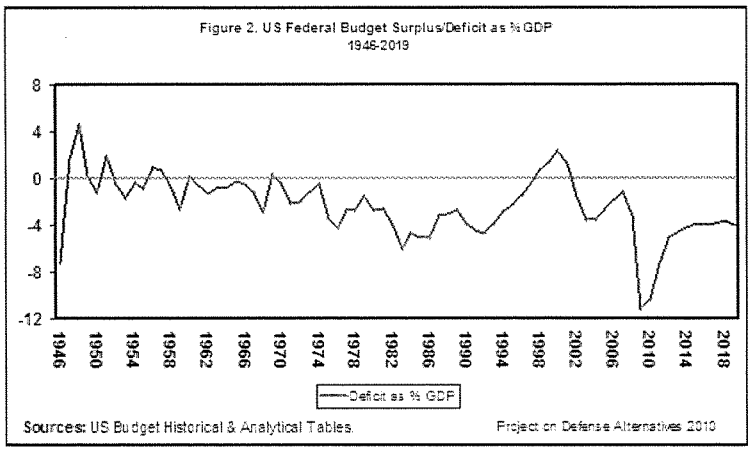
The process of rethinking our defense budget must begin with a recognition that the financial crisis and recession that commenced in 2007 has altered the context in which all federal policy must be assessed. In the area of national security, it is a development as portentous as the end of the Cold War and the events of 11 September 2001. This is because it – and the broader volatile process of globalization that conveyed and amplified it – bear critically on the preservation of American national strength for the long term. Looking 20 or 30 years into the future, America's economic power and influence is less certain today than just four years ago – as is the disposition of our greatest national security asset, our most powerful national security instrument: the US dollar.

Among the most salient effects of the recent crisis has been a sharp rise in the burden of public and national debt. Figure 1 shows the change in debt, actual and projected, as a percentage of Gross Domestic Product (GDP) for the 80-year period 1940-2019.



Of course, what feeds debt accumulation is deficit spending. Figure 2. shows deficit spending as a percentage of GDP for the years 1946-2019. The period 1996 through 2001 stand out as "golden years" during which distinct progress was made in reducing accumulated debt. Between 2001 and 2007 that progress was erased.

Subsequently, during the crisis years 2007-2010, falling federal revenues and efforts to repair the financial system and economy dramatically increased the debt/GDP ratio.



The most ready comparison to America's current circumstance are the years of the Second World War. Back then, the level of debt rose higher than it has today, but the period during which the burden exceeded 100% of GDP lasted only 4 years. Today, by contrast, it looks as though the period during which debt will equal or exceed 100% of GDP will last for more than twice as long.

If we think of the mid-1940s as representing "the Mount Everest" of US debt accumulation, then the period after 2008 would represent "the Tibetan plateau" (which is not as high as Everest, but far wider). This analogy falters only in that current spending plans entail continued modest growth in the national debt. The Obama administration is set on a path of post-crisis deficit spending comparable (on average) to that of the period 1982-1993. This reflects the administration's decision to combine higher levels of domestic spending with high levels of defense expenditure.

There is no firm consensus on the likely effect of current levels of debt, although concern tends to focus on a possible weakening of the dollar and a rise in interest rates and inflation. Clearly, other factors – such as international context -- also affect the equation. What is the overall level of debt in a society? How are borrowed funds being put to use? How close is the nation to full employment? How attractive to foreign investors are the alternatives to dollar-based investment? All these question matter in determining the effect of debt levels.

Figure 3. Change in US Federal Discretionary Spending 2001-2010
(billions of current dollars)

Agency	2001	2010	$ Change	% Change	% Share of Budget Increase
DoD incld war costs	316.3	693.42	377.13	119%	64.6%
(DoD w/o war costs)	316	531	215	68%	(36.9%)
Veterans Affairs	22.38	53.06	30.68	137%	5.3%
Health and Human Services	54.15	84.1	29.95	55%	5.1%
Homeland Security	16.05	43.28	27.24	170%	4.7%
State	7.77	29	21.23	273%	3.6%
HUD	28.36	43.58	15.22	54%	2.6%
Int'l Assistance Programs	12.59	23.4	10.81	86%	1.9%
Justice	18.4	27.65	9.25	50%	1.6%
Commerce	5.1	13.8	8.71	171%	1.5%
Agriculture	19.24	27.35	8.11	42%	1.4%
Transportation	14.68	21.78	7.1	48%	1.2%
Education	40.1	46.78	6.68	17%	1.1%
Energy	20.03	26.41	6.38	32%	1.1%
NASA	14.25	18.72	4.47	31%	0.8%
Other	22.77	26.61	3.84	17%	0.7%
Treasury	10.34	13.55	3.21	31%	0.6%
EPA	7.84	10.3	2.46	31%	0.4%
The Judiciary	3.99	6.44	2.45	61%	0.4%
National Science Foundation	4.43	6.87	2.44	55%	0.4%
Labor	11.96	14.27	2.31	19%	0.4%
Interior	10.27	12.15	1.89	18%	0.3%
Legislative Branch	2.85	4.73	1.89	66%	0.3%
Total Discretionary Authority	**664**	**1247**	**583**	**88%**	n.a.

Source: Office of Management and Budget, Historical Tables, Budget of the US Government, Fiscal Year 2011 (Washington DC: OMB, 2010), Table 5.4 Discretionary Budget Authority by Agency 1976-2015, p. 118

What can be said reliably is that when the level and duration of debt forecast by the administration are viewed together, they constitute a historically unprecedented situation for the United States. Similarly, our global context is new and changing rapidly. We are entering *terra incognita*. And this provides reason enough for caution.

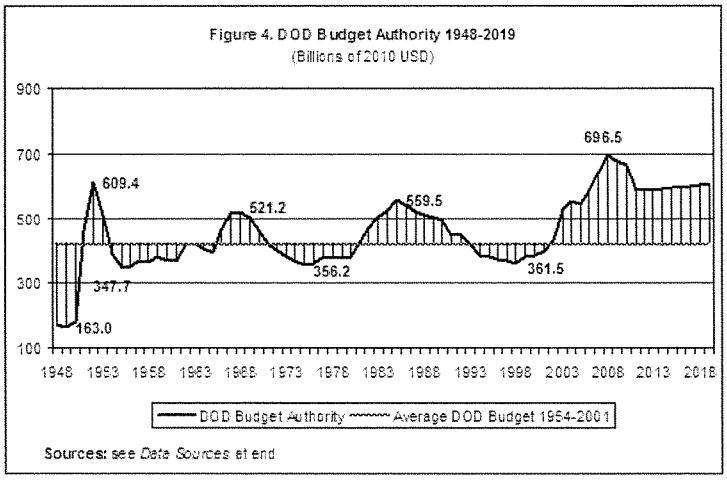
A moderate goal, once economic recovery is complete, would be to bring the level of deficit spending down below the growth rate of the economy so that the Debt/GDP ratio gradually declines. Depending on revenue and growth forecasts, this might

require federal spending cuts on the order of $200 b. - $300 b. per year. More would be needed should we want to accelerate debt relief.

A second certainty is that servicing the national debt will grow more costly as the debt grows in size and interest rates rebound. The President's FY 2011 budget foresees interest payments growing as a portion of all federal outlays from about 5% in 2010 to 15% in 2020. This, together with deficit reduction, will constrain our capacity to meet programmed needs and to deal with emerging challenges, such as rising health care costs, infrastructure recapitalization, energy independence, and global warming. An overarching challenge is to participate successfully and securely in an increasingly competitive and often volatile global marketplace. The depth of these challenges is sufficient to put the preservation of our national strength and vitality at issue. That is the touchstone, that is the caution that we must hold in mind as we turn to adjust our budget priorities.

2. Debt, Deficits, and Defense

The potential relevance of the defense budget to debt and deficit relief is obvious when we review discretionary spending over the past decade. Since 2001, annual discretionary spending rose $583 billion. As Figure 3. shows, defense spending is responsible for nearly 65% of this increase. Discounting the war budget, the "peacetime" or base defense budget accounts for nearly 37% of discretionary budget growth. (See Figure 3; page 3)



Taking a somewhat longer view, the rise in US defense spending since 1998 has no precedent in all the years since the Korean war. (Figure 4.) The DoD budget reached its post-Cold War ebb in 1998: $361.5 billion (2011 USD). Since then it has rebounded to $708 billion – a 96% increase. The portion of the 2011 budget request that is unrelated to contingency operations (the so-called "base budget") is $549 billion, which is 54% higher in real terms than in 1998.

Whether one looks at the total DoD budget, or just that portion not attributable to today's wars, US defense spending is now stabilizing at levels significantly above Cold War peaks (adjusted for inflation) and far above the Cold War average, in real terms. Measured in 2011 dollars, average DoD budget authority was:

- $430 billion for the period 1954-2001;
- $525 billion for the Reagan years; and,
- $503 billion for the Vietnam War "high tide" years 1966-1970.

The most ready explanation for the post-1998 spending surge is that it is due largely to post-9/11 military operations. In fact, these operations account for just 22% of the 2011 budget request and about 52% of the total increase in expenditures since 2001. Moreover, the wars themselves have been exceptionally expensive by historical standards. Measured in 2010 dollars,

- The Korean conflict cost $393,000 per person/year invested;
- The Vietnam conflict cost $256,000; and,
- The Iraq and Afghanistan commitments, $792,000 to date.

Rather than adequately explain the post-1998 spending surge, the high cost of recent military operations only adds to the explanatory burden.

Some insight into current cost drivers can be gleaned by comparing the recent surge in spending with two lesser ones that preceded it: the 1958-1968 surge of 43% and the 1975-1985 surge of 57%. The first of these involved the conduct of the Vietnam War and an effort to expand and transform the force. The second surge emphasized recapitalization and a modest increase in force size. Notably, the percentage rise in spending between 1998-2008 was nearly as great as both of these previous two surges combined.

This comparison illuminates one factor that distinguishes the post-1998 spending surge: *it reflects the combined effect of a major war effort and a major effort at force recapitalization.* During the Vietnam era, national leadership felt compelled to choose between the two.

A second contributing factor, especially pertinent to the high cost of operations in Iraq and Afghanistan, is that America's armed forces entered the new century ill-suited to fighting very large-scale and protracted counter-insurgency campaigns. Given the voluntary basis of today's armed services, long labor-intensive wars drive

personnel costs sharply upward, as DoD must bid higher and higher to recruit and retain personnel.

The high cost of today's military personnel also has led to increased dependence on contract labor. In 2009, the Central Command area hosted over 240,000 DoD contractors (compared to 280,000 military personnel supporting war operations there). This ratio of nearly one-to-one contrasts with a 5:1 ratio in Vietnam and 5:2 ratio in Korea. This means that today's wars are relatively larger than they seem. In fact, the combined total of military personnel and DoD contractors now operating in the CENTCOM area is just 17% less than the number deployed in Southeast Asia during the height of the Vietnam conflict.

To put this conundrum in more memorable terms: We have in recent years assumed military challenges and entertained military ambitions as great as those of Presidents Kennedy, Johnson, and Reagan combined. Moreover, we are attempting today to fight wars reminiscent of the conflict that bedeviled President Johnson – but to do so with armed forces whose cost dynamics more resemble those of the military that President Reagan built and commanded.

3. Strategic Choice and Consequences

Americans remain divided over the wisdom of the war in Iraq and the wisdom of the strategy employed in Afghanistan. But even among supporters, few seem eager to repeat the exercise elsewhere in the future. Can we draw a broader lesson from this? The fabulous cost, slow progress, and uncertain outcome of recent efforts at regime change, armed nation-building, and large-scale counter-insurgency make them a poor strategic choice, when other approaches are available for fighting terrorism and countering proliferation.

In the conventional realm, too, strategic choice has played a larger role than have hard-and- fast "requirements." This much is suggested by the fact that the post-1998 surge in the base budget was not accompanied by a neck-and-neck race with a peer competitor, but instead by a surge in America's share of world military spending. In 1986, US military spending was only 60% as high as that of its adversaries (taken as a group). Today, America spends more than two and one-half times as much as the group of actual and potential adversary states, including Russia and China.

Had President Reagan sought to achieve such a spending balance in the 1980s, he would have had to quadruple his defense budgets.

So are we simply in a race with ourselves? There is more to it than that. Beginning with the end of the Cold War, we have set goals for our armed forces that reach beyond the traditional ones of simple defense and deterrence. Sucessive *US Defense Reviews* have put increased emphasis on various forms of preventative action – not

only preventative war and regime change, but also greater reliance on our military to "shape the strategic environment" and stem the very emergence of threats. Today we should doubt the ability of these stratagems to deliver what they promise.

We also have asked our armed forces in recent decades to conduct more types of missions and activities, faster and more frequently, across a broader expanse of the earth. And we have asked the Pentagon to assume functions and "authorities" that once had been the sole province of the State Department.

Have these ambitions proved to be worth the candle? In answering this question, reasonable people can disagree. What should be beyond dispute, however, is the notion that the answer depends partly on the nation's economic circumstance at the time and on the challenges it faces in other areas of national strength. Our policy choices during the decade before the 2007 crash were conditioned by a sense of "surplus." We should now recognize this euphoric condition as having been based substantially on speculative growth, debt accumulation, or both. This is no longer sustainable. Looking forward, we need a new criterion.

4. Toward a Sustainable Defense

Putting America's defense policy on a more sustainable path depends on our willingness to:

- Rethink our national security commitments and goals to ensure they focus clearly on what concerns us the most;
- Reset our national security strategy so that it reflects a cost-effective balance among the security instruments at our disposal and uses those instruments in cost-effective ways; and
- Reform our system of producing defense assets so it provides what we truly need at an affordable cost.

One recent effort to do this is the 11 June 2010 report of the Sustainable Defense Task Force: "Debt, Deficits, and Defense: A Way Forward." The Task Force was formed earlier in the year to explore possible DoD contributions to deficit reduction that would not compromise the essential security of the United States. In accord with this goal, the group looked to identify:

- DoD programs that are based on unreliable or unproven technologies,
- Current military missions that exhibit a poor cost-benefit payoff,

- Service capabilities that fail the test of cost-effectiveness or that possess a very limited utility,
- Assets and capabilities that mismatch or substantially over-match current and emerging military challenges, and
- Opportunities for providing needed capabilities and assets at lower cost via management reforms.

Applying these criteria, the Task Force identified a series of options that, taken together, could save up to $960 billion between 2011 and 2020. The option set could be implemented in whole or part. Taken as a whole, it would entail:

- Reducing the US nuclear arsenal to 1000 warheads deployed on 160 Minuteman missiles and seven nuclear submarines,
- Bringing US military end strength down to 1.3 million full-time uniformed personnel – a reduction of approximately 200,000,
- Capping routine peacetime US military presence in Europe at 35,000 personnel and in Asia at 65,000, including personnel afloat,
- Reducing the size of the US Navy from its current strength of 287 battle force ships and 10 naval air wings to a future posture of 230 ships and 8 air wings,
- Rolling back the number of US Army active-component brigade combat teams from the current 45 to between 39 and 41,
- Retiring four of the 27 US Marine Corps infantry battalions along with a portion of the additional units that the Corps employs to constitute air-land task forces,
- Retiring three US Air Force tactical fighter wings,
- Ending or delaying procurement of a number of military systems – the F-35 Joint Strike Fighter, MV-22 Osprey, KC-X Aerial Refueling Tanker, and the Expeditionary Fighting Vehicle – and fielding less expensive alternatives,
- Reducing base budget spending on R&D by $5 billion annually,
- Resetting the calculation of military compensation and reforming the provision of military health care to save $115 billion in a decade,
- Implementing a variety of measures aiming to achieve new efficiencies in DoD's supply and equipment maintenance systems, and

- Setting a cost reduction imperative of $10 billion annually for command, support, and infrastructure expenditures.

A fuller presentation of these options can be found in the Appendix.

How would these savings effect the next decade's budgets? The administration's FY 2011 budget allocates 6.522 trillion "then year" dollars to the National Defense function (050) over the period 2011-2020. This would be approximately $6 billion in constant 2010 USD and would reflect a real increase of 13% across the period. By contrast, if fully implemented, the SDTF options would bring cumulative National Defense spending down to a little more than $5 trillion in 2010 USD, entailing a 2020 base budget that was 10% below today's in real terms.

Figure 5. Effect of SDTF Options on FY 2011-2020 National Defense Plan
(050 Budget w/o war cost in billions USD)

	10	11	12	13	14	15	16	17	18	19	20
Obama Current Dollars	555	574	592	607	624	643	659	677	696	715	735
Obama 2010 USD	555	565	571	586	601	608	610	615	619	623	627
SDTF 2010 USD		544	518	516	517	503	496	492	485	494	500

Sources for Figure 4: US Department of Defense (DoD), National Defense Budget Estimates for FY 2010 (Washington DC: US DoD, June 2009), Table 6-8 and Table 7-5; DoD, FY 2010 Budget Request Summary Justification (Washington DC: US Department of Defense, May 2009), Figure 1.1; US Office of Management and Budget, Analytical Perspectives, Budget of the United States Government: Fiscal Year 2010 (Washington: GPO, May 2009), Table 26-1.

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5. Appendix: SDTF Options in Great Detail

Strategic capabilities – save $195 billion over the coming decade

Options in this area would save nearly $195 billion during the next decade. The United States should act now to accelerate the drawdown of nuclear weapons to a level of 1,000 warheads deployed on seven Ohio-class submarines and 160 Minuteman missiles. This is more than enough to ensure deterrence. Shifting to a nuclear "dyad" of land- and sea-based missiles would provide an optimal balance between efficiency and flexibility.

Missile defense efforts should be curtailed to focus on those systems and those missions most likely to succeed and provide real protection for our troops in the field. And we should roll back nuclear weapons research and limit efforts to modernize the weapon infrastructure. This best accords with a reduced emphasis on nuclear weapons, the smaller arsenal, and the general trend of arms control efforts.

Conventional force structure – save $395 billion over the coming decade

No other nation or likely combination of nations comes close to matching US conventional warfare capabilities. Options in this area seek to match conventional force capabilities more closely with the actual requirements of defense and deterrence. These are the tasks most appropriate to the armed forces and most essential to the nation. Focusing on them helps ensure that America's investments are cost-effective. The options on conventional forces would save the United States almost $395 billion from 2011-2020.

Ground forces: The Task Force proposes capping routine US military presence in Europe at 35,000 personnel and in Asia at 65,000 troops – and then reducing some force structure accordingly. We can rely on our incomparable capacities for rapid deployment to flexibly send more troops and assets to these regions if and when needed. The TF also proposes rolling back the recent growth in the Army and Marine Corps as progress in winding down the Iraq and Afghanistan wars allows. This option views future conduct of protracted, large-scale counter-insurgency campaigns by the United States as strategically unwise and largely avoidable. Certainly, there are better, more cost-effective ways to fight terrorism.

Air forces: The experience of the United States in recent conventional wars, including the first two months of the Iraq conflict, show that we can safely reduce our tactical air power – both Air Force and Navy. The capacity of the US military to deliver weapons by plane or missile substantially overmatches existing and emerging threats. And the gap continues to grow. Also, entirely new capabilities, notably remotely piloted vehicles, are joining our air fleets in growing numbers. This option envisions a future air attack capability comprising between 1,600 and 1,750 Air Force, Navy, and Marine Corps fighter-attack aircraft and bombers in combat squadrons. Remotely-piloted vehicles would be additional.

Sea power: The United States can reduce the size of its Navy from the current fleet of 287 battle force ships to 230, although this will require using our naval power differently. Included in this fleet would be nine aircraft carriers.

This option would keep fewer of our war ships permanently "on station," partly by having them operate in smaller groups. It would put greater emphasis on surging naval power as

needed. The firepower of our naval assets has grown dramatically during the past 20 years. In this light, the smaller fleet that we propose can meet America's warfighting needs. The reduction in fleet size also reflects a smaller contingent of nuclear ballistic missile submarines, as proposed in the section on strategic capabilities.

Procurement

Regarding procurement, the options for saving $88.7 billion from 2011-2020 focus mostly on cancelling or reducing systems with long histories of trouble and cost growth, such as the MV-22 Osprey and the Expeditionary Fighting Vehicle. These embody all that is wrong with the acquisition process. The Task Force also includes the option of cancelling the F-35 Lightning and replacing it, for the time being, with advanced versions of aircraft already in service. Development of the F-35 is rapidly going the way of the F-22 Raptor: late, over cost, and less capable than promised. However, even if this aircraft performed according to specifications, it would not be needed in order for us to defeat current and emerging challengers. America's air forces are today the best in the world by a wide margin – not principally due to our technology, but instead due to the combination of technology, skill, training, morale, support, and coordination.

Research and development

Research and development has experienced more spending growth since 2001 than any other major DoD appropriation category. Today it stands at $80 billion annually – 33% above the Cold War peak in real terms. And yet, today, we face no competitor in military technology comparable to the Soviet Union. We seem increasingly in a race with ourselves. The results have been uneven in terms of producing affordable capabilities that serve the needs of war fighters, however. Individual efforts by the armed services and defense agencies are too often disjointed and seemingly at odds with each other. DoD needs to exercise more discipline in this area and Congress needs to exercise more oversight. The TF's modest proposal is that DoD set clearer priorities and seek $5 billion in savings per year or $50 billion during the coming decade.

Command, support, and infrastructure

The Task Force proposes that DoD seek more than $100 billion in savings over the next decade in the areas of command, infrastructure, maintenance, supply, and other forms of support. The Congressional Budget Office and the Government Accountability Office have both outlined a variety of measures to achieve savings in these areas by means of streamlining, consolidation, and privatization. Additionally, the reductions we have proposed in force structure and procurement will reduce the demand on support services and infrastructure (albeit not proportionately). The goal we have set for savings in these areas is only 15% as much as what we propose for force structure and procurement. This much should be easily in DoD's reach.

Personnel costs

Cost growth in military compensation and health care is a serious and increasing concern of military planners and leaders. Over the past decade personnel costs rose by more than 50% in real terms, while health care costs rose 100%. Secretary of Defense Gates recently described the problem as "eating the Defense Department alive."

The *Quadrennial Review of Military Compensation* has proposed that we recalibrate how military pay raises are set and that we increase health care fees and co-pays for some former military personnel between the ages of 38 and 65.5. The estimate for potential savings from such measures is $120 billion over the decade, assuming gradual implementation as the wars wind down. In our opinion, however, these options involve more than matters of simple economics. They can only go forward as part of a broader program of change.

We are a nation at war and these measures affect those who are making the greatest sacrifice. We have a responsibility to them and, thus, great care is due. If the rise in personnel costs has been extraordinary, so have been the demands placed on our military personnel. It is not simply war that bears down on them, but also the way we have conducted it. Some force utilization policies have been unwise and some personnel policies have been both unwise and unfair.

If cost growth in this area is to be addressed, it must be addressed as part of a new compact that relieves our military personnel of the undue burdens of routine "stop loss" orders and long, repeated war rotations. Compensation levels for those fighting overseas must be protected and health care for the injured improved. Finally, we must accept that if we are to deploy 175,000 active-duty troops to war (as we do today), then we cannot also maintain another 142,000 troops overseas doing other jobs. Fiscal realities and proper treatment of our military personnel demand that we make choices.

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Mr. TIERNEY. Thank you, Mr. Conetta.

Mr. Friedman, if you would.

STATEMENT OF BENJAMIN FRIEDMAN

Mr. FRIEDMAN. I also want to thank the chairman and the ranking member and the members of the committee for the opportunity to testify. I am especially pleased to be here with this distinguished panel, most of whom have been in this business since I was a kid or younger.

I want to make two main points today. First, substantially reducing military spending requires reducing the ambitions it serves. Second, a more restrained defense strategy would not only allow cost savings; it would actually improve our security.

I am agnostic as to whether our current defense budget is sustainable. I think many foolish things are sustainable, at least for a while. What I do believe is that it would be unwise to spend anything like the $549 billion that the administration requested in the base budget, a non-war budget, for fiscal year 2011.

I think there is no good reason we should now spend more on the non-war defense budget in real terms than we did in any year during the cold war. So I advocate a more modest defense strategy, one that I call restraint, because it starts with the assumption that power tempts us to take part in foreign troubles that we could and should avoid. Restraint means resisting that temptation. It would husband American power rather than dissipate it in pursuit of ideological and unreachable goals.

Restraint does not require cuts in military force structure and spending; it allows a less busy military could be a smaller and cheaper one.

Now, an alternative approach to saving on defense is to pursue the same ends more efficiently. Efforts to streamline the Pentagon's operations through acquisition reform, eliminating waste and duplication, or improving financial management might save some money, but these reforms have historically delivered few savings, probably because what seems inefficient from a business standpoint, whether it is maintaining essentially two Air Forces, keeping twice as many shipyards open as we need, or building gold-plated weapons systems is actually efficient in producing political goods, whether it is the service's preferences for weapons or jobs. So, rather than efficiency driving savings, I think spending cuts ought to drive efficiency.

Market competition encourages private organizations to streamline their operations, and, while no such pressure exists in government, by cutting the top line and forcing the services to compete for their budgets I think we can incentivize them to find some efficiencies themselves.

That said, I think it would be a mistake to take up the force structure reductions recommended in my written testimony without their strategic rationale. I think that would badly overburden the force, which would be unfair, without improving security.

So, as I suggested, the real driver of excessive defense spending is lack of prioritization, which is the essence of strategy. We spend too much because we choose too little. Unbalanced power and massive budgets have limited the need to choose among priorities. We

confuse the necessary with the desirable, our sympathies with the requirements of our safety. The truth is that the United States doesn't really have a defense budget. I think that adjective is wrong. I think our military force's size and composition now lack a meaningful relationship to the requirements of protecting Americans.

For example, our security no longer requires that we defend the European Union, which has a collective economy larger than our own, from Russia or its own dissolution. I think peace among European states is deep-seated. Russia, which now spends less on its aging military than we spend on researching and developing new weapons, alone, is not about to reclaim its Soviet empire, let alone threaten western Europe.

South Korea, likewise, long ago grew wealthy enough and then some to defend itself against the north. And neither do we need to defend Japan from China. I think history suggests that the likely result of withdrawing U.S. forces and commitments from Japan will be slightly higher defense spending in Japan and a stable balance of power in China, in large parts because they are separated by a decent-sized body of water. Those states don't have much to fight over today.

I also think there is little basis for the claim that you often hear that global trade depends on U.S. military deployments overseas. I think that theory is a little bit too esoteric to discuss briefly here, but I will say that the historical and theoretical case for it is thin. I think it exaggerates the fragility of global markets and trade and the economic impact that supply disruption in a particular region would cause here in the United States.

Nor is it wise, I think, to spend heavily on defense today to hedge against the rise of possible future challenges like China. The smaller military that I recommend would maintain a vast superiority over China and all other states for the foreseeable future, particularly at sea and in the air, but the best offense against an uncertain future is a prosperous economy unburdened by excessive spending and debt, which can finance a buildup of military capability if need be.

I will also say that counter-terrorism does not require great military spending. The military assets best suited to that are relatively cheap niche capabilities, UAVs, intelligence collectors, and special operations forces. The theory that we can only be safe by jihadists by occupying and ordering the states where they operate has been tested and proved prohibitively costly in blood and treasure. We have been reminded there that we lack the power to organize the politics of unruly foreign states, and evidence suggests, I think, that trying to do so makes us more likely to be a target of terrorism than prevent it. And so state building and occupations, I think, are a business that we should avoid once the current wars end, and that ought to drive down the size required of our ground forces.

So, to conclude, defining security so broadly is actually counterproductive. Our military posture and activism globally drag us into other's conflicts, provoke animosity, and prompt states to balance our power by arming, driving proliferation.

By capitalizing on our geopolitical fortune, we can safely spend far less. By avoiding the occupation of failing states and shedding

commitments to defend healthy ones, we can plan for fewer wards. By shedding missions we can cut force structure, reducing the number of U.S. military personnel and the weapons and vehicles we procure for them, particularly in the ground forces, and reduce operational costs.

My written testimony specifies the cuts I recommend to that end, and with that I will conclude and look forward to your questions.

[The prepared statement of Mr. Friedman follows:]

Testimony of Benjamin H. Friedman

Research Fellow in Defense and Homeland Security Studies, Cato Institute

Before the Subcommittee on National Security and Foreign Affairs, House Committee on Oversight and Government Reform

Military Restraint and Defense Savings

July 20, 2010

Chairman Tierney, Congressman Flake, and members of the Committee, thank you for the opportunity to testify.

My testimony elaborates on the portion of the Sustainable Defense Task Force report that my colleague Christopher Preble and I wrote: "A Strategy of Restraint Would Allow Even Greater Savings."[1] I first discuss that strategy and then the defense spending cuts that it allows.

Before doing so, let me first say that I am agnostic as to whether our current defense spending is sustainable. Many foolish things are sustainable, at least for a while. What I do believe is that it would unwise to spend anything like the $549 billion ($580, including mandatory spending and other agency spending generally counted as defense) that the administration has requested for non-war defense spending in fiscal year 2011. There is no good reason to spend more on the non-war defense budget in real terms today than we did in any year during the Cold War.

Arguments about defense spending are arguments about defense strategy. What you spend depends on what you think we ought to do militarily, which depends in turn on theories about what causes security. My argument here is that a far more modest strategy would better serve our security and allow a far smaller defense budget. That strategy is called restraint because it starts with the assumption that power tempts the United States to participate in foreign troubles that we should avoid.[2] Restraint means fighting that temptation. It would husband American power rather than dissipate it by spreading promises and forces hither and yon, drawing us into conflicts that need not be ours.

Restraint does not require cuts in military force structure and spending. It allows them. A less busy military could be a smaller and cheaper one. But though you can have restraint without savings, you cannot save much without restraint.

Substantially reducing military spending requires reducing the ambitions it serves. Efforts to increase the Pentagon's efficiency—through acquisition reform, eliminating waste and duplication, or improving financial management—might save a bit, but these hardy

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[1] *Debt, Deficits, and Defense: A Way Forward*, Report of the Sustainable Defense Task Force (June 11, 2010), http://www.comw.org/pda/.

[2] Eugene Gholz, Daryl G. Press, and Harvey M. Sapolsky, "Come Home, America: The Strategy of Restraint in the Face of Temptation," *International Security*, Vol. 21, No. 4 (Spring 1997): 5–48; Barry Posen, "The Case for Restraint," *The American Interest*, Vol. 3, No. 1 (November/December 2007): 7-17; Harvey M. Sapolsky, Benjamin H. Friedman, Eugene Gholz and Daryl G. Press, "Restraining Order: For Strategic Modesty," *World Affairs Journal*, Vol. 172, No. 2 (Fall 2009): 84-94. These ideas are radical today in Washington, but that is a new phenomenon. The restraint view is consistent with much realist thought, and until recently realists formed a large part of the American foreign policy community. George Kennan and Dwight Eisenhower would likely have agreed with much of what is proposed here. Kennan and other Cold War realists like Hans Morgenthau were themselves inheritors of a tradition of American foreign policy thought that runs back the nation's founders, who would recognize here a remnant of their belief that the duty of United States abroad is to be an example of liberal values, not their armed vindicator. From a broader intellectual and historical perspective, what is radical is the bipartisan belief that our military forces should serve a foreign policy built around the pretension that we are the world's indispensable nation, preventing all instability, protecting freedom everywhere, and guiding history.

perennials of defense reform have historically delivered few savings.[3] The near doubling in our military's cost in the last twelve years (adjusting for inflation and leaving out the wars) stems more from the proliferation of its objectives than from the way it is managed. We spend too much because we choose too little.

Rather than use efficiency gains to drive savings, we should cut spending to enhance efficiency. Market competition encourages private organizations to streamline their operations. No such pressure exists in government, but cutting the top line and forcing the military services to compete for their budgets can incentivize them to find efficiencies.[4]

That said, it would be a mistake to take up the force structure reductions recommended here without taking up their strategic rationale. That course would save money. But it would overburden the force without improving security.

Strategic Overreach

The truth is that United States does not have a defense budget. The adjective is wrong. Our military forces' size and composition lack a meaningful relationship to the requirements of protecting Americans. Unbalanced power and massive budgets limit the need to choose among priorities. We can confuse the necessary with the desirable.

Because it can evade choice, which is the essence of strategy, the Pentagon suffers from strategic incontinence. The U.S. military is supposed to be a tool to contain China; transform failed states so they resemble ours; chase terrorists; train various militaries to do so; protect sea lanes, keep oil cheap; democratize the Middle East; protect European, Asian, and Middle Eastern states from aggression and geopolitical competition that might require them to develop military power independent of ours; popularize the United States via humanitarian missions; respond to natural disasters at home and abroad; secure cyberspace, and more. The forces needed to accomplish this litany of aspirations can never be enough. Hence, neither can the defense budget.

Defining security so broadly is counterproductive. Our global military posture and activism drag us into others' conflicts, provoke animosity, prompt states to balance our power, and waste resources. Our military budget should instead be sized to defend us. That does not require $700 billion a year—or anything close. By capitalizing on our geopolitical fortune, we can safely spend far less.

Our principal enemy, al Qaeda, has no army, no air force and no navy. Some contend that we can be safe from al Qaeda and other jihadists only by occupying and transforming failed states where they seek haven. And so, countering terrorism is supposed to require

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[3] Secretary Gates' welcome initiative to increase the portion of the defense spending going to force modernization (which would not cut the bottom line) aims to shift $101 billion over five years, with two thirds of those savings coming from cuts in support and overhead. Those cuts amount to an average of $13 billion a year, less than 2.5% of this year's total request. That may be an ambitious estimate of what efficiency gains can yield.

[4] Harvey M. Sapolsky, "The Inter-Service Competition Solution," *Breakthroughs*, Vol. 5, No. 1 (Spring 1996):1-3.

something approaching global counterinsurgency, a permanent war. That claim does not bear scrutiny. Few failed states have provided havens for anti-American terrorists.[5] Even in Afghanistan during the 1990s, the supposed leading example of this phenomenon, the trouble was that the government allied with al Qaeda, not that there was no government. We have learned the hard way that trying to reorder these nations with military occupations tends to fail, despite great cost in blood and treasure. Experience tells us, in fact, that occupations can cause terrorism aimed at occupiers rather than prevent it.[6]

Hunting terrorists is primarily an intelligence and policing task. Military forces are useful in destroying well-defended targets. Terrorists are mostly hidden and lightly armed. The trick is finding them, not killing or capturing them once they are found. The military assets most useful for counterterrorism are relatively cheap niche capabilities: surveillance and intercept technologies, special operations forces, and drones.

Neither can state rivals justify our current military spending. North Korea, Iran, and Syria collectively spend roughly one sixtieth of what we spend on defense. They are local trouble-makers but have little or no capacity to strike American territory. We deter them from doing so in any case.

As for our potential great power rivals—Russia and China—we have no good reason to fight a war with either in the foreseeable future. And even if we did, both remain far inferior to us in military capability. That would remain the case even if the cuts proposed here were adopted. For example, even with the 10 percent reduction in research and development funding proposed here, the U.S. military would spend on research and development alone almost as much as Russia spends on its entire military.

Another argument for high military spending is that U.S. military hegemony underlies global stability. Our forces and alliance commitments dampen conflict between potential rivals like China and Japan, we are told, preventing them from fighting wars that would disrupt trade and cost us more than the military spending that would have prevented war. The theoretical and empirical foundation for this claim is weak. It overestimates both the American military's contribution to international stability and the danger that instability abroad poses to Americans.

In Western Europe, U.S. forces now contribute little to peace, at best making the tiny odds of war among states there slightly more so.[7] Even in Asia, where there is more tension, the history of international relations suggests that without U.S. military deployments potential rivals, especially those separated by sea like Japan and China, will generally achieve a stable balance of power rather than fight. In other cases, as with our bases in Saudi Arabia between the Iraq wars, U.S. forces probably create more unrest

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[5] Justin Logan and Christopher Preble, "Failed States and Flawed Logic: the Case against a Standing Nation-Building Office," Cato Institute Policy Analysis 560 (January 2006).
[6] Robert Pape, *Dying to Win: The Strategic Logic of Suicide Terrorism* (New York: Random House, 2005).
[7] Stephen Van Evera, "Primed for Peace: Europe After the Cold War," *International Security*, Vol.15, No. 3 (Winter 1990/91), pp. 7-57.

than they prevent. Our force deployments can also generate instability by prompting states to develop nuclear weapons.

Even when wars occur, their economic impact is likely to be limited here.[8] By linking markets, globalization provides supply alternatives for the goods we consume, including oil. If political upheaval disrupts supply in one location, suppliers elsewhere will take our orders. Prices may increase, but markets adjust. That makes American consumers less dependent on any particular supply source, undermining the claim that we need to use force to prevent unrest in supplier nations or secure trade routes.[9]

Part of the confusion about the value of hegemony comes from misunderstanding the Cold War. People tend to assume, falsely, that our activist foreign policy, with troops forward supporting allies, not only caused the Soviet Union's collapse but is obviously a good thing even without such a rival. Forgotten is the sensible notion that alliances are a necessary evil occasionally tolerated to balance a particularly threatening enemy. The main justification for creating our Cold War alliances was the fear that Communist nations could conquer or capture by insurrection the industrial centers in Western Europe and Japan and then harness enough of that wealth to threaten us—either directly or by forcing us to become a garrison state at ruinous cost. We kept troops in South Korea after 1953 for fear that the North would otherwise overrun it. But these alliances outlasted the conditions that caused them. During the Cold War, Japan, Western Europe and South Korea grew wealthy enough to defend themselves. We should let them. These alliances heighten our force requirements and threaten to drag us into wars, while providing no obvious benefit.

Another argument employed to justify our defense budget is that we must spend heavily on defense today to prepare for future rivals. But the best hedge against an uncertain future is a prosperous and innovative economy, unburdened by excessive debt and spending. Advocating substantial defense spending cuts does not require predicting that the current, historically-benign threat environment will never change.

Overview of Savings

Without an enemy like Nazi Germany or the Soviet Union—a great power rival with expansionist intent and capability—there is no justification for Cold War–level defense spending. We can save great sums and improve national security by adopting a defense budget worthy of the name. Our military superiority over all potential rivals is so substantial that even steeper spending cuts than those proposed here would not endanger it. As a rich state remote from trouble, we can take a wait-and-see approach to distant threats, letting our friends bear the cost of their defense. We should also stop confusing foreign disorder with foreign threats. We should retain the ability to participate in multilateral efforts to prevent humanitarian disasters, but we should not mistake this work for our defense.

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[8] Eugene Gholz and Daryl G. Press, "The Effects of Wars on Neutral Countries: Why It Doesn't Pay to Preserve the Peace," *Security Studies*, Vol. 10, No. 4 (Summer 2001): 1-57.
[9] Sapolsky et al., "Restraining Order," pp. 88-89.

Restraint means pulling our troops from Japan, Korea, and Europe and dropping our commitment to defend those nations. It means not only removing conventional forces from Iraq and Afghanistan but swearing off massive state-building missions. By avoiding the occupation of failing states and shedding commitments to defend healthy ones, we could plan for fewer wars. By shedding missions we can cut force structure—reducing the number of U.S. military personnel and the weapons and vehicles we procure for them. By cutting force structure and bringing back forces from overseas, we can reduce operational costs. The resulting force would be more elite, less strained and far less expensive.

The following proposals reduce defense spending by more than $1.1 trillion over ten years.[10] These reductions are conservative in two ways. First, in several cases we likely erred on the side of under-counting savings. Second, a strategy of restraint could allow deeper cuts. We could likely eliminate more procurement programs, spend less on researching and developing new weapons, close more bases, build less military housing, and close the geographic combatant commands. The cuts we suggest are not meant to preclude consideration of more.

Summary (in billions)

Description	**Savings**
Nuclear arsenal (warheads)	$100
Reduce the size of the Army	$220
Reduce the size of the USMC	$67
Cut Pentagon civilian workforce	$105
Build/operate fewer CVNs	$43
Operate fewer SSBNs	$4
Build/operate fewer SSNs and SSGNs	$34
Build/operate fewer DDGs	$28
Build/operate fewer LCSs	$11
Reduce expeditionary strike groups	$9
Cancel the MPF(F)	$17
Build/operate fewer Air Force fighters	$89
Cancel EFV	$11
Terminate V-22	$15
Missile defense	$60
Military pay and health care	$115
Maintenance and supply	$13
RDT&E	$70
Command, support, and infrastructure	$100
Total	**$1,111**

[10] Justin Logan, Charles Zakaib, Jaren Kuchta, and Hans Lango of the Cato Institute provided invaluable analytical support in the development of these proposals.

We would cut the ground forces most. With few conventional enemies and a disinclination for large-scale occupations, the Marines and Army would have far less to do. The Marines are cut less than the Army because we envision a military that typically comes from the sea and stays for a short period.

We propose reducing the Navy to eight carrier battle groups and six expeditionary strike groups. We would terminate the LCS program after four vessels and buy a low-cost frigate or corvette in its place. We would eliminate the maritime prepositioning force. The Navy we would maintain is plenty given the dearth of current naval challengers and the strike power provided by modern carrier air wings. As Secretary of Defense Gates has noted, no enemy, or foreseeable combination of enemies, has the capability to challenge even the smaller Navy we propose, on the seas or under them.[11]

We would eliminate six Air Force fighter wing equivalents. There are three reasons for this cut. First, the Navy already provides considerable airpower from the sea. Second, the precision revolution has greatly increased the destructive power of each airframe. Third, the Air Force lacks enemies that challenge its air superiority. Because we want an offshore posture rather than a forward defense, we retain our current bomber and refueling tanker procurement plans. We also maintain the Air Force's spending on unmanned aerial vehicles, given their flexibility.

The nuclear arsenal has been cut considerably since the end of the Cold war with no diminution of American security. Further cuts are warranted. We propose drawing down the arsenal to as few as 500 active, deployed warheads and altering the nuclear weapons force structure and support infrastructure accordingly.[12] Four to five ballistic missile submarines (SSBNs) would suffice to deter any leader foolish enough to contemplate a strike on the United States.[13] To make doubly sure, we would retain 150 Minuteman III Intercontinental Ballistic Missicles in the continental United States. The triad should become a dyad, with bombers out of the nuclear business.[14]

We would cut research and development spending by ten percent. A smaller force requires less research and testing to support it. But because this spending helps keep our military far ahead of rivals, we cut it less, as a percentage, than spending on operational force structure.

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[11] Robert Gates, "Navy League Sea-Air-Space Exposition ," National Harbor, Maryland, May 3, 2010, http://www.defense.gov/speeches/speech.aspx?speechid=1460.

[12] A recent article published by the chief of the Air Force Strategic Plans and Policy Division and two Air Force War College professors concludes that as few as 311 nuclear warheads would constitute an effective deterrent. James Wood Forsyth Jr., Col. B. Chance Saltzman, and Gary Schaub Jr., "Remembrance of Things Past: The Enduring Value of Nuclear Weapons," *Strategic Studies Quarterly*, Vol. 4, No. 1 (Spring 2010): 74-89.

[13] As currently configured, each SSBN carries 96 thermonuclear warheads (24 missiles, each with four warheads). Current plans call for reducing the number of warheads per missile to three.

[14] This proposal finds support in a report published by the Air Force Association's Mitchell Institute for Airpower Studies. Dana J. Johnson, Christopher J. Bowie, and Robert P. Haffa, *Triad, Dyad, Monad? Shaping the US Nuclear Force for the Future, Mitchell Paper 5* (Arlington VA: Mitchell Institute Press, December 2009).

Additional savings come from making national missile defense into a research program, rather than continuing the rush to deploy it for no clear benefit, stopping production of the Littoral Combat Ship, Expeditionary Fighting Vehicle and V-22 Osprey and reforming the provision of military pay and benefits.

Reductions in personnel spending are inevitably controversial. It is important to note that we are not advocating reductions in pay but slowing pay increases. We suggest limiting health care benefits only in the sense of raising co-pays and premiums to control TRICARE's cost. Such changes are more reasonable under the restraint strategy because it would reduce the burden on service-members by relaxing the pace of deployments and keeping most troops stateside.

Spending Cuts

1. Cut the nuclear weapons arsenal to 500 deployed warheads.
This reduction in the nuclear weapons arsenal would save at least $100 billion from 2011-2020.[15] Savings come primarily from reductions associated with the development and maintenance of warheads, though we include reductions in the number and character of delivery vehicles, especially the elimination of the manned bomber portion of the nuclear triad.[16] Savings from reducing the number of SSBNs from the planned 14 to six are shown below.

2. Cut the active-duty Army to approximately 360,000 personnel.
A reduction in the number of active-duty Army personnel from current legislated end strength of 547,400 would save $220 billion from 2011-2020. Our estimate of these savings draws on a 2009 CBO calculation that reversing the "Grow the Army" initiative, which added 65,000 troops to the Army, would save $88.7 billion over the next ten years.[17] We assume that our savings over the same ten-year period would be at least two and a half times the CBO estimate.

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[15] This is a conservative estimate that draws on a study by the Center for Strategic and Budgetary Assessments (CSBA). It is methodologically consistent with a proposal by the Sustainable Defense Task Force (SDTF). Actual savings are likely to exceed $10 billion per year. The CSBA study, which projected a nuclear arsenal of 1,050 warheads, calculates annual savings of $10.7 billion relative to the Bush administration's present and projected nuclear arsenal. Steven M. Kosiak, *Spending on US Strategic Nuclear Forces: Plans and Options for the 21st Century* (Washington DC: Center for Strategic and Budgetary Assessments, 2006). The SDTF report builds on this proposal, identifying additional savings of $650 million per year by including additional cuts in the Ohio-class submarine fleet; canceling the planned purchase of Trident II missiles and planned upgrades for nuclear cruise missiles; eliminating operations and maintenance costs for the bomber leg of the nuclear triad; and foregoing the costs to upgrade the F-35 Joint Strike Fighter to carry nuclear weapons. *Debts, Deficits, and Defense: A Way Forward*, pp. 14-15.

[16] Manned bombers, chiefly B-52s and B-2s, would be maintained for their long-range conventional strike capabilities.

[17] Congressional Budget Office, *Budget Options: Volume 2*, Pub. No. 3191, August 2009, p. 7. Our estimates of savings from Army and Marine Corps reductions are conservative. Given trends in the cost of compensation and health care, Defense Department projections of Total Obligational Authority for the Army and Marine Corps during 2011-2015 are unrealistic.

3. Cut the size of the Marine Corps to approximately 145,000.
This reduction in the size of the Marines would save $67 billion from 2011-2020. Personnel reductions would occur over a ten-year period, approximately 3.5 percent each year. We arrived at this estimate by modifying the CBO projections for the Army.

4. Reduce the number of Navy aircraft carriers to eight and reduce naval air wings to seven.
A reduction in the total number of carriers from twelve to eight would save $43 billion from 2011-2020. Current Navy plans call for 12 carriers by 2020.[18] The Navy would continue production of the new Ford Class CVN 78, which will be deployed in 2015.[19] Canceling procurement of CVN 79 and all future Ford Class CVNs would save $16 billion in planned procurement through 2020 (approximately $7 billion for CVN 79 and $9 billion for CVN 80). Decommissioning the Nimitz, Eisenhower, and Vinson (along with the Enterprise) would save at least $5 billion over 10 years in reduced operations and maintenance (O&M) costs, including associated air wings. A further $12 billion would be saved in foregone procurement of 60 F-35 Joint Strike Fighters, assuming a 50 percent replacement of F/A-18s with JSFs for each carrier eliminated. Associated reductions in personnel would save $10 billion.

5. Operate fewer ballistic missile submarines.
Continued reductions in the nuclear arsenal allow for commensurate reductions in delivery vehicles and platforms. Operating fewer ballistic missile submarines would save $4 billion from 2011-2020. The annual O&M cost for each SSBN is at least $60 million.[20] Cutting eight SSBNs would save $3 billion over ten years. The associated personnel savings would be $1 billion. The Pentagon is not planning to build new SSBNs in the next ten years. Therefore no additional savings come from procurement.

6. Build and operate fewer tactical submarines (SSNs/SSGNs).[21]
Reducing the number of tactical submarines would save $34 billion from 2011-2020. Current plans envision the number SSNs declining to 40 ships by 2028. The Navy can reach 40 in 2020 by slowing the rate of procurement from two to one ship per year. Thus, instead of spending $5.8 billion per year, we could spend $2.9 billion per year, saving $29 billion in procurement and $1.5 billion in O&M over 10 years. Eliminating the four active guided missile submarines would save a further $1.8 billion in O&M. The additional savings from reductions in personnel would be $1.5 billion.

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[18] U.S. Navy projections taken from Ronald O'Rourke, *Navy Force Structure and Shipbuilding Plans: Background and Issues for Congress*, Congressional Research Service Report RL32665, December 22, 2009.
[19] Ronald O'Rourke, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, Congressional Research Service Report RS20643, December 22, 2009.
[20] Costs for O&M were derived from the U.S. Navy's 1996 Visibility and Management of Operating and Support Costs (VAMOSC) database, which were inflated using metrics from the National Defense Budget Estimates for FY 2011 (Green Book), published by the Department of Defense. Many thanks to Charles Knight for his work on these figures. All naval O&M figures were calculated by this method.
[21] Ronald O'Rourke, *Navy Attack Submarine Procurement: Background and Issues for Congress*, Congressional Research Service Report RL32418, December 22, 2009.

7. Build and operate fewer destroyers.[22]
We would save $28 billion from 2011-2020 by reducing the number of destroyers that the Navy builds and operates. This reduction is accomplished by maintaining the number of DDG-51s at the current level of 62 and canceling the DDG-1000 program. The Navy has proposed stopping production of the DDG-1000 at three and building 11 or 12 new DDG-51s, which cost about $1.85 billion each. The savings from avoiding production of 12 more DDG-51s are at least $22.2 billion, plus $3.3 billion in associated O&M costs, and $2.5 billion from personnel reductions.

8. Build and operate fewer Littoral Combat Ships.
The Navy should halt the Littoral Combat Ship (LCS) program and consider buying a less expensive class of frigates or corvettes. Besides the four LCSs already or almost completed, the Navy plans to build about 24 in the next 10 years, at an average cost of $550 million each. Forgoing these vessels would thus save $13.2 billion over the next 10 years, plus $3.1 billion in associated O&M costs. The Navy could instead refurbish 14 Perry class frigates by 2020, at a cost of roughly $100 million each.[23] After subtracting the costs of refurbishing and retaining the frigates and the additional personnel costs they require, net savings would be $11 billion over ten years.[24]

9. Reduce the number of Marine Corps expeditionary strike groups.
A reduction in the total number of Marine Corps expeditionary strike groups from ten to six would save $9 billion from 2011-2020. Reducing the number of strike groups to six would save $4.3 billion in O&M over ten years. These reductions are consistent with cuts to the Marine Corps end strength cited above. Associated naval personnel cuts would total $4.9 billion.

10. Cancel the Maritime Pre-positioning Force (Future).
According to the CBO, canceling the Maritime Pre-positioning Force (Future) program would save $17.3 billion over 10 years.[25] The Navy would maintain sufficient Marine supply ships overseas. If necessary it can lease ships, as it has in the past.

11. Build and operate fewer Air Force fighters.
The Air Force should eliminate six fighter air wing equivalents, saving $89 billion from 2011-2020. The drawdown would be accomplished by accelerating the retirement of aging airframes, especially F-15s and F-16s, and purchasing 301 fewer F-35s than

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[22] For background on these programs, see Ronald O'Rourke, *Navy DDG-51 and DDG-1000 Destroyer Programs: Background and Issues for Congress*, Congressional Research Service Report RL32109, December 23, 2009.
[23] Navy plans call for removing the 30 remaining Oliver Hazard Perry Class frigates by 2020. On the cost of refurbishment, see "News Release: Pakistan – Refurbishment of Oliver Hazard Perry Class Frigate," Defense Security Cooperation Agency, February 19, 2010, www.dsca.osd.mil/PressReleases/36-b/2010/Pakistan_09-28.pdf.
[24] The Perrys typically require 200 men. LCS is supposed to deploy with fewer than 100 sailors. Net savings from foregoing construction of the LCSs and the refurbishment of the frigates total $12.3 billion, minus $1.6 billion in additional personnel costs.
[25] *Budget Options: Volume 2*, p. 13.

currently programmed.[26] The estimated cost per new aircraft is $200 million, which translates into $60 billion in reduced procurement expenses, plus $29 billion in reduced personnel and O&M expenses.

12. Cancel the Expeditionary Fighting Vehicle.
Existing platforms, including the Assault Amphibious Vehicle 7A, are suitable in the highly unlikely event that the United States wished to deploy Marines via amphibious operations on a hostile shore. This option would save the approximately $11 billion needed to complete the program and purchase 573 units.[27]

13. Terminate the V-22 Osprey.
The Marine Corps should stop buying V-22 Ospreys, saving the $23 billion needed to finish procurement.[28] For troop and material transport, the Marines should instead rely on proven, rotary-wing aircraft with more lift, such as the MH-60 and the CH-53. Including the cost of replacement vehicles, total savings for the elimination of the V-22 Osprey program is $15 billion over the ten year period.

14. Make national missile defense a research program.
Our realignment of the missile defense program would save $60 billion from 2011-2020. The FY 2011 budget request includes $9.9 billion for missile defense. This change shifts missile defense programs away from procurement and towards research and development and cancels components with excessive cost overruns. Assuming that DoD plans to spend an average of $9 billion annually over the next ten years, reducing spending to $2 to $3 billion annually would save at least $60 billion over ten years.[29]

We support continued funding for the Patriot and Aegis missile defense systems, which are funded primarily by the Army and Navy, respectively.

15. Cut the Pentagon civilian workforce.
A smaller military requires fewer civilian support personnel. We propose reducing the Pentagon civilian workforce by nearly a third, saving $105 billion over ten years. Most of the cuts could be achieved through attrition. The Government Accountability Office estimated in 2009 that more than half of DoD's civilian workforce eligible to retire in the next few years.[30] The civilian workforce will total 789,000 in FY2011 at a cost of $77.07 billion. Reducing the civilian payroll by 30 percent over a ten-year period would save

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[26] For current Air Force plans, see "2010 United States Air Force Posture Statement," Department of the Air Force, February 9, 2010, http://armed-services.senate.gov/statemnt/2010/03%20March/Donley-Schwartz%2003-04-10.pdf.
[27] Government Accountability Office, *Defense Acquisitions: Assessments of Selected Weapon Programs*, GAO-10-388SP, March 2010, p. 61.
[28] Ibid., p. 131.
[29] CBO has analyzed canceling programs including the Far-Term Sea-Based Terminal Defense, Sensor Development, Missile Defense Space Experimentation Center, and Special Programs *Budget Options, Volume 2*, p. 21. That reduction would save $11.25 billion over the next five years and $40.09 billion over the next ten.
[30] Government Accountability Office, *Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan*, GAO-09-235, February 2009, p. 1.

approximately $105 billion. This estimate mirrors larger reductions in personnel made between 1991 and 2001, when civilian manpower was reduced by roughly 35 percent and civilian compensation declined by roughly 25 percent.

16. Reform the calculation of military compensation and restructure health care benefits.[31]
Elements of military compensation, including tax advantages and housing allowances, are not now included in the pay raise calculations pegged to changes in the civilian sector.[32] We propose changing this. Phasing in this change from 2011–2020 would save $55 billion.

Premiums for DoD's health care system, TRICARE, have not risen since the program's inception.[33] Lower premiums encourage many working-age military retirees to choose TRICARE instead of health coverage available through their employer. According to a June 2009 CBO report, reform of TRICARE could save more than $60 billion over the 2011–2020 period.[34]

17. Reform DoD Maintenance and Supply Systems.[35]
By reforming DoD maintenance and supply systems, the military could save $13 billion over 10 years. Reforms include consolidating DoD retailing, changing DoD's depot pricing structure for equipment repairs, and easing restrictions on depot maintenance contracting.

18. Reduce RDT&E (Research, Development, Test and Evaluation) expenditures by 10 percent.
Over the period FY 2011-2015, DoD plans to spend an average of $72.9 billion annually on RDT&E. The Pentagon should reduce total RDT&E spending by ten percent annually, generating at least $70 billion in savings over ten years. Given our weak rivals, the reduced spending levels far exceed what is required to maintain the U.S. military's qualitative superiority for the foreseeable future. Additional reductions in RDT&E are captured above in changes to, or cancellations of, specific programs.

19. Reduce expenditures on Command, Support, and Infrastructure.[36]

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[31] *Debts, Deficits, and Defense: A Way Forward*, p. 26. On other proposals for reforming military pay and benefits, see Cindy Williams, ed., *Filling the Ranks: Transforming the U.S. Military Personnel System*, (Cambridge, MA: The MIT Press, 2004).
[32] *Report of The Tenth Quadrennial Review of Military Compensation, Volumes I & II* (Washington DC: Department of Defense, Undersecretary of Defense for Personnel and Readiness, February 2008, July 2008).
[33] From 1995 to 2009, the TRICARE program saw no increases in co-pays. The Pentagon has regularly called for such increases, but Congress routinely rejects them. Tom Philpott, "Gates: Retiree TRICARE Fees Should Rise," Military.com, April 16, 2009, http://www.military.com/features/0,15240,189145,00.html.
[34] Congressional Budget Office, *The Effects of Proposals to Increase Cost Sharing in TRICARE*, Pub. No. 3201, June 2009. Note that here, some of DoD's savings are being shifted to the private sector.
[35] Taken from *Debts, Deficits, and Defense*, p. 27. See also *Budget Options, Volume 2*, pp. 28-33.
[36] Taken from *Debts, Deficits, and Defense*, p. 27.

If the cuts listed above are implemented, the portion of the DoD budget that funds headquarters, central support, infrastructure, and other defense-wide programs should also be reduced. Less force structure and personnel require less infrastructure and support. Assuming these reductions to be 2 percent of the non-war budget, approximately $10 billion per year, this would add to $100 billion in savings for the 2011–2020 period.

Mr. TIERNEY. Thank you very much.

Mr. Harrison.

STATEMENT OF TODD HARRISON

Mr. HARRISON. I would like to thank the subcommittee for the opportunity to share with you some of my thoughts on rethinking the defense budget.

I have organized my remarks into five potential areas of savings which address many of the options that are presented in the report of the Sustainable Defense Task Force.

The first two areas, achieving greater efficiencies and refocusing on the core business of defense, are changes that do not affect the size, composition, or capabilities of the military, and the savings in these areas are quite modest.

Three other areas of savings—reforming the military personnel system, reforming the acquisition system, and altering the force structure—have the potential to yield much greater savings, but they involve more substantive changes in the missions and capabilities supported by DOD.

The first area is achieving greater efficiencies. The Pentagon has again renewed its efforts to reduce waste and achieve greater efficiencies, with Secretary Gates' speech last May directing the services to take an unsparing look at how they operate. Undersecretary Carter has followed up with some specific proposals. Many of these proposals are things that have been tried in the past with various degrees of success. And, while working to achieve greater efficiencies should always be a goal of the department, efficiencies alone are not likely to result in the magnitude of savings needed over the coming decade. As Undersecretary Hale noted in a 2002 report on promoting efficiency in DOD, keep trying but be realistic.

The second area of savings is refocusing on the core business of defense. Many programs and activities that are funded within the Defense budget stray far from DOD's core mission: to deter war and to protect the security of our country. The task force recommends combining the military exchanges and commissaries to achieve savings. I will go one step further and ask why should DOD be operating a chain of retail stores at all? The exchanges and commissaries are an artifact of a bygone era and could be closed or sold to a private operator.

Another activity outside the core business of defense that the task force did not address is the DOD-funded and-operated primary and secondary school system within the United States. I should note the that I am only talking about DOD's schools within the United States, not the schools that DOD operates in foreign countries around the world where military families would likely not have access to an American style school otherwise.

In the United States, though, education has primarily been the responsibility of the States. DOD notes in its annual report on these schools that the U.S. schools date back to the time of a frontier Army post when, "adequate public education was not available in the local area." This is no longer the case in the seven States where these schools are located, and since K–12 education is not core to the business of defense, DOD should transfer these schools, either to the States in which they reside or to the Department of

Education. The resulting savings in the defense budget could total some $750 million annually.

The third area of savings I would like to address is reforming the military personnel system. DOD is the single largest employer in the United States. It accounts for 51 percent of Federal workers and employs more people than Wal-Mart and the Post Office combined. Therefore, any changes to military pay and benefits have a profound and lasting effect on the Federal budget.

Since fiscal year 2000, total military personnel and health care costs per active duty troop has risen 73 percent in real terms. What is most concerning is that the cost structure within the military compensation system has grown out of balance. For the Department of Defense, 52 percent of total compensation goes to non-cash and deferred benefits, compared to an average of 29 percent in the private sector. And, just as some private companies have been struggling to remain competitive under the heavy burden of excessive labor costs, so, too, will the Department of Defense struggle in the years ahead to maintain its force structure if labor costs are not brought back into balance.

The task force makes several good proposals in this area, calling for changes to the way pay raises are calculated, and raising the enrollment fees military retirees pay for TriCare.

What the task force doesn't address are problems with the military retirement system. DOD currently uses a cliff vesting retirement system, where benefits only become effective after 20 years of service. This system creates distorted incentives, because it encourages personnel nearing the 20-year mark to stay on duty, even if only for the purposes of attaining the benefit, and after 20 years, when personnel are often in their early 40's, the incentive sharply reverses, encouraging personnel to retire early, since they can continue making 50 percent or more of their military pay while simultaneously drawing full pay at a civilian job.

For ways to reform the military retirement system, I would draw your attention to the 10th quadrennial review of military compensation. One of the most attractive options this report proposes is to transition from the current defined benefit plan to a defined contribution plan, more like a 401(K), just as many businesses and State governments have done.

The fourth area of savings is reforming the acquisition system. I would divide acquisition reform into two areas: reforming what DOD buys and reforming how DOD buys. Eleven of the nineteen options in the task force's report fall into the category of reforming what DOD buys. It is true that cutting acquisition programs can yield some of the greatest savings, but such decisions should not be based on budget considerations, alone. They should consider which missions and capabilities DOD no longer needs to support and what the effect will be on the industrial base.

The task force does not address the issue of reforming how DOD buys things; that is, the acquisition process, itself.

I would draw your attention to one issue, in particular, and that is too many requirements being piled onto weapons systems. Many different organizations within the department have a role in the requirements process, ranging from the Joint Requirements Oversight Council, the JROC, to the various organizations within OSD

that review and approve programs as they pass through acquisition milestones. Yet, few of the organizations that have the power to add, modify, or otherwise influence requirements also have the responsibility to fund progress. Creating a better organizational alignment between those who set requirements and those who budget for programs would reduce the incentive to add the kinds of exquisite requirements that drive-up costs and stretch out schedules.

The fifth and final area of savings I would like to address is altering the force structure. The task force recommends several changes to the force structure, including reducing U.S. troops in Asia and Europe by one-third and rolling back the size of the Army and the Marine Corps to pre-2007 levels. If the primary intent of these measures is simply to reduce personnel costs, the department would be better served in the long run by first tackling the underlying labor cost structure and only then adjusting the size of the force as necessary. Again, such decisions should not be based on budgetary factors, alone. They should be informed by a realistic assessment of future threat environment and a determination of where the department is willing to take risk, a strategic approach.

In conclusion, I would like to note that, while a declining defense budget would force the Department to make many difficult decisions, it also presents an opportunity. It is an opportunity to transform the military into a more efficient and effective force.

Ironically, the rapid rise of the base defense budget over the past decade may have prevented the department from transforming because it allowed the services to continue funding existing programs and not fully commit to transformation, but the era of constrained resources that is now upon us may finally force the services to make the difficult choices that are necessary to create a more efficient and effective military.

Thank you.

[The prepared statement of Mr. Harrison follows:]

Evaluating Options for a Sustainable Defense

Testimony Before the

U.S. House of Representatives

Subcommittee on National Security and Foreign Affairs

Committee on Oversight and Government Reform

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Introduction

As the economy struggles to emerge from the deepest recession since the Great Depression, the federal government faces a dire fiscal situation. The budget deficit is projected to reach as high as $1.6 trillion in FY 2010 due in no small part to increased spending on fiscal stimulus programs and a sharp reduction in tax revenues due to the recession. But underlying the current fiscal situation is a structural deficit that the economic downturn only exacerbated. A telling indicator of this is that one of the fastest growing items in the budget is net interest on the national debt. Given current projections, before this decade's end the federal government will spend more on net interest payments than on national defense for the first time in modern history. And as Congress and the administration focus more attention on reducing the deficit, all areas of the budget, including defense, will come under increasing pressure.

The following pages review five areas of potential savings in the defense budget, addressing many of the options presented in the report of the Sustainable Defense Task Force. The first two major areas of savings, achieving greater efficiencies and refocusing on the core business of defense, are changes that do not affect the size, composition, or capabilities of the military. While the savings from these areas would be relatively modest, they should be explored first before delving into more substantive changes to the Department. The three additional areas of savings reviewed are reforming the military personnel system, reforming the acquisition system, and altering the force structure. While these areas have the potential to yield much greater savings, they involve changes in the missions and capabilities supported by the Department and should consider factors beyond the budget.

Achieving Greater Efficiencies

The first area of savings to explore is achieving greater efficiencies in how DoD spends its money—in other words, getting the same or greater capabilities with fewer resources. As both Secretary Gates and his predecessor have pointed out, there are certainly wasted and misdirected resources within the Pentagon's budget. And it is prudent to search for and root out waste at all times, not just when budgets are tight.

In recent months, the Pentagon has renewed its efforts to reduce waste and achieve greater efficiencies in several ways. Secretary Gates, in his May speech at the Eisenhower Library, directed the military services to take an "unsparing look at how they operate" in order to reduce overhead and support costs.[1] While Secretary Gates acknowledged that he was not the first to attempt to cut DoD's overhead costs, what distinguishes his approach is that he plans to allow the Services to keep whatever savings they are able generate by reinvesting those dollars in their modernization accounts. While this does not reduce the overall budget, providing this incentive motivates the Services to look hard and dig deep to find efficiencies.

[1] Robert Gates, *Remarks at the Eisenhower Library* (May 8, 2010). Accessed at http://www.defense.gov/speeches/speech.aspx?speechid=1467.

Undersecretary Carter followed up weeks later with an address to leaders in the defense industry and a memo to acquisition professionals. In the memo, he says that DoD must "abandon inefficient practices accumulated in a period of budget growth." He goes on to say that about one-third of the savings they envision will come from eliminating programs and activities that are no longer needed, and the remaining two-thirds will come from greater efficiencies within programs and activities that are needed.[2] Many of the specific proposals put forth to achieve greater efficiencies, such as leveraging competition, involving small businesses, and stabilizing production rates, are things that have been tried in the past to various degrees of success. One of the proposals he includes which has the potential to achieve significant cost savings is to limit the use of award fee contracts. According to the GAO, award fee contracts have a history of paying out high levels of award fees regardless of the performance of contractors—a practice akin to grade inflation.[3] Reducing or eliminating the use of these types of contracts could reduce costs by lowering profit margins on some programs.

While working to achieve greater efficiencies should always be a goal of the Department, efficiencies alone are not likely to result in the magnitude of savings needed over the coming decade. Moreover, similar efforts in the past have had a mixed record of success with results often far below expectations. Robert Hale, now serving as Under Secretary of Defense (Comptroller), noted in a 2002 report:

> The efficiency savings achieved in recent years appear to be modest compared with the size of the defense budget and fall well short of the tens of billions of dollars in savings some past studies have suggested might be possible. Nor have efficiencies halted the growth in operating costs. After adjusting for changes in force size and inflation, day-to-day operating costs have consistently and persistently increased for decades.[4]

This should not serve as an excuse to forego efforts to achieve greater efficiencies but rather as a warning that the Department cannot rely solely on efficiencies and must also pursue additional options.

Refocusing on the Core Business of Defense

The second area of savings to explore is reducing, eliminating, or transferring programs and activities that are not part of the core business of defense. DoD's mission is "to provide the military forces needed to deter war and to protect the security of our country."[5] Yet many programs and activities funded within the DoD budget, including some items that have long been

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[2] Ashton Carter, *Memorandum for Acquisition Professionals* (June 28, 2010).
[3] GAO, *DoD Acquisitions: Contracting for Better Outcomes* (Washington DC: GAO, September 7, 2006) p.7. Accessed at http://www.gao.gov/new.items/d06800t.pdf.
[4] Robert Hale, *Promoting Efficiency in the Department of Defense: Keep Trying, But Be Realistic* (Washington DC: CSBA, January 2002) p. i. Accessed at http://www.csbaonline.org/4Publications/PubLibrary/R.20020125.Promoting_Efficien/R.20020125.Promoting_Efficien.php.
[5] DoD mission statement as listed on the main DoD web site, Defense.gov, accessed at http://www.defense.gov/admin/about.html.

part of the defense budget, stray far from that mission. Three areas in particular that should be examined are the military exchanges, commissaries, and DoD primary and secondary schools in the United States.

DoD funds and operates three separate military exchanges (the Army and Air Force Exchange, the Navy Exchange, and the Marine Corps Exchange) which are essentially retail stores offering a wide array of consumer goods and services, similar to a Wal-Mart or Target but located on a military installation. The first exchanges were established more than a century ago to provide troops and their families with an affordable retail outlet in locations where little else existed. However, with the increasing availability, accessibility, and competitiveness of low-cost, private-sector retail chains both within the United States and around the world, there is no longer a compelling justification for maintaining DoD's network of exchanges. The Sustainable Defense Task Force's recommendation, which follows a budget option outlined by the CBO last year, is to consolidate the three exchanges into one organization and require it to pay all of its operating costs from sales revenue for a projected savings of $200 million annually. DoD should also consider simply eliminating the exchanges or selling them to a private operator since operating a chain of retail stores is far outside the core business of defense.

DoD also funds and operates a chain of grocery stores, known as commissaries, which sell food and other household goods at or below market prices. These stores date back to 1825 when Army posts began allowing officers to purchase items at-cost for personal use from commissary department storehouses. The use of these stores expanded over time with the intention of providing on-base retail options for service members and their families.[6] However, times have changed over nearly two centuries, and the availability of a wide array of modern, private-sector grocery store chains—even at locations once considered remote posts on the frontier—has negated the need for DoD-operated commissaries. Currently, the commissary system operates with an annual subsidy of $1.3 billion from the defense budget.[7] As with the exchanges, DoD should consider eliminating the commissaries or selling them to a private operator. A portion of the savings from the annual subsidy could be used to increase the subsistence allowance by $300 per year, which the CBO estimates would fully compensate for the savings the average military family would lose from closing the commissaries. The resulting savings for DoD would total some $900 million annually.

Another activity outside the core business of defense is the DoD-funded and operated primary and secondary school system within the United States, known as the Domestic Dependent Elementary and Secondary Schools (DDESS). This part of the DoD Education Activity (DoDEA) operates 63 schools in eight states and territories across the United States (Alabama, Georgia, Kentucky, New York, North Carolina, South Carolina, Virginia, and Puerto Rico). The origin of these schools dates back to the time of frontier Army posts "when adequate public education was not available in the local area," a condition that is no longer true in the states

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[6] History Of U. S. Military Commissaries, accessed at http://www.commissaries.com/history.cfm
[7] CBO, *Budget Options Volume 2* (Washington DC: CBO, August 2009) p. 29. Accessed at http://www.cbo.gov/ftpdocs/102xx/doc10294/08-06-BudgetOptions.pdf.

listed above.[8] It should be noted that DoDEA also operates schools in twelve foreign countries around the world, providing an American-style education curriculum that may otherwise not be available to the children of Service members deployed overseas. But within the United States, education has traditionally been the responsibility of state governments. Several options exist to move DDESS out of the defense budget, including handing over these schools to the states in which they reside or transferring this responsibility (and the associated budget) to the Department of Education. There is ample precedent for merging DDESS schools with local schools, for example Robins Air Force Base Elementary School in Georgia closed last year due to declining enrollment and students were transferred to the local county school system.[9] The savings in the defense budget from this option would total some $750 million[10] annually, although if funding were transferred to another federal department it would not reduce the deficit.

Reforming the Military Personnel System

The next area of savings to explore is reforming the military personnel system. Because DoD is the single largest employer in the United States—accounting for 51 percent of federal workers and employing more people than Wal-Mart and the Post Office combined—changes to military pay and benefits have a profound and lasting effect on the federal budget. Over the past decade, Congress has enacted new and expanded benefits for military personnel, retirees, and their dependents, and has increased basic military pay at a rate higher than private-sector pay. While military compensation lagged behind private-sector compensation in the 1980s and 1990s, as a result of the increases enacted over the past decade, average real military compensation (RMC) now exceeds the 75th percentile of earnings for civilians with comparable education and experience.[11]

At the same time, the labor cost structure within the military compensation system has grown out of balance. In the private sector, non-cash and deferred compensation for benefits such as healthcare and retirement pensions comprises 29 percent of total compensation.[12] Before General Motors was forced into bankruptcy, non-cash and deferred compensation was 46 percent of workers' total compensation. For the Department of Defense, 52 percent of total compensation goes to non-cash and deferred benefits. Just as GM struggled to remain competitive under the heavy burden of excessive labor costs, so too will the Department of

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[8] DoDEA, *Annual Report of DoDEA—Americas* (DoD, 2009) p. 2. Accessed at http://www.dodea.edu/pubs/docs/AmericasAnnualReport-09.pdf.
[9] Ibid., p. 3.
[10] Author's estimate based on the total budget for DoDEA ($2.3 billion) and the proportion of students within DoDEA that attend DDESS schools (approximately one-third). This figure does not include cost avoidance from not having to replace and recapitalize DDESS facilities as part of the 5-year military construction program proposed in the FY 2011 budget request.
[11] CBO, *Evaluating Military Compensation* (Washington DC: CBO, April 28, 2010) p. 4. Accessed at http://www.cbo.gov/ftpdocs/114xx/doc11463/04-28-MilitaryPay.pdf.
[12] Bureau of Labor Statistics, *Employer Costs for Employee Compensation – March 2010* (Washington DC: BLS, June 9, 2010). Accessed at http://www.bls.gov/news.release/eccc.nr0.htm.

Defense struggle in the years ahead to maintain its force structure if the labor cost structure is not brought back into balance.

The Sustainable Defense Task Force echoes the recommendation of the Quadrennial Review of Military Compensation in proposing that allowances for housing and subsistence and associated tax breaks that military personnel receive be included when determining pay raises. Since these allowances are a form of cash compensation, it seems reasonable to include them when setting military pay raises equal to the Employment Cost Index (ECI), a measure of the increase in wages for private-sector workers. Moreover, enacting across-the-board pay raises greater than the ECI is no longer necessary now that military compensation has returned to levels at or above comparable private-sector pay, unemployment has risen, and the rate of deployments is projected to gradually decline. Instead, bonuses should be targeted to select career fields where recruitment and/or retention are critical.

The Task Force also recommends increasing the annual fee military retirees pay for healthcare coverage. The current TRICARE enrollment fee was set in 1995 at $460 per year for the basic family plan and has not been raised since. During that time the average annual health insurance premium paid by private-sector workers has risen to more than $3,500. The growing gap between what military retirees (many of whom work in civilian jobs) pay for TRICARE coverage and what they would otherwise pay for coverage under their or their spouse's employer is causing more retirees to stay in the military healthcare system. The TRICARE for Life program, which provides a wrap-around policy for Medicare-eligible retirees, currently has no enrollment fee. Increasing the enrollment fees for TRICARE for retirees and instituting enrollment fees for TRICARE for Life, as proposed by the Task Force, would generate annual savings of $6 billion.[13]

What the Task Force does not address in its recommendations is the cost of retirement pensions. DoD currently offers a cliff vesting retirement plan effective after twenty years of service. Because only 15 percent of enlisted personnel and 47 percent of officers stay for twenty years, a relatively small number of people receive benefits from this plan.[14] Moreover, a cliff vesting system creates distorted incentives in that it encourages personnel nearing the vesting point to stay even if only for the purpose of attaining the benefit, and once a person passes the vesting point the incentive sharply reverses to encourage early retirement, since personnel can continue making 50 percent or more of their military pay while simultaneously drawing full pay at a civilian job. A number of options for reforming the military retirement system are proposed in the Tenth Quadrennial Review of Military Compensation, including altering the vesting and payout periods for the current system and establishing gate pays and separation pays.

One of the most attractive options proposed is to transition from the current defined benefit plan to a defined contribution plan. The US Military and colonial militias were the first organizations to offer pensions in America. It wasn't until the early twentieth century that many private

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[13] CBO, *The Effects of Proposals to Increase Cost Sharing in TRICARE* (Washington DC: CBO, June 2009). Accessed at http://www.cbo.gov/ftpdocs/102xx/doc10261/TRICARE.pdf.
[14] DoD, *Report of the Tenth Quadrennial Review of Military Compensation* Volume II (Arlington, VA: DoD, February 2008) p. 12-3. Accessed at http://www.defense.gov/news/QRMCreport.pdf.

employers began offering such plans. But in more recent years private employers, and even some state governments, have increasingly turned to defined contribution plans, such as 401(k) plans.[15] As of 1998, over 90 percent of retirement plans in the private sector were defined contribution plans.[16] Changing to a defined contribution plan offers several advantages for both DoD and military personnel: personnel who leave mid-career can take vested amounts with them; personnel can borrow against the plan; DoD can better forecast and control costs; and DoD can create a vesting schedule that provides a broader retention incentive rather than the current cliff-vesting incentive that provides little incentive for junior personnel. The downside to this change is that it would benefit those who serve for longer than twenty years relatively less than the current system.

Reforming the Acquisition System

Another area that is of perennial interest is defense acquisitions. According to the Defense Acquisition Performance Assessment Report from January 2006, some 128 studies have been performed addressing the issue of acquisition reform. Indeed, efforts to reform the acquisition system date back as far as the Civil War when uniforms provided for Union troops literally fell apart because too much "shoddy" material was used—a term that originally referred to leftover pieces of wool mixed into new material to reduce costs. The term shoddy henceforth became associated "substandard military goods and contractors."[17] While the defense industry and acquisition system of today bear little resemblance to the Civil War era, many of the same issues persist. These issues and the proposals to resolve them can be divided into two broad categories: reforming *what* DoD buys and reforming *how* DoD buys.

In the Sustainable Defense Task Force Report, the vast majority of the options for savings in defense (eleven of nineteen) involve changes to what DoD buys. It is true that cutting acquisition programs can yield some of the greatest savings in the near-term, but such decisions should not be based on budget considerations alone. These decisions should also consider which missions and capabilities DoD no longer needs to support, or should be accorded lower priority. For example, the Task Force's proposal to move to a nuclear dyad by eliminating the bomber leg of the nuclear triad is not a decision that should be made for budgetary reasons alone. Such a significant change in our nuclear deterrent should be driven by an assessment that the threat environment has changed substantially enough to warrant such a change. The Task Force also proposes cancelling the Expeditionary Fighting Vehicle. In this instance, a case can be made that DoD no longer needs this capability because it has not called on the Marines to perform a contested amphibious assault since the Korea War, and with the proliferation of increasingly accurate long-range missiles, mortars, and artillery, it is not likely to do so in the foreseeable

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[15] Stephen P. McCourt, *Defined Benefit and Defined Contribution Plans: A History, Market Overview and Comparative Analysis* (Benefits and Compensation Digest, February 2006) p. 1. Accessed at http://www.ifebp.org/PDF/webexclusive/06feb.pdf.

[16] DoD, *Report of the Tenth Quadrennial Review of Military Compensation* Volume I (Arlington, VA: DoD, February 2008) p. 31. Accessed at http://www.whs.mil/library/doc/Tenth.pdf.

[17] Mark R. Wilson, *The Business of Civil War* (Baltimore, Maryland: Johns Hopkins University Press, 2006) p. 149-50.

future. Yet once this capability is lost, it will likely be far more difficult—and costly—to recreate it should it be needed.

The options the Task Force proposes involving the F-35, MV-22, and KC-X are all recommendations that put a greater emphasis on cost and schedule than performance. In each of these cases, the next-generation systems being procured have substantially greater capabilities than the systems they replace, but legacy systems, or upgrades to legacy systems, can provide a reduced level of capability sooner and at a lower cost. Again, such decisions should be made in concert with an assessment of future threat environments and whether or not the more advanced capabilities are likely to be needed. And such decisions must also take into account the impact they will have on the industrial base. That being said, in a period of constrained resources, it is certainly prudent to increase the relative emphasis placed on cost.

The Task Force's recommendations do not address the issue of reforming how DoD buys things—the acquisition processes itself—though this area is also ripe for reform. Previous acquisition reform efforts have addressed the process by which requirements are developed and managed. One of the problems often cited is that requirements get piled on to weapon systems, each making the system more costly to develop and field. Many different organizations within the Department have a role in the requirements process, ranging from the Joint Requirements Oversight Council (JROC) to the various organizations within the Office of the Secretary of Defense that review and approve programs as they pass through acquisition milestones. Yet few of the organizations that have the power to add, modify, or otherwise influence requirements have the responsibility to fund the programs. This misalignment between those who set requirements and those who budget for programs is at the heart of the problem. Creating a better organizational alignment between requirements and budget authority would reduce the incentive to add "exquisite" requirements that drive up costs and stretch out schedules. Congress could also improve the process by allowing greater use of multiyear procurement contracts, which could result in significant savings from better optimized production schedules.

Altering the Force Structure

The final area of savings to explore is altering the force structure. The Sustainable Defense Task Force Report recommends reducing US troops in Asia and Europe by one-third (and cutting end strength accordingly) and rolling back the size of the Army and Marine Corps to pre-2007 levels. Returning the Army and Marine Corps to a pre-2007 end strength may be prudent once deployment rates to Iraq and Afghanistan have subsided, since the increase was designed to reduce the strain repeated deployments put on the troops and their families. But if the intent of both of these measures is simply to reduce personnel costs, the Department would be better served in the long run by first tackling the underlying labor cost structure, as discussed previously, and only then adjusting the size of the force.

Some of the deepest cuts in force structure proposed by the Task Force are associated with the "strategy of restraint" developed by members of the Cato Institute. The report describes this strategy as one "that emphasizes our ability to bring force from the sea to defeat and deter enemies, rather than putting troops ashore in permanent policing roles." The central idea behind this strategy is that by reducing the number of missions DoD is expected to fulfill, the force structure (and associated end strength and weapon systems) can be significantly reduced—a

minimalist approach to defense. It does not address which specific missions our military would sacrifice, what capabilities we expect our allies will be able to contribute, and the impact such a change in national strategy would have on the balance of power in different regions around the world. Again, such decisions should not be based on budgetary factors alone. They should be informed by a realistic assessment of the future threat environment and a determination of where the Department is willing to take risk.

Conclusion

For decades, the United States has enjoyed a comparative advantage over adversaries due in no small part to the sheer amount of resources it could devote to defense. But as the nation's fiscal situation deteriorates, that source of advantage is eroding. As deficit reduction efforts put downward pressure on all areas of the budget in the coming years, some savings can be found in the defense budget that would not affect the size, composition, or capabilities of the military—areas where DoD could do things more efficiently or stop doing things outside the core business of defense. Moreover, options to reduce personnel costs, acquisitions, and force structure that would affect the size, composition, and capabilities of the military can be structured so that the resulting force is better aligned with the threats most likely to be encountered in the future.

While a declining defense budget will force the Department to make many difficult decisions, it also presents an opportunity to transform the military into a more efficient and effective force. The most recent effort to transform the military, however, failed to achieve many of its goals despite the availability of ample funding. Somewhat ironically, the rapidly rising base defense budget may have prevented the Department from transforming because it allowed the Services to continue funding existing programs and not fully commit to transformation. The era of constrained resources that is now upon us and the possibility of a declining defense budget for years to come have the potential to force the Services to make the difficult choices that are necessary for transformation to be effective.

Mr. TIERNEY. Thank you very much.

Dr. Schmitt.

STATEMENT OF GARY SCHMITT

Dr. SCHMITT. Mr. Chairman, Mr. Flake, thank you for the opportunity to testify today. I notice that there are five of us up here on the panel, and if this was a hand I suspect I am going to be the sore thumb.

Mr. TIERNEY. It could have been otherwise.

Dr. SCHMITT. I think the hammer is about ready to hit me.

Let me begin with the obvious: we do spend a lot on defense. The task force report is absolutely right when it says that nearly 65 percent of the increase in Federal discretionary spending since 2001 has come from increase in the Pentagon's budget, but I would say this is a bit misleading. First, we are at war, after all. And even in that, as a percentage of the GDP, these wars have been waged more cheaply than similar wars such as Korea or Vietnam.

Second, from 2001 to 2010, the baseline defense budget grew by $228 billion. This amounts to an annual real rate of growth of just 4 percent. Growth, to be sure, but not the gusher Secretary Gates spoke of in May at the Eisenhower Library. And certainly the $228 billion pales in comparison with the nearly $800 billion spent to stimulate, supposedly, the economy.

The report begins with a quote from my good friend, Kori Schake, a former Bush national security official and a McCain campaign advisor, "Conservatives need to understand that military power is fundamentally premised on the solvency of the American Government and vibrancy of the U.S. economy." I certainly don't disagree. But as she, herself, states in a recent article in a recent Post, "Advocates of a strong national defense ought to be thinking seriously about entitlement reform; that is, Social Security, Medicaid, and Medicare." Referencing Congressman Ryan's Roadmap for America, she goes on to say that the real threat to adequate defense spending is the explosion in domestic programs. "Defense spending isn't addressed in the Road Map because it is not material to the overall debt picture."

From this perspective, the real problem is not defense spending, but the fact that some 56 percent of Federal outlays are tied to mandatory spending accounts, and will, if current budget estimates hold true, expand at an even greater rate. Defense, meanwhile, accounts for 18 percent of those outlays and will shrink to just 15 percent in the near years.

Now, the task force report, Debts, Deficit, and Defense, is right to think that if a trillion dollars could be cut from defense it wouldn't make a difference. I agree. However, let's remember that $300 billion has already been cut from defense in the past 2 years, and to follow the report's recommendations requires, in my opinion, taking some rather risky steps.

However, rather than go through the report's specific list of recommendations, which I would be happy to talk about in more detail in the question and answer session, let me make the broad point that the force structure they outline is one that runs against the basic force structure that has been agreed upon by three successive administrations, two Democrat and one Republican. It

seems to me that we ought to think twice before jettisoning a force structure that by any standard has performed remarkably well, has done so at a very high tempo, and has enjoyed bipartisan post-cold war support for more than a decade and a half.

Now, having said that, there is no question that savings can be had when it comes to defense. Todd here I think has laid out a number of useful proposals. Health and personnel costs have skyrocketed over the past decade and, while benefits for those in an all-volunteer force must remain high, there is no question that there are elements in the Pentagon's budget that need closer scrutiny.

However, the real problem—and I realize just how difficult an argument it is to make these days—is that we spend too little on Defense. The key point here is that the procurement holiday that marked much of the 1990's was a hole the Bush administration never dug the Pentagon out of. Now the Obama administration wants to hold defense spending flat or less in the coming years, which, when combined with the rising personnel costs and rising operations and maintenance costs, has resulted in a significant shortage in resources, perhaps, according to the Congressional Budget Office, on the order of $30 billion to $40 billion a year, needed to recapitalize our armed forces.

All of which brings me to my final point: the danger today is that with the chronic under-funding of our core defense capabilities, we will slip into a posture of strategic retrenchment through inadvertence. In this respect, one of the virtues of the report is that it does not hide the strategic implications of its cuts, raising at the end a very different vision for American grand strategy from what has been.

By my lights, it is a path I would prefer we not take. I do not think we should let go of a strategy that has, among other things, successfully prevented destructive wars between the great powers, and helped shape an international order which, for all its problems, remains relatively stable. No doubt it has cost the American taxpayer a lot to maintain, but the benefits we have gotten in return in terms of general peace, expansion of democratic rule around the globe, and our own prosperity I believe are benefits that are far greater.

Thank you.

[The prepared statement of Dr. Schmitt follows:]

Rethinking our Defense Budget:

Achieving National Security through Sustainable Spending

Testimony before the Subcommittee on National Security and Foreign Affairs, House Committee on Oversight and Government Reform
July 20, 2010

Gary J. Schmitt
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I want to begin by thanking Chairman Tierney, Congressman Flake and the members of the subcommittee for this opportunity to appear before you and discuss an obviously important topic—one which will have an enormous impact on not only our nation's security but also on the future peace and prosperity of the world.

As someone who has worked both as a staff director on a Senate committee dealing with national security issues and in a senior post in the White House handling the same policy area, I am fully aware of the great value that hearings such as these can have over time in making our policymaking more deliberative and more substantive. It is one of the great strengths of our constitutional system that we are known around the world not only for having a strong presidency but also the world's most powerful legislature.

Turning now to the hearing's topic—"Rethinking our Defense Budget: Achieving National Security through Sustainable Spending"—I would like to proceed, first, by analyzing the recent report of the Sustainable Defense Task Force, *Debts, Deficits, & Defense: A Way Forward.* I will do so by examining some of the report's key assumptions, its more prominent recommendations, and the strategic path it would set the country on if the report's roadmap for our defense forces were followed. I will then follow that analysis with suggestions on an alternative approach that, I believe, offers a sounder course for American and global security in the future—a path that has served us well in the past and has had bipartisan support as a result. And, indeed, in what I admit is a most challenging environment given the fiscal health of this country, I will argue that instead of spending too much on America's defenses, we are spending too little.

What's the Problem?

Debts, Deficits, & Defense takes as its key assumption that the increase in defense spending over the past decade has been a major contributor to the fiscal disorder we now find ourselves in. As the report notes, nearly 65% of the increase in federal discretionary spending since 2001 is

attributable to the increase in the Department of Defense's budget. This is an accurate statement but misleading. It clearly is designed to leave the impression that the Pentagon's budget has grown out of control and that, if not substantially cut back, we would, as a country, be well on our way to fiscal perdition.

Now, there is no question that we, as a nation, spend a lot on defense. It is often noted, for example, that measured in FY 2010 dollars, the current Pentagon budget is the highest since World War II, eclipsing the previous high at the height of the Korean War (1952). However, note that the financial burden on the nation was far more significant then; defense spending as percentage of GDP was 14%, while today—with spending for the wars in Iraq and Afghanistan included—the percent of the nation's wealth going to the Pentagon stands at 4.9%. Moreover, imagine what the Korean War might have cost if it had been waged by an all-volunteer force rather than relying on the more than 1.5 million draftees. The fact is, when it comes to waging wars and providing for the national defense, the burden on the country's economy is substantially below what historically has been the average for the past 60 years.

In addition, although the core defense budget—the total Pentagon budget, minus the appropriated supplementals to fight in Iraq and Afghanistan—grew by $228 billion over a decade starting in FY 2001, that increase reflects only a moderate increase in the defense burden to the nation. In 2001, the percentage of GDP that went to defense was 3% (a post-WWII low); in 2010, it was just shy of 3.6%. And, indeed, that growth is on the order of just 4% real (CPI adjusted) growth per year. This is hardly, as Secretary of Defense Robert Gates remarked in his May speech at the Eisenhower Library, a "gusher" of spending sent the Pentagon's way. In fact, if one factors in defense-related inflation—a figure that typically outpaces the CPI—then the so-called gusher for defense spending is more like a trickle than not.

Again, I am not arguing that the United States does not spend substantial amounts for defense; we do. However, suggesting that an increase of $228 billion over ten years is exorbitant is not, to my mind, accurate. Or, if it is, how should we compare that figure with the nearly $800 billion spent to stimulate (it was hoped) the economy?

The report and the press accounts about the report make much of the fact that it begins with a quote from Kori Schake—a former national security official, a McCain advisor during his presidential campaign, and a friend. The report quotes Ms. Schake as saying, "Conservatives need to hearken back to our Eisenhower heritage, and develop a defense leadership that understands military power is fundamentally premised on the solvency of the American government and vibrancy of the U.S. economy." This is certainly true. However, while Eisenhower ended the fighting in the Korean War and cut defense spending, the percent of GDP that went to defense remained above 10% until the final year of his administration. And despite dealing with three post-war recessions, the economy grew by an average of 2.5% during his eight years in office and public debt was held well within reasonable bounds.

Of course, the real difference is Eisenhower and subsequent presidents did not have to face the real problem of today: the rise in entitlement costs and the increase in domestic spending. The cost of the core entitlement trio of Social Security, Medicare and Medicaid is now double that of defense spending. As the Congressional Budget Office calculates the 2010 budget, some 56% of federal outlays now go to "mandatory" spending accounts, while (with wars costs included) the Defense Department receives some 18%, and non-defense, discretionary spending, 19%.

As Ms. Schake herself notes in a recent post on *Foreign Policy*'s website ("A roadmap worth following"), "Advocates of a strong national defense ought to be thinking seriously about entitlement reform....As Representative Paul D. Ryan of Wisconsin stresses in his *Roadmap for America*, the threat to adequate defense spending is entirely from the price tag for domestic programs. Defense spending isn't even addressed in the roadmap, because it is not material to the debt picture." In short, by most reasonable yardsticks, defense spending is not the real problem here.

Drilling Down

Regardless of the role one thinks defense spending might have in fixing our fiscal house, *Debts, Deficits, & Defense: A Way Forward* offers up a number of specific suggestions on how defense spending might be cut that can be argued on their own merits and certainly considered—if they can truly cut costs without affecting military effectiveness.

The report identifies numerous broad categories of potential cuts, which it estimates would amount to $1 trillion over 10 years. In testimony of this sort, it would be impossible to give each proposed cut its proper due or properly estimate whether the numbers and savings are as significant as argued. However, there are specific points about some of the proposed cuts that need highlighting.

On the strategic front, the report recommends moving from the long-standing triad of strategic bombers, ballistic-missile-carrying submarines and land-based ICBMs to a dyad of submarines and ICBMs. It also downsizes the number of warheads to be deployed by a third below the limits set in the new arms control treaty with Russia. Lastly, it puts a stop order on renewing America's nuclear-weapons industrial base.

The first thing that must be said is that the report's proposals run directly against the recently completed Nuclear Posture Review, released in early April. The fact that the current administration—an administration that is more serious about nuclear disarmament than any previous—believes it must retain the triad and calls for warhead modernization, a new ICBM to replace the 40-year-old Minuteman III, and a new ballistic-missile submarine to replace the aging Ohio-class Tridents, suggests that the report's proposals are substantially out of sync with what most strategic analysts in and out of the administration believe is required.

They also fly in the face of the recommendations made this past spring by the bipartisan commission led by former Secretaries of Defense William Perry and James Schlesinger. That review noted that arms control reductions should be accompanied by modernization of stockpile and a serious upgrading, indeed, transformation of the country's now quite decrepit nuclear industrial weapons complex. Nuclear weapons obviously do not have the same strategic centrality as they did during the Cold War; however, they are still required. As the report issued by Secretary Perry and Schlesinger notes: "The need to reassure U.S. allies and also to hedge against a possible turn for the worse in Russia (or China) points to the fact that the U.S. nuclear posture must be designed to address a very broad set of U.S. objectives, including not just deterrence of enemies in time of crisis and war but also assurance of our allies and dissuasion of potential adversaries. Indeed, the assurance function of the force is as important as ever." And as

such, "the United States requires a stockpile of nuclear weapons that are safe, secure, and reliable, and whose threatened use in military conflict would be credible."

Finally, the task force's report fails to take into account that serious reductions in the number of nuclear weapons, combined with a smaller number of platforms for delivery and aging delivery platforms and weapons, may well have the perverse effect of increasing the incentive of potential adversaries to modernize their arsenals, not reduce them.

A second cost-saving measure is to downsize America's land forces. But, arguably, the land forces are already too small. As a measure of that, one only has to note the substantial use of National Guard and reserve forces and the shorter-than-desired dwell times between deployments to see that the current force structure is already strained to the hilt. Now, it is possible to argue that we will not be engaged in such extended land wars in the future and hence some trimming is possible. However, are we certain that will be the case? Certainly Secretary Gates and others seems to think these extended conflicts are what the future holds for us and must be planned for. Moreover, I have my doubts that, if we are to be successful in Afghanistan, we will be reducing force levels there substantially anytime soon.

As for the Navy, the single largest cost-cutting proposal in the report is to shrink the U.S. Navy to 230 ships, including downsizing to nine aircraft carriers, seven ballistic missile submarines, 37 attack submarines and 25 littoral combat ships. According to the report, "the 230-ship option could have met all the naval requirements of our recent wars." But, of course, the recent wars are not all the requirements our Navy has or will have: indeed, it has so many functions, in addition to supporting the war effort, that no serious study by either a Republican-led or Democratic-led Pentagon has come close to suggesting a 230-ship navy would be adequate. (Lest we forget, the first major review by the Clinton administration of defense needs, the so-called "Bottom Up Review," called for a navy with 346 ships, including 12 carriers and 45-55 attack subs.) Today's Navy serves multiple functions in addition to war fighting: as a missile defense force, a partnership builder, a protector of sea lanes and international trade, a conventional and strategic deterrent force, an emergency relief force, an anti-proliferation force, an intelligence collector, and so on. Combined with the need to refurbish ships, train up crews and then deploy, a 230-ship navy cannot possibly carry out the duties we now assign to it. The Navy is already showing reduced readiness levels and operational problems at its current fleet size of 286.

On the air front, the report calls for reducing the procurement of the F-35 by more than 200 planes (or not buying the plane altogether) and delaying the procurement of a new tanker fleet for another five years. There are questions whether there are as much cost-savings in buying fewer F-35s, while acquiring the most modern F-15s and F-16s. But putting this aside, the fact is that other nations are developing and producing advanced fighters that, when combined with advanced air defense systems, puts in jeopardy the kind of air dominance that we have enjoyed the past two decades. And, indeed, the current buy of F-35s was predicated on a force structure

that included more than the 187 F-22s we will be acquiring. Cutting back that number or eliminating that buy altogether is rolling the dice when it comes to a conventional military advantage that has served us extraordinarily well. It is useful to remember in this context that the planes we acquire now (or, don't) will shape our tactical air posture for decades to come.

As for the delay on the start of buying new tankers, this postponement is only a book-keeping savings, pushing off the actual cost beyond the timeline the report discusses. The reality is that the KC-135 tankers first entered the force six years before President Obama was born. Needless to say, keeping them in the air for an even more extended period will continue to drive up operations and maintenance costs.

The report also suggests major cuts in missile defense and the "research, development, testing and evaluation" accounts. On the former, it is difficult to see how such cuts would allow the Obama administration to move forward with its own plans in redirecting the missile defense effort. These cuts are not to some "Star Wars" program (or even a Bush administration version of) but to the upgrades required if the new architecture the Obama administration is moving toward is to be fielded and effective. On the latter, it should be noted that the administration is already planning more than a 20% reduction in RDT&E spending from FY 2010 to FY 2015. The report's recommendation, if implemented, would make that approximately 30%, leaving the Pentagon and the defense industry with even fewer resources to secure preeminence in such critical areas as space and cyber security, or work to develop the latest in sensor technology, or fully utilize the on-going revolution in directed energy weapons or nanotechnologies.

All in all, the report seems satisfied with having our armed forces possibly fight in the coming decades with platforms and technologies that largely date from decades ago.

All this said, there is no question that savings can be made in the Pentagon's budget. There will always be inefficiencies in how government operates, the Pentagon being no exception. In addition, the personnel and healthcare costs associated with our all-volunteer force have obviously skyrocketed, and need addressing. However, several caveats: making a large government agency more efficient by say 5% is a steep hill to climb, if public administration scholars are accurate. Moreover, the high cost of new weapon systems is not primarily a product of "waste, fraud or abuse" as is often said but rather because, on the whole, they are far more advanced in complexity and the technology they employ. This, combined with the extended and smaller rate of unit buys, has been a large factor in why the cost of each new generation of weapons continues to go up. And, finally, although some military benefits seem high or exorbitant—such as TriCare for Life—much of the increased personnel cost comes from the following factors: having had in place an all-volunteer force now for some four decades; the need to keep retention rates high while fighting two wars; and, more broadly, the implicit promise we give our volunteer soldiers, airmen, sailors and Marines that they will, for the

sacrifices they are willing to make, enjoy something of a middle-class life for themselves and their families.

Strategic Retreat?

Debts, Deficits, & Defense: A Way Forward is, despite its title, not simply a report about cutting defense spending to help solve the country's fiscal problems. Buried somewhat, but made more explicit at the document's end, is a section that calls for a grand strategy of "restraint." The implicit message is that cutting the size of the armed forces would serve to reduce the capacity of the United States to act, in the phrase used by the Clinton administration, as "the indispensible nation." We would be in a position where our military's primary mission would be, according to the report, to react "to danger rather going out in search of it." Our strategy would be one of "Offshore Balancing," in which we would bring force to bear to defeat enemies if the need arose and generally adopt a more isolationist policy with selective diplomatic and military engagement.

If this strategy sounds familiar, it is. Great Britain adopted it for extended periods. What it required were governments and leaders willing to be quick on their feet when it came to finding new allies and dumping old ones in an effort to play the decisive power broker between competing states. Putting aside the question of whether democratic and liberal America could sustain such a Machiavellian approach to international affairs—remember Great Britain was dubbed "Perfidious Albion"—the key problem with such an approach is to carry it out effectively requires no less engagement with the world. Britain found itself involved in any number of small, re-balancing conflicts. Or, if one adopts a more passive version of this strategy, the trouble is that one allows security threats to grow to such an extent that they are likely to become even more dangerous and costly to deal with—a problem faced by London and Washington in dealing with Berlin in the past century.

It is often said that the 1990s was a period in which we cut back the "Cold War" force. That is true to some extent but misleading in another. The military force we had in place around the world was not the force that we would have gone to war with if there had been a major conflict with the Soviet Union or the People's Republic of China. In addition to the standing forces, hundreds of thousands of reserves would have been necessary to fight that conflict successfully. That standing force was there to help deter such a war, provide reassurance to allies, keep the great commons of the air and sea clear for trade, and occasionally deal with peripheral conflicts to keep them from becoming major ones. It was also essential for backing other tools of statecraft, such as economic sanctions or diplomacy.

Those tasks have not gone away, although after the collapse of the Soviet Union, they allowed the U.S. to pare back its military—which we did. This global posture has, both before and after the Cold War, kept the great powers at peace with each other and forestalled, since the end of the Cold War, the kind of "bandwagoning" against the U.S. and the West that many might have

expected in the absence of American security leadership. All in all, this forward-leaning strategy has resulted in considerable peace and stability among the great powers to both our and our allies' advantage. Moreover, this is a strategy that has been adopted and accepted by both parties when a president of their party occupied the White House. We ought to think doubly hard before letting go of a strategy that has had such backing and served us this well.

To bring the difference in strategies home to something even more concrete, think of New York City before the "broken window theory" of policing was implemented across the city by former mayor Rudy Giuliani. What the theory argued was that by actively policing smaller-scale vandalism, one could reduce not only that vandalism but also help prevent it from escalating into more serious crime. Policing the beat, not coming to the scene of a crime after it had been committed became the norm. The result was that crime rates fell for ten years after the strategy's implementation in New York City. And, as the former mayor once told me: in morning briefings, when told about potential problem areas that needed police attention, his strategy was to ask police officials what resources they might need and then, often, double it. And while expensive to implement, the benefits to the city and its prosperity certainly outweighed the costs.

The fact is, the nation faces several daunting security problems: the continuing problems that flow from failed states; the rise of competition among the great powers for resources; a struggle for power in the Persian Gulf and continuing instability in the Near East and Central and South Asia; the rise of an increasing assertive (and militarily modernizing) China; and, of course, still dangerous and global Islamist terrorist threat. In light of these problems, proposals to substantially reduce the resources that go to the U.S. military seem short-sighted, to say the least.

Problems Ahead

But doesn't the United States spend nearly half the total amount of all military expenditures worldwide? Yes, but no other state has the global role the U.S. has. Being the world's preeminent military does not equate simply to being the dominant military globally. Having scores of modern nuclear-powered attack submarines in the fleet is obviously important. But, if deployed globally, maintained and equipped properly, the real issue is whether they will be available in sufficient number to deter a possible crisis sometime in the future, say, with China over the Taiwan Strait or in the South China Sea given the rate of expansion of the Chinese's own submarine and maritime force. In short, numbers matter. Or, to put it as Secretary Gates has: "a given ship or aircraft, no matter how capable or well-equipped, can be in only one place at one time."

And if numbers matter, so do resources to create those numbers. As noted earlier, the core defense budget has not in fact grown substantially over the past decade. It's been kept above the rate of inflation but not by much more. The fact is, the so-called "procurement holiday" that marked much of the 1990s was a hole that the Bush administration never dug the Pentagon out of. And now the Obama administration wants to hold defense spending largely flat (or less) in

the coming years, all of which is combining to result in a significant gap in what is needed to recapitalize the armed forces and what dollars will be available. According to the Congressional Research Service, given other expanding expenses, the budget projects a decline of nearly a third in funding for equipment replacement between FY 2010 and FY 2020.

In years past, this gap was assessable to some degree by the various Services' reports of "unfunded" priorities to the Congress. Over the past decade, the amount grew from $7.6 billion in 2001 to $35 billion in 2008. At that point, Secretary Gates required his office to review the Service-generated lists before being sent to the Hill. Not too surprisingly, the most recent amount for unfunded priorities is less than $2 billion. Often called "wish lists" by their detractors—and sometimes for good reason—one has to wonder if they are simply that. Numerous respected defense analysts, such as Michael O'Hanlon at the Brookings Institution and David Berteau at the Center for Strategic and International Studies, have written that the current defense program cannot be supported by planned budgets. And, the Congressional Budget Office has consistently suggested that the Defense Department's current plans would require $40-50 billion more per year in spending than currently budgeted for. The reality is, more than $300 billion in defense programs have already been cut by the administration. There is little more to cut, unless it's bone.

The 2010 Quadrennial Defense Review was supposed to provide a road map forward. At its best, the QDR did an adequate job of laying out the security environment we face and will face; what it did not do sufficiently is explain how we address those problems in the years ahead. Within the month, the Congressionally-mandated QDR Independent Review Panel is expected to report its findings. Co-chaired by former Secretary of Defense William Perry and former National Security Advisor Stephen Hadley, I have high hopes that it will address this shortfall in the QDR and provide a truly bipartisan road map for the way forward.

Conclusion

The danger really is that by chronic underfunding of core defense capabilities we will slip into a posture of strategic retrenchment through inadvertence. Now, as I have argued, letting go of this grand strategy will come with its costs, which the success of this strategy since World War II has largely kept hidden from us. So, while I disagree with the conclusions and implications of *Debts, Deficits, & Defense: A Way Forward,* I must say that it has the virtue of not hiding its larger intent. This is a debate we need to have but, so far, have avoided.

Mr. TIERNEY. Thank you, Dr. Schmitt.
Dr. Adams.

STATEMENT OF GORDON ADAMS

Dr. ADAMS. Thank you very much, Chairman Tierney, Congressman Flake. I appreciate the opportunity to testify here. One of the advantages, of course, of coming last is that everybody has already said the things I was going to say, but, of course, not everybody has said them, so I will try to be brief.

I want to make three very simple points and introduce my testimony for the record, as you indicated, Mr. Chairman.

Simple point No. 1 is the Defense Department is now facing a planning crisis that it has not yet fully anticipated and is not yet ready to cope with what is going to hit it. All budgets, in fact all planning in the Federal Government, is resource constrained, so we cannot sit here and say we totally want the force that we want to have and we want it to do what we want it to do independent of resources. It has always been resource-constrained and this week, of course, Congress is beginning the process of marking up appropriations for fiscal year 2011, which is going to constrain, among other things, defense from the administration's request.

But even that constraint doesn't begin to cope with the tidal waves that are hitting the Department of Defense over the next 2 or 3 years and over the next decade, which all of you in Congress are going to have to deal with.

The tidal waves take two forms. Tidal wave No. 1, which has been amply discussed here, is the tidal wave of deficits and debt. At historically high shares of gross domestic product and, frankly, with forecasts for debt and those deficits that are still quite optimistic compared to what we may encounter as Congress works through the fiscal agenda over the next few years.

Second tidal wave hitting defense is that we are, in fact, at some point not too distant future pulling back from Iraq, pulling back from Afghanistan, which means that the public willingness to tolerate extremely high and unprecedented high levels of defense spending is going to weaken and go away. That is the natural course of things.

Now, we have been to this movie before. We were at this movie from 1985 to 1998. From 1985, when deficit reduction began, through 1998, overall national defense outlays fell 20 percent in constant dollars. DOD budgets fell 36 percent in constant dollars over that period of time.

What caused that change? Step one, a major attention of Congress and the White House to deficits and debt reduction. Step No. 2, the end of the cold war, where the major strategic planning scenario that undergirded our defense budget disappeared.

Combining those two things, starting with the first Bush administration, those things went down, the force structure shrank by a third, 50 percent cut in constant dollars in procurement budgets, and lots of program kills, most of them begun under the Bush administration. But that is what happens as the cycle of defense changes and as the politics of the globe change.

So we are heading for another one of those periods in our history, and you in Congress are going to have to cope with it. The department is not yet there.

Second point I want to make is the tried and true way of achieving savings, some of which have been mentioned in testimony so far, are inadequate to cope with this decline. In fact, we have created pressures for upward growth in defense budgets over the last decade, and strength has grown, not shrunk, and strength determines a lot of where the budget is going. Personnel costs have been growing faster than personnel costs in the economy as a whole. The retirement costs for the Department of Defense personnel have grown. Health care has grown at a faster rate than Medicare costs have grown.

Overhead has grown, meaning the tail is now becoming larger than the tooth. Operations and maintenance costs grow inexorably at 2½ percent per year, and that seems to not change regardless of party, administration, or era. And acquisition reform, much-touted acquisition reform, currently is really, frankly, a recycling of ideas we have dealt with before. Acquisition reform keeps proving to be a mirage, and it is a mirage, frankly, because in the acquisition system the incentives are wrong.

It is not just a question of requirements. If services have to buy in to get systems at an affordable budget, they will buy in at a cheaper cost than they project the system to cost. If contractors have to buy in in order to win a contract, they will buy in at a cheaper cost than the system turns out to cost. So the incentive structure makes acquisition reform an uphill battle.

The third point I want to make, I think that Secretary Gates, who is trying to protect 1 percent real growth in defense budgets, is actually fighting a losing battle, and the key to now constraining defense is going to be in mission discipline. Sadly, the Quadrennial Defense Review did not execute mission discipline. It simply layered missions on top of each other without setting priorities and without calculating the risks of the various missions and the risks that we, as a Nation, are prepared to tolerate.

I can associate myself with many of the comments that have been made about mission, but I think we are at a point in American history where a serious baseline discussion of strategy and mission is an essential part of how we approach defense planning and defense forces.

The bottom line here has to do with looking seriously at counter-terror missions and whether they should have been fenced; looking at the counter-insurgency stabilization and nation-building missions, we don't draw the wrong lessons from Iraq and Afghanistan; looking carefully at how many nations in the world we want to build partner capacity in; ensuring that we maintain deterrence, alliance, support in conventional war in what is one of the safest periods in our national security history; and, finally, in looking seriously at re-balancing the tool kit so we, in fact, do more strategic planning with civilian agencies, we make governance stabilization and reconstruction, civilian not military missions, and reinforce our diplomacy.

Last point, I would urge the Congress to give serious consideration to unifying the budget functions for defense and foreign policy so we can make those kinds of tradeoffs.

So, in sum, defense budgets are resource constrained. The current tools for dealing with those resource constraints are inadequate. And, indeed, as was said earlier on this panel, I think it was Mr. Friedman who said it, spending cuts will drive efficiencies. We have seen that before. I predict we will see it again.

Thank you very much.

[The prepared statement of Dr. Adams follows:]

Testimony of
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Rethinking our Defense Budget: Achieving National Security through Sustainable Spending

Before the
Subcommittee on National Security and Foreign Affairs of the
House Committee on Oversight and Government Reform

July 20, 2010

Chairman Tierney, Ranking Member Flake, and members of the subcommittee, thank you for the opportunity to testify today on rethinking the defense budget and achieving national security through sustainable spending. There is no more important priority on the discretionary side of our federal budget than restoring discipline to defense planning and budgeting.

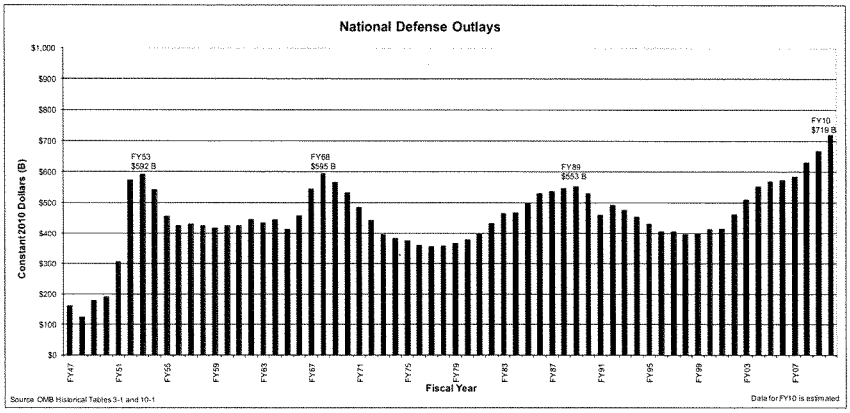
Our defense budgets have reached a level unprecedented since the end of World War II, outstripping the security challenges we face and contributing significantly to our fiscal dilemmas. As Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, put it recently, "I think the biggest threat we have to our national security is our debt."[1]

Defense planning and budgeting have not responded to this reality. In fact, the Pentagon has avoided prioritizing missions, calculating risks, and managing in a disciplined way. It is increasingly critical to do so. Regaining fiscal balance, improving our economic health, and restoring our global role all hinge on it.

Now is the time to change direction and focus carefully on setting priorities to discipline defense plans and budgets.

Unprecedented defense budgets are a significant part of the federal spending problem

We live in a world today that is unusually secure for Americans, even after accounting for conflict in Iraq and Afghanistan. Our defense spending over the past decade, however, has not reflected this relative security.



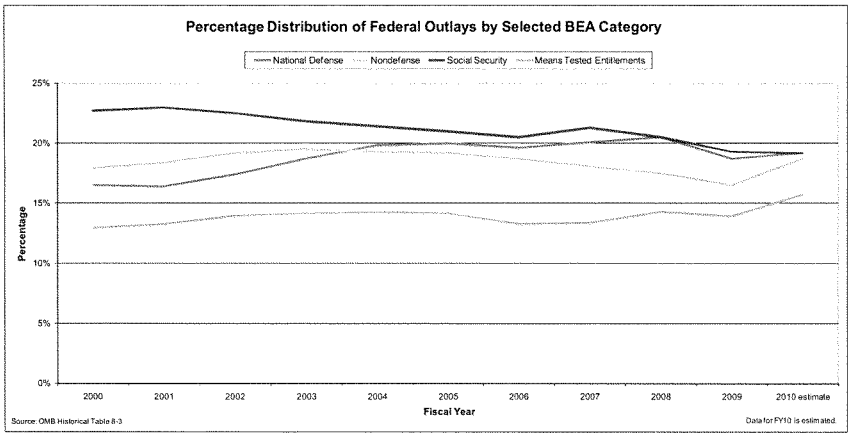
The threat of terrorist attack is real but in no way equals the existential threat we faced during the Cold War. We are more than twenty years beyond the shadow of global nuclear annihilation, yet real national defense outlays (budget function 050) this year will be 30% higher than the Cold War peak in 1989. Combat fatalities are our most tragic cost of war, and we are fortunate that this cost is far lower in Afghanistan and Iraq (more than 4,300) than in Korea (36,500) or

[1] Admiral Mike Mullen, "Tribute to the Troops," 24 June 2010: http://www.jcs.mil/speech.aspx?ID=1413.

Vietnam (58,200).[2] Yet real defense spending this year surpasses the Korean War peak in 1953 by 22% and Vietnam in 1968 by 21%.

At $719 billion, fiscal year 2010 will be our most expensive year for national defense since the Second World War. It is not an outlier. Six of the ten most expensive years have registered in the past decade.

Outlays of this magnitude give national defense a 19.2% stake of all FY10 federal spending. This equals Social Security, and is 3.5% higher than that of all means-tested entitlement programs combined. Defense spending clearly plays a role in our overall deficit problem.



Such high levels of spending are unlikely to last. We are, in fact, facing a moment of defense budget decline, pressured by deficits and the end of the wars. Defense planners have not begun to cope with this emerging tidal wave. Doing so will require more serious planning and mission prioritization than has been carried out so far.

The fiscal tidal wave

The defense budget crested for the post-World War II period at the same time that deficits and debt hit historic highs. The American Reinvestment and Recovery Act and auto industry bailouts pushed the FY 2009 federal deficit to 10% of GDP, its highest level since 1945. Publicly-held debt will reach 64% of GDP in FY 2010, a level unmatched since 1951, and the Congressional Budget Office estimates that it could equal GDP by the end of the decade. Persistently high and growing federal debt has serious consequences for the economy, posing risks of higher interest rates, decline in the value of the dollar, lagging demand for Treasury notes, slower economic growth, and flat or declining wages.

There is growing bipartisan concern about this problem, including the President's National Commission on Fiscal Responsibility and Reform and a private effort at the Bipartisan Policy Center. These efforts recognize that success in deficit reduction and debt control requires all

[2] See Iraq and Afghanistan totals at http://www.defense.gov/NEWS/casualty.pdf and Korea and Vietnam totals at http://aad.archives.gov/aad/series-list.jsp?cat=WR27.

parts of federal budgeting to be on the table, including revenues and spending of both the mandatory and discretionary types. National defense cannot be exempt.

The Changing Policy Universe

This fiscal tidal wave coincides with a significant change in the global security environment: the coming withdrawal of American forces from Iraq and, soon, from Afghanistan. The American public and the Congress supported unprecedented growth in the defense budget as we entered these two conflicts. That process works in reverse as well. Support for such high levels of defense will erode as our forces return.

Our departure from Iraq is formalized in the status of forces agreement that we negotiated with the government of Iraq. We will reduce our footprint there to 50,000 forces by August of this year, and will redeploy fully by December 2011. Our withdrawal from Afghanistan, though less formal, is becoming ever firmer as the rationale for an extended presence in that country becomes less and less clear. Frustrating as the situation in Afghanistan is, no amount of forces and funding can return us to 2001.

This change in the policy environment is increasingly evident. The bipartisan Obey-McGovern-Jones amendment calling for a withdrawal timetable for Afghanistan received 162 votes earlier this month. At last week's Senate Foreign Relations Committee hearing, Ranking Member Lugar (R-IN) offered his view that "both civilian and military operations in Afghanistan are proceeding without a clear definition of success." Sen. Bob Corker (R-TN) was even more direct. "I send letters to parents and spouses, and what I feel, because of this lack of clarity, is that we are in Afghanistan because we're in Afghanistan."

Though these issues were not addressed in the Sustainable Defense Task Force report, the end of these conflicts will have a profound impact on public support for high levels of defense spending. This change is important because the wars have contributed significantly to the lack of discipline in defense budgeting. Abuse of the emergency supplemental process embodies this problem.

The past decade's emergency supplemental appropriations ostensibly have been dedicated to the war efforts. In reality, they have funded defense spending wholly unrelated to Iraq and Afghanistan. This administration deserves some credit for seeking greater clarity and discipline by creating an overseas contingency operations title in the defense budget request, but sizeable concerns still remain. Operations and Maintenance (O&M) funds in this title are quite fungible with those in the base budget. "Long-term reconstitution" also is funded in this title despite being non-emergency by definition. Rebuilding fiscal discipline means eliminating these abuses, ending the practice of funding operations in Iraq and Afghanistan through a separate title, and making base budget trade-offs to support remaining war and reconstitution costs. After ten budget years of these operations, and on the point of withdrawal, this spending is eminently foreseeable. It should be foreseen.

War-related policy change combined with growing fiscal pressure will lead to deeper reductions in defense than currently foreseen in Pentagon projections. This reality is not without precedent. From 1985 to 1998, a similar conjuncture of tidal waves hit defense. Sustained efforts at deficit reduction through the Gramm-Rudman-Hollings act of 1985 and the Budget Enforcement Act of 1990, together with the end of the Cold War, rapidly and significantly lowered national defense spending. Across two administrations of both parties, this spending fell 20% in constant dollars, active duty forces declined from 2.2 million to 1.5 million, and the Defense Department civilian

cadre receded from 1 million to roughly 700,000. Hundreds of acquisition programs were terminated, and procurement spending dropped 51%.

Discipline will be hard; half measures will not provide it.

Given these pressures, greater defense planning and budgeting discipline is urgently needed. Imposing that discipline will be difficult, however, because of mounting internal pressures for budget growth. Half-measures will be insufficient to overcome this challenge.

- *End strength expansion.* The Defense Department has added more than 95,000 to the Army and Marine ground forces since 2001, and Congress is being asked to fund an additional, temporary increase of 22,000.[3] End strength is one of the principal drivers of defense budgets, however. Obtaining real savings in defense will involve end strength reductions, beginning with a roll-back of the ground force expansion undertaken because of the wars, as the Sustainable Defense report urges. Further reductions will be linked to the issue of mission prioritization, which I discuss below.
- *Personnel costs outpacing end strength growth.*[4] Military personnel routinely receive pay increases at least half a percent above the standard used for government raises.[5] Spending on personnel, as measured by per-troop spending for the active component, increased at an average of more than 4% per year between FY 1998-2008.[6] Payroll costs need urgent attention, as the Task Force report suggests.
- *Sharp price increases in DOD health care.* The DOD Unified Medical Budget regularly grows above the rate of inflation, rising from $19 billion in FY 2001 to $50.7 billion in FY 2010. TRICARE Prime premiums have not increased since FY 1995 despite overall growth in health care costs, and the share of TRICARE's total health care delivery covered by premiums has fallen from 27% to 9% over that period. To its credit, the Defense Department has regularly asked Congress for increases in TRICARE enrollment and other fees, but Congress has rejected them. Health care cost control will be difficult, but it is necessary.
- *Defense "overhead" is growing and hard to control.* The Defense Department spends an estimated 42% of its budget on what would be called "overhead" costs in the private sector, according to a Defense Business Board report that the Secretary of Defense routinely cites.[7] This "tooth-to-tail" spending ratio corresponds to a

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[3] Army Chief of Staff Gen. George Casey is said to be considering another 7,000 in temporary increases. See Megan Scully, "Army Chief of Staff Will Decide Soon on Force Increase," *Congress Daily*, May 6, 2010, online at http://www.govexec.com/dailyfed/0510/050610cdpm1.htm. Navy and Air Force uniformed personnel have declined a total of 76,000 over the same years. Department of Defense, Office of the Under Secretary of Defense, Comptroller, *National Defense Budget Estimates for FY 2011*, Table 7-5.

[4] DOD's budgets for military personnel rose from $78.9 billion in FY 2001 to $143.5 billion in the FY 2011 budget request, growth of 85% in current dollars and 35% in constant dollars. *National Defense Budget Estimates for FY 2011*, Table 6-8.

[5] The standard generally used is the Department of Labor's Employment Cost Index. CBO estimates that cash compensation for service members, including tax-free cash allowances for housing and food is "greater than that of more than 75 percent of civilians of comparable age and educational achievement." "Evaluating Military Compensation," Statement of Carla Tighe Murray before the Subcommittee on Personnel of the Senate Committee on Armed Services, April 28, 2010.

[6] Calculated from *National Defense Budget Estimates for FY 2011*, Tables 6-11 and 7-5

[7] Defense Science Board, *Task Group Report on Tooth-to-Tail Analysis, Report FY08-2, April 2008*, p. 3, at http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA491670&Location=U2&doc=GetTRDoc.pdf

continual growth in the "tail" in the forces themselves. McKinsey recently estimated that 23% of active duty U.S. battalion-equivalent units are in combat or combat service branches compared to an industrial world average of 37%.[8] Over time and including deployed contractors (now a growing component of the "tail"), only 25% of the soldiers deployed to Iraq in 2005 were appropriately categorized as "tooth." This compares to 39% in 1945 WWII theaters, 35% in Vietnam circa 1968, and 30% in Operation Desert Storm.[9] Sharpening the point of the spear and shrinking the handle will be important but very difficult.

- *Operations and Maintenance Costs continue to grow.* O&M costs, which fund much of the "tail" (as well as the defense civil service) grow steadily at a real rate of roughly 2-3% per year. These needs have been under-budgeted for decades. The FY 2011 budget requests a significant increase in O&M (8.5%), but out-year forecasts again do not keep pace.[10] This spending will continue to grow as the Defense Department increases its civilian acquisition work force by at least 20,000.[11]
- *The receding mirage of acquisition reform.* The most recent Government Accountability Office examination of major defense acquisition programs notes that 79% of them have "moderately unstable" or "highly unstable" costs and schedules. Only 21% "appeared to be stable and on track."[12] The Department has responded with program terminations that Secretary Gates estimates have saved $330 billion over their lifetime. It has proposed substitutes for many of these programs, however, and the out-year budget estimates for these substitutes have not been netted against that estimate. Moreover, some of the program terminations (F-22, C-17, F-35 alternate engine) were not included in the Department's out-year budget estimates, meaning there are no savings in the budget forecast from these decisions. Decades of experience in acquisition program cost growth suggest caution in presuming future success.[13]
- *Inability to meet financial audit standards.* Process-driven savings are nearly impossible to locate because, as the Pentagon itself notes, it is "one of a very few cabinet level agencies without a 'clean' financial audit opinion."[14] The Government Accountability Office has been pointing this out for years. It has been notoriously

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[8] Scott Gebicke and Samuel Magid. Lessons From Around the World: Benchmarking Performance in Defense," McKinsey and Company, 2010, p. 7, at http://www.mckinsey.com/clientservice/publicsector/pdf/TG_MoG_benchmarking.pdf

[9] McGrath, John J. "The other end of the spear: the tooth-to-tail ration in modern military operations," CGSC Combat Studies Institute: Table B-2.

[10] *National Defense Budget Estimates for FY 2011*, Table 6-8.

[11] Funding to support the 785,000 civilian employees at DOD is provided through the O&M title in the budget. The number of DOD civilian personnel has grown from 687,000 in 200, or 14.2% *National Defense Budget Estimates for FY 2011*, Table 7-5.

[12] GAO, "Defense Acquisitions: Strong Leadership Is Key to Planning and Executing Stable Weapon Programs," GAO-10-522, May 2010, p.5. These more stable programs, however, represented under 9% of the total cost estimates for the overall major program portfolio. Same, pp.6-7.

[13] CBO estimates that DOD budgets for acquisition should be 15% above current projections to accommodate likely cost growth. CBO, *Long-Term Implications of the Fiscal Year 2010 Defense Budget*, p.19.

[14] FY2011 Defense Department Budget Request Overview Book, pg. 7-16.

> difficult to correct, despite repeated efforts by successive administrations. Squeezing out process-driven savings requires overcoming this colossal problem.[15]

The Defense Department currently is trying to find savings largely through process changes and efficiencies. Such adjustments are meritorious but will fall well short of coping with these pressures. In fact, the very budget projection these minimal reforms are designed to accommodate is, itself, unrealistic, given the approaching tidal waves. Secretary Gates has made it clear he needs process savings in order to make do with only 1% real growth in the defense budget instead of the 2-3% growth he considers necessary. Not only will process savings not get him there, though, his projection of continued real spending growth diverges from the budget realities that the Pentagon faces.

Mission planning will require discipline

The only way to cope with serious budget decline at the Defense Department is through greater discipline in defense mission planning. Sadly, the latest Quadrennial Defense Review ducked this challenge. Instead, it simply layers new missions on top of the old, sets no priorities, and advocates that risks should be reduced across the board. In the Department's own words:

> *This QDR...assumes the need for a robust force capable of protecting U.S. interests against a multiplicity of threats, including two capable nation-state aggressors. It breaks from the past, however, in its insistence that the U.S. Armed Forces must be capable of conducting a wide range of operations, from homeland defense and defense support to civil authorities, to deterrence and preparedness missions, to the conflicts we are in and the wars we may someday face.*[16]

No strategic context is provided for these missions, and they are given no relative importance. The consequence is that we end up with an unrealistic, and unfundable, list of missions spanning the range from deterrence and conventional war, to patrolling the world's oceans, to expanding the U.S. role in counterinsurgency, stabilization (nation-building), fighting terrorists and aiding security forces on a global basis, and an expanded role in homeland defense. This is nothing more than a recipe for defense forces and budgets to grow without limits well into the future.

But the budgets will not be there, and prioritizing missions is the first step to disciplining planning and budget choices. As Christopher Preble and Ben Friedman put it in the Sustainable Defense report, "We can save great sums and improve national security by adopting a defense posture worthy of the name."[17] The United States needs to redefine its global role and the supporting military missions. Erskine Bowles, co-chair of the President's commission on deficit reduction, was correct when he stated recently that "I personally am not crazy about being the world's policeman, nor do I think we can afford to be."[18]

A first step will be to draw the right lesson from Iraq and Afghanistan. That lesson is not that we now need a military capability and an expanded military mission to intervene globally in all instances of conflict, disorder, terror attack, and "insurgency." A clearheaded assessment of the

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[15] The Performance measurements part of the Overview Budget (p.7-36) notes that DOD can validate as "audit ready" less than 10% of its Treasury funding balances and less than 15% of its Statement of Budgetary Resources.
[16] Pg. 42
[17] Pg. 34
[18] See http://thehill.com/homenews/administration/106525-obama-fiscal-commission-chief-eyes-spending-caps-entitlement-reforms.

international challenges we face after Iraq and Afghanistan suggests a potential prioritization of missions that could maintain, or even enhance, our security at less cost and with smaller forces.

Dealing with terrorist organizations, particularly Al Qaeda and its related organizations, is an important security challenge, but this challenge needs to be carefully defined. Terror attacks are not an existential threat. Terror is a tactic, not an ideology, and not all terrorist organizations threaten our national security. Discrimination in the definition of this challenge will be an important part of disciplining defense planning. So too will an honest assessment of the required force structure. This priority mission does not demand significant forces, and spending should reflect that reality.

Counterinsurgency, stabilization and reconstruction (state-building), and related assistance to security sectors are more debatable missions once the wars in Iraq and Afghanistan have wound down. It is not clear that the U.S. military should have global missions of this kind. The underlying reality internationally is that of state fragility and weakness, a fundamental global security dilemma. Yet not every fragile state or internal conflict poses a U.S. security problem, not every weak state demands a U.S. response, and not every security sector requires U.S. support. Indeed, using counterinsurgency to drive force planning dramatically overstates the problem. It is not clear what insurgencies ought to be a target of U.S. military attention. Moreover, stabilization and reconstruction are predominantly civilian missions. The military has no peculiar skill in them, and could even be counterproductive in trying to execute them.[19] A more careful analysis of the fragile state challenge and the military's mission in meeting that challenge is badly needed. It would likely yield significant defense savings as the military moves away from such missions and civilian responsibilities for governance assistance grow, as I discuss below.

"Building partner capacity" is part of this mission, and demands equally close scrutiny. Security sector support, particularly for another country's military, can be an important element in providing greater stability in fragile states. The Defense Department has had an implementation responsibility in this area for decades, based on State Department guidance and funding. The military's peculiar expertise extends only to direct military support, however, and specifically does not extend to assisting other countries' police, gendarme, border control, or other security forces.

No expansion of defense authority or funding is needed in this area, Pentagon plans to the contrary. Clearly DOD has an implementation role in this area, narrowly construed. But the administration should focus on how to strengthen our own civilian capacity to provide such assistance, in cooperation with other countries and international organizations. Moreover, security sector assistance is only part of the capability that the U.S. government needs to build to deal with the broader challenge of "governance" in weak and fragile states around the world. The military has no special expertise in confronting this broader challenge. It is, in fact, largely a civilian task. The executive and the Congress should reflect this by restraining Pentagon ambitions and spending in this area and strengthening our own civilian capabilities to assist other countries with political institutionalization, ministry support, and economic development.

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[19] As the DOD counterinsurgency field manual (FM 3-24) notes on page 2-9, "civilian agencies or individuals with the greatest applicable expertise should perform a task…There are many U.S. agencies and civilian IGOs with more expertise in meeting the fundamental needs of a population under assault than military forces have…"

Presence in the global sea lanes is another important mission area for the military. Freedom of movement on the seas is a fundamental element of open global exchange, one of the pillars of our economy. Such missions also establish U.S. presence globally and can play a role in deterring or coping with the rising problem of piracy. This mission requires naval forces, though even those can be constrained without a loss of effectiveness, as the Task Force report suggests.

A number of other missions also are important parts of the military's routine but already receive sufficient resources. These include humanitarian operations, disaster relief, and non-combatant evacuation operations. Far less common but even more important is the military's responsibility to support civil authorities and, should it be needed, to defend the United States homeland. The National Guard plays an important role here, as do military logistics for disaster relief and emergencies, such as a terrorist attack.

The more demanding mission for the Defense Department and the military, in terms of personnel and resources, is that of deterrence, alliance support, and conventional war. Even here, the risks are lower than during the Cold War. We face only a small risk of conventional or regional war. Of the original scenarios that support the 2 MRC concept, for instance, one (Iraq) no longer exists and the other (North Korea) poses significantly lower risks for U.S. or South Korean forces, which are quite capable. There are precious few other areas where a use of massive US conventional forces is plausible or likely, making it possible to consider options both for overall ground force reductions, as recommended by the Task Force, and the move of some capability to the Reserves and National Guard.

Some will argue that a threat from China is an exception. Indeed, the QDR assertion of an anti-access / area-denial mission is, in all likelihood, aimed at ensuring that China does not block U.S. access in the Western Pacific. All too typically, however, this mission is defined in the QDR as a global requirement even though there is precious little evidence that any other countries pose a serious challenge to US military access. The assertion of such a mission could easily become a self-fulfilling prophecy, however, encouraging other states to create such a capability precisely because the U.S. is building a capability to prevent it. Yet this mission has a major impact on defense budgets for submarines, missile technology, long-range strike, and naval forces, among other areas, all of which need to be reexamined for potential savings, given the low level of such a threat. Finally, strategic forces have a less significant mission today than during the Cold War. These forces could be significantly reduced, even below the levels supported by the "New START" treaty presently before the Senate. The Task Force report makes reference to an Air Force study which found that real deterrence requires only 311 warheads, 1,239 fewer than the ceiling set by the "New START."

There will be disagreement over this brief review of missions. The bottom line, however, is that the Pentagon has made no effort to define priorities. Setting them would lead to substantial reductions in the U.S. force structure, as well as significant savings in procurement and research on programs linked to lower priority missions. These would include next generation attack submarines, amphibious assault capabilities, and air-to-air combat fighters, as the Task Force report suggests.

Fiscal responsibility now demands that we clearly evaluate our interests and security needs related to a broad and realistic view of the global challenges we face, define the priority defense missions that result, and reshape the budget accordingly. Missions that don't connect with U.S.

interests, address lesser risks, or are more properly handled elsewhere in the government shouldn't be funded through the defense budget.

Process Reforms Could Help

More disciplined planning and budgeting processes would contribute to identifying and implementing the potential savings I have discussed. The Pentagon must do a better job in this regard.

First, the Department should treat "capabilities-based planning" with caution. According to the 2001 QDR, such planning was more useful than threat-based planning because "the United States cannot know with confidence what nation, combination of nations, or non-state actor will pose threats." In response to this information gap, "a capabilities-based model - one that focuses more on how an adversary might fight than who the adversary might be and where a war might occur - broadens the strategic perspective."[20]

It is important to plan with uncertainty in mind, but this kind of un-prioritized planning easily assumes adversaries that do not actually exist and, in fact, can create such adversaries by mis-communicating our strategic intent. Even when we have an adversary, treating the usage of all capabilities as equally desirable overstates the risk of conflict.

Second, the Department also should terminate the annual 'unfunded requirements' exchange between the Congress and the military services. Reciprocally, Congress should restrain itself from requesting these letters. The Secretary has imposed some welcome restraint on this process, but these letters continue to weaken the Office of the Secretary of Defense and the Chairman's efforts to integrate Service budgets and make trade-offs.[21]

A final process reform that could significantly change the tone of defense planning and help integrate broader interagency planning would be for Congress to amend the QDR authorization (10 USC §118) to direct the Defense Department to solicit and incorporate inputs from the State Department and the ODNI on the QDR's strategic assumptions and planning scenarios. These assumptions and scenarios drive the tools that the Defense Department develops to support U.S. foreign policy, but it currently only takes such comments on a voluntary and ad hoc basis. A statutory requirement would be helpful here in strengthening the planning processes of all three institutions.

Finding savings by choosing the right tools

The counterpart of restraining the Pentagon's missions and disciplining its budget is strengthening U.S. civilian capabilities to undertake some of the above missions. Nuclear proliferation is one area where the QDR asserts a primary defense mission even though the civilian responsibility is actually paramount.

The Nuclear Nonproliferation Treaty has been our best bulwark against proliferation for forty years. Brazil, South Africa, and a number of former Soviet states have disarmed mature nuclear programs under its auspices. Its global legitimacy is the crux of pressure presently being applied to Iran, North Korea, and Syria. There is no better example than this for how treaty negotiation, diplomatic monitoring, educational exchanges, scientific aid, and biting sanctions serve our national interest.

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[20] Pp. 13-14

[21] For additional discussion on this topic see http://budgetinsight.wordpress.com/2010/03/15/gates-battles-nominal-requirements/.

The defense responsibility for this mission is and should be decidedly secondary and supportive of this diplomatic enterprise. Conventional forces can play a role in deterring proliferators. Defense intelligence is a corollary to diplomatic monitoring. The military can conduct enforcement missions, for example through the Proliferation Security Initiative. Yet most authority in this area ought to belong to the civilian institutions that lead our efforts.

Rebalancing the tools in our national security toolkit and then funding missions, like nuclear counter-proliferation, through the proper budget function will discipline the defense budget greatly. Moreover, much of the money associated with transferred missions can be saved outright because of the relatively low cost of civilian institutions relative to the Pentagon.

One process proposal that can facilitate this redefinition of institutional responsibilities and begin the process of more balanced planning would be for the administration to propose a single budget function for national defense and international affairs (merging budget functions 050 and 150). This would be a first step in encouraging the administration to consider the synergies between our national security capabilities. Greater use of joint hearings and deliberations between defense and foreign affairs authorizers and appropriators in the Congress would also make a significant contribution to this more balanced view of American statecraft and its resources.

Conclusion

The looming tidal wave of deficit reduction, debt control, and changes in our international role all make it increasingly urgent for the Congress to reexamine our defense budgets and defense priorities. Discipline in defense planning and budgeting is long overdue and increasingly urgent, given these challenges. Congress and the administration can no longer ignore the reality that Americans have neither the will nor the wallet for unprecedented spending that does not set priorities for our statecraft.

Mr. TIERNEY. Well thank you very much, Dr. Adams, and thank all of you for your testimony, written and verbal here today.

We are going to go to our question period here, 5 minutes per member, and I am going to start, but I think it is a great jumping off point from Dr. Adams' comments, which were reflected in some of the other testimony here. I don't know that we really have a budget in the Department of Defense. It seems to me we just spend whatever we think we want to spend.

I think the last comment about piling on mission on top of mission just seems to be going, and if we have a weakness in our civilian capacities, then we ask the military to take that on. That is not to say they are not good at it, they are not willing to do it, or they are not well intentioned, but it sometimes seems out of line for what they really are proposed to do and designed to do on that.

So let me ask this generally: if we were to concentrate just on making the military that we have more efficient, getting rid of some waste, fraud, and abuse, are we all pretty much in agreement that would be a far less significant savings than if we really took a look at the mission and took a look at just how we structure it, what are the purposes of the mission of the Department of Defense? Do we have any disagreement on that? Dr. Schmitt, do you disagree with that?

Dr. SCHMITT. No, absolutely not. I mean, I think the best you can expect out of efficiency of any government organization is probably 5 percent, and that is even hard to do.

Mr. TIERNEY. That is a big number. I mean, if we can get 5 percent we would be pretty happy.

Dr. SCHMITT. Well, that is the golden apple. I wouldn't count on it, either.

Mr. TIERNEY. We are trying. We have a lot of hearings and design on that.

The other part is I would suspect that we have to worry about efficiencies and a budget within the Department of Defense, but as policymakers we ought to also look at what the Department of Defense budget is within our overall budget on that basis and take a look at it. I think a number of you have testified that you think that there is a situation here where what is spent in the military is material to the overall debt picture, except, Dr. Schmitt, you quoted somebody in your testimony saying that they didn't think that the defense spending was material at all to the overall debt picture. Is that a position you endorse?

Dr. SCHMITT. No, not technically. I mean, look, it obviously would help to cut defense spending, but I also think that the cost for the kinds of cuts that have been proposed by the task force will raise larger questions about the ultimate cost to the country. So on the whole I would say the real problem fiscally, yes, defense cuts would help fiscally, but not substantially, and the real issue is the entitlement programs.

Dr. ADAMS. Mr. Chairman, could I comment briefly?

Mr. TIERNEY. Yes, I would like someone to comment on that.

Dr. ADAMS. Defense has obviously played a role. The largest single source of spending growth over the past decade in the Federal Government has obviously been on the mandatory side. On the discretionary side, the defense budget has absorbed something like

two-thirds of the overall increase in discretionary spending. That has been driven in large part by war costs, the costs of Iraq and Afghanistan. So there is no question that it has contributed to our deficit.

Interestingly, national defense has an over 19 percent share of all fiscal year 2010 Federal spending, which is the same as Social Security, and it is 3 percent higher than of all means tested entitlement programs combined. Now, that excludes Social Security because that is not means tested, but if you look at mean tested programs, defense is obviously—there is a kind of a third to third to third piece here in terms of overall spending.

Clearly, from the spending side of the equation, what Congress faces and what I think anybody seriously addressing deficit reduction or debt control faces is how do you put all the pieces on the table at the same time.

Since 1985 to 1998, the period I mentioned earlier, what clearly made deficit reduction possible, because people disagree on where the cuts ought to come, was when that deficit exercise, starting with Gramm-Rudman-Hollings in 1985, put all pieces of first discretionary spending on the table and then, with the Budget Enforcement Act of 1990, put discretionary, mandatory, and revenues on the table with both caps and pay-go.

Those two things in the 1990's combined with a healthy economy, which we don't have right now, were enough to drive us into surplus by the end of the decade. If we even made some progress of that kind, it would be a good thing for the economy. The problem that we have is that you can't get agreement, I believe, here in Congress unless all those pieces are on the table, and that is going to inevitably involve the administration, as well.

So if you want to do it, you have to do it with everything on the table.

Mr. TIERNEY. And I think that is indicative of this day, I don't think there are a lot of competing hearings out there necessarily, but I am struck by the lack of attention to this particular subject. It is as if people don't want to deal with it or don't want to go there on that.

Mr. Conetta, do you see some value in our national Social Security and whether or not our seniors are secure in their retirement, whether or not people have health care, whether or not they have an opportunity for education, and whether or not we, in fact, have job training and research and development, things like that? How does that play into our national security structure?

Mr. CONETTA. There has been a lot of interesting work done, analyses of our operations in war, of our success in war. Stephen Biddle, an analyst with the Council on Foreign Relations, has produced a number of reports looking at why we won so well, for instance, in the first Persian Gulf War.

Often, the assumption is that we win because of our technology, and what he demonstrates, I think pretty convincingly, is that it is not that. We win because of a combination of our technology, our training, our people, our capacity to work as a team.

The point I am getting at here is that I think people are the most important part of our armed forces. We have a volunteer military, and we are able to fill it with quality people. Why is that possible

for us and not as possible for other nations? I think part of the answer is that we, as a Nation, pay attention to the health, the education, and the welfare of our people, so certainly that is a contributor, a factor in our ability to put together the military we do.

I think that is the type of thinking we need to approach this. We need to approach it from that perspective. We need a holistic approach, and to understand that many of the benefits are indirect but they are real.

Mr. TIERNEY. Thank you very much.

Mr. Flake.

Mr. FLAKE. Thank you. Thank you all. That was very, very enlightening.

Mr. Harrison, you mentioned that one of the problems we have in cost is requirements keep getting piled on to weapons systems. Can you explain a little further on that? How does that raise cost, and what can we do to remedy that?

Mr. HARRISON. Well, what happens on acquisition programs is one of the services gets together and says we need some new weapons system to fill a capability gap, and then it goes up for review. The other services get their chance, their hack at it. The combat commanders get to look at it. The more people look at it, the more people touch it, they start adding more and more requirements to it. Even once the system begins development, people will look at it again and say, oh, well, now that I understand it better I would like it to do X or Y or Z, and you end up with a program that just keeps growing and growing and growing.

Every requirement you add adds cost. And even once you have added a requirement, if you try to take that requirement out it may also add cost. So the discipline in acquisition system is important, that people have to be willing to say, OK, here's the weapons system we are going to build, here are the capabilities that it really needs to have, and we are going to take our hands off of it and let industry built it under the contract that we have given them, and then we will take delivery of it.

But too often we have these program offices that stay in the loop, and all these other different bodies that review requirements at every acquisition milestone, and it just keeps opening up the door every time for people to add more to it, and the costs just start to grow.

Mr. FLAKE. Thank you.

Mr. Friedman, you seem not very confident that we can decrease defense spending by realigning the mission or reevaluating our objectives, but rather we should impose spending cuts and then let that define the mission. Is that accurate, or——

Mr. FRIEDMAN. I am confident that having less ambitious missions would cut spending. I am not confident that efficiency gains would reap a lot of savings.

My view is that there are a lot of efficiency gains to be had; the problem is that there is no free lunch politically. I mean, the requirements process, these weapons get a lot of requirements because the services have various constituencies that want things from them. A destroyer does a lot of things, and there are a lot of people in the Navy who want something from a destroyer, and it is hard to deal with that. Similarly, the commissaries, everybody

knows that you can save a lot of money on the commissaries, but the people going to the commissaries really like the discounts that they are getting at the commissaries. It is basically a benefit.

So I don't disagree that you can't save money on that; I disagree that you can save money on that without political pain.

Shipyards are another big one. I mean, we have too many shipyards. You close some shipyards, you can cut overhead costs on procurement of ships, but nobody wants to close a shipyard because those are big employers.

So my point is just that it is very hard to do.

Mr. FLAKE. I am from Arizona. We can close a lot of shipyards with no problem at all.

Mr. Conetta.

Mr. CONETTA. The reform impulse during the 1990's was fairly strong, at least on the political end, but it isn't how we achieved savings during that period. The principal savings were achieved first by reductions in structure because of the end of the cold war, and then, because we were able to cascade so much of the equipment that had been modernized during the Reagan era into the Clinton era, so we in a sense got a free ride.

The idea of or the impetus for increased efficiencies during that period was to answer the question: how do we now increase modernization spending again without losing the peace dividend? How are we going to be able to do that? And so the answer was we are going to find all these efficiencies in a wide variety of ways. Many of them never really went forward. They were going against a resistant medium. Some of them did, and the most successful was the BRAC process, which, incidentally, took a lot of the decisionmaking power out of the Pentagon and out of the political process, and that helped a great deal. But even there the net savings probably didn't amount in the end to more than 3 or 4 percent of the total budget.

Part of the problem here, as others have pointed out, is that there is a resistant median, and what one really needs, I think, is to be able to approach the topic from the perspective that these cuts must occur, that the cuts are our premise, and from that point forward you have to find out how to apply them.

That wasn't the case then, and eventually what happened was we had to rebound the budget in order to feed modernization, but it needs to be our premise in the future.

Mr. FLAKE. Thank you.

One more question. Dr. Schmitt, you mentioned that there are areas of savings that we can find, I think you said in personnel and what not, from the report that has been issued. What other areas, other than personnel cost, overhead, retirement, in terms of acquisition or wherever, where do you see savings that can be had?

Dr. SCHMITT. I think it is a real difficulty when they are in the report talking about cutting force structure, because I think force structure is the bone that is left after the administration has really cut $300 billion already from future programs. So we are getting close to we have to make a decision. Do we really want to cut force structure? I go back to my original point, which is that this is a force structure, more or less that several administrations, Democratic and Republican, have agreed on. So I think there is efficiencies. Look, TriCare has to be adjusted. The health care benefits

are driving up O&M. So those are real issues. There are other things that can be done.

I would look at, for example, there are overseas bases that probably can be reduced in numbers, but I don't think it gets you anywhere close to the kinds of savings that maybe we in Congress would like, or Congress would like to fix the fiscal problem that we face.

I just want to sort of go back to one thing that Gordon said, which is he noted that 19 percent of Federal outlays go to defense now. Well, 19 percent is basically what it was when he was at OMB. Federal outlays for defense have not grown inordinately, and the truth is the Obama administration will take the defense outlays down to around 15 percent in a few years. So if I had to step back from this, I would say that the problem isn't defense, it is these other issues.

Mr. FLAKE. Thank you.

Mr. TIERNEY. Thank you.

Mr. Welch, you are recognized for 5 minutes.

Mr. WELCH. Thank you, Mr. Chairman. Thank you and the ranking member, Mr. Frank and Mr. Paul, for their leadership on this.

There are two issues as I hear your testimony. One is just trying to cull the budget and look at where you can get efficiencies, and that has been something that various Congresses have attempted to do. You have identified some places for savings, like perhaps the benefits. I think, Dr. Adams, you indicated that a lot of the procurement reforms are a rehash. But then the second area, which is probably more promising for savings, is examining the force structure and the mission. That is a debate Congress has not yet had.

It seems as though there has been an acceptance in Congress, whether explicit or implicit, that one of the responsibilities of our military is now, in fact, to take on the challenge of nation building, and in order also to accomplish that goal we outsource a very substantial component of the effort. We have 100,000 troops or so in Afghanistan, and 100,000 contractors.

So I would like to just hear briefly from each of you as to what precise elements of a policy could you recommend we focus on that would achieve savings. There was discussion about nation building. There was discussion about the question of force structure.

I will start with you, Mr. Harrison.

Mr. HARRISON. If you are looking for larger savings, I think that you are correct that the place to achieve large savings is in changing the type of weapons systems we buy and altering our force structure, reducing the force structure in certain areas.

Not to stray too far outside of my expertise as a budget guy, but if you look at our threat environment around the world, I think it is true that threats have diminished somewhat in Europe, so maybe we could draw back some of our forces from there. With Asia I am not so sure. I see good arguments on either side of that, that threats might be rising or that they might be balanced by some of our allies that are in that region. But I think if you are going to make these cuts you don't want to cut force structure or weapons systems just for the purpose of achieving savings.

Mr. WELCH. Dr. Schmitt, do you have any comments on that? I only have 5 minutes.

Dr. SCHMITT. I understand. I think you have raised the right issue, which is that we were talking about the kinds of decisions that have to be made if we really want to sort of cut deficits and use the defense budget to really participate in reducing the deficits. You are going to be talking about cutting force structure in substantial ways, which is bound to have—and I think one of the things about the report that is most honest is that it calls for different kinds of a grand strategy.

I personally wouldn't go that route. I think it is more dangerous over the long term. But it is absolutely the question that should be on the table, and I think, frankly, it is the question that we haven't debated over the last several years. So this hearing, in fact, is really useful in that regard, because it raises the key issue.

Mr. WELCH. Dr. Adams.

Dr. ADAMS. Yes. Thank you, Congressman, for asking that question because I do think it is the essential question here. There is no particular magic in a force structure number. Dr. Schmitt has been referring to the fact that all these administrations have agreed on a force structure number. Well, the reality is circumstances change and force structure requirements change as those circumstances change. So when the cold war ended, we took a force that was 2.2 million down to 1.4 million over a period of 4 or 5 years because circumstances had changed.

So the real question we have to ask ourselves is: have circumstances changed? What is the lesson, if there is a lesson, of Iraq and Afghanistan? What is the lesson of terrorism? What is the mission of the military forces that emerged from those lessons and the circumstances in the world?

Let me make just three points. One is overall the United States faces right now today no existential threat, completely different circumstance from the cold war. Right? We are, in fact, living in a safer world.

Point No. 2, the volume, rate, and lethality of conflict around the world has gone down over the past 20 years, not up. As a consequence, the challenges that we face that might even involve our forces are less than what they once were.

No. 3, if the lesson of Iraq and Afghanistan is that the U.S. military has an expanded function for fighting terrorists, countering terrorist organizations, arming other countries, training their security forces, fighting insurgencies—not sure where they are, but fighting insurgencies on a global basis—and nation building, that is the set of missions that need to have a very, very hard scrub by the Congress of the United States.

There is a cottage industry at DOD today, a cottage industry supported right now by this administration that would have that mission set for the department expand rather than contract. That I think is the critical circumstance that Congress needs to look at today in threat terms, in capability terms, in mission terms, in seeking a much more standardized and shrunk American military force.

Mr. WELCH. Thank you. I yield back. Thank you.

Mr. TIERNEY. Thank you. Thank you, Mr. Welch.

Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

I was kind of struck with some of the discussion we just had here. I think sometimes we can be penny wise and security foolish if we forget about the purpose of the military, which is our No. 1 duty as Congressmen, to protect and defend our country and the Constitution.

So I am curious. Some of the cuts and things that you suggested, Mr. Friedman, how is that going to impact our ability to stage operations around the world if we close down some bases in certain areas?

Mr. FRIEDMAN. Well, logistically certainly it is helpful if you want to have a war in Europe to have bases in Europe. The same goes for Asia. So we are not saying that there is no——

Mr. LUETKEMEYER. With all due respect, I know that we have a big hospital base in Germany right now that tends to a lot of our men and women who come from Iraq and Afghanistan who are injured. Are you saying we need to move that or do something different?

Mr. FRIEDMAN. I wouldn't recommend closing that while we are still sending wounded people from Iraq or after there. In the future, after those wars are over, I think I would recommend doing that, along with bringing all our bases from Europe back, because I don't think there is much in Europe that requires U.S. military forces.

My argument, going back to the last question, is not necessarily that there are no threats left in these regions or never will be. My argument is that there are other nations, wealthy ones, in those regions that are perfectly capable of defending themselves when those threats arise.

Sure, there is some risk associated with not having troops in the places where I would like to not have troops, but there is also a risk with having them there in terms of the cost that comes through the force structure of having those missions, and there is a risk associated with participating in a war that maybe we could avoid.

So I think there is danger on both sides.

Mr. LUETKEMEYER. How do you think that makes us vulnerable?

Mr. FRIEDMAN. Which part of it?

Mr. LUETKEMEYER. What are the vulnerabilities if you cut back on things like that?

Mr. FRIEDMAN. I'm sorry?

Mr. LUETKEMEYER. How do you make us more vulnerable?

Mr. FRIEDMAN. How do I make us more——

Mr. LUETKEMEYER. Yes. Don't you think you make us more vulnerable by doing some of those things?

Mr. FRIEDMAN. I think having forces in places where we don't necessarily need to be, because we don't need to participate in a war there because a host country has the capability to do it themselves makes us more vulnerable because I would like to avoid fighting in wars that we could avoid. Wars are dangerous and bad things. They are very costly. So that is the sense in which I mean that. And I think they make us more vulnerable because we have

to maintain force structure associated with those missions, which is very costly.

Mr. LUETKEMEYER. I know that I am speaking of more than just the bases, themselves. I am talking about all of the military operations, all of the equipment that they have. I am very familiar with a young man, for instance, who flies an F–16 that is 22 years old, broke down twice while he was in Afghanistan and again on the way home. I certainly would not want to curtail his ability to have a piece of equipment that he is safe in and protect our men and women who are on the ground with. I think that, again, we can be penny wise and security foolish if we are not careful in how we do the structure of the cuts you are talking about.

I am also curious. I saw, in listening to Secretary Clinton last night, she had an interview and made the comment that there was no intention of pulling out and continued to support Afghanistan and Pakistani efforts. How do you see this playing out, Dr. Schmitt?

Dr. SCHMITT. I expect, if we are to be successful in Afghanistan, that the reductions that are being talked about in 2011 will be very minimal and the likelihood of actually having a substantial number of forces in Afghanistan for an extended period are quite high.

The difficulty with counterinsurgencies is you simply need boots on the ground. They succeed if you have enough boots on the ground. Historically they succeed. If you don't have enough boots on the ground, you won't succeed. But they do take time and they do take resources, and then the question is: do you want to put those resources in? And if you don't, then what are the consequences for abandoning Afghanistan once again?

Mr. LUETKEMEYER. Very quickly, how many of you have served in the military? One. How many of you have members of the family in the military right now? None.

Dr. Schmitt, just very quickly, do you think the concern that we may have here or need to take into consideration, the effect that it may have on our own economy if there is instability in the world by not trolling activities around the world that could impugn or impact us in a certain way?

Dr. SCHMITT. Yes. One of the points I tried to make and hopefully made in the statement, is that we have had a very expensive global posture since the end of World War II. We have had one since the end of the cold war. I think that has led to general stability and prosperity around the world. It is very costly, from the U.S. perspective, but on the whole it has allowed us to grow economically and allowed our allies to grow economically, and I think, in fact, in terms of the sort of world order, the benefits outweigh the cost that we put into it. There is no question that it is costly, but I think, again, the benefits are much more there than not.

The second thing I would say is that we get used to that order. We are used to traveling around the world without any disruption. We are used to oil flowing from the Persian Gulf. But remember the first Persian Gulf War? Just think what the consequences of that if we did not have the sufficient troops to push Saddham out of Kuwait.

These are things that we tend to assume are going to go on in the absence of the security role that the United States plays. I personally think that is a bad bet.

Mr. LUETKEMEYER. Thank you. Thank you, Mr. Chairman.

Mr. TIERNEY. Thank you.

Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I also want to thank the witnesses for helping the committee with its work.

Normally in the midst of two wars this is not the typical time when we would grapple with reducing defense spending, but I think the deficits and the financial situation requires us to do so. We do have an opportunity now. In August our troop deployment in Iraq will go from 165,000 down to 50,000, so maybe it is an opportunity to re-balance and reassess some of this.

After September 11th we saw a big shift from military responsibilities and intelligence responsibilities going over to the contractor side. As the chairman has said, a lot of us on this committee have been over to Iraq. I have been over there at least 12 times, Afghanistan and Pakistan probably another 10 times. It is amazing the amount of responsibilities that used to be core military or intelligence or State Department functions that we have contracted out.

Now, the last couple of weeks we heard a report from Secretary Gates, who said that when we hire a private contractor to take over a responsibility that was formerly performed by Government personnel, that we pay 25 percent more to have that contractor do it. I think there is a real opportunity for savings here, and I want to know, from your standpoint, is this an area we are looking at where we are paying that premium to have private contractors handle this?

I have heard it from everybody. I have heard it from Treasury, I have heard it from USAID, I have heard it from the military that these contractors are cleaning up and they are making pretty hefty profits, and that is all at the cost of the American taxpayer. We have to be smarter now and more resourceful and more prudent with the way we are spending money. Is this an area that we should be looking at, to reduce those costs performed by contractors and have them, instead, performed more efficiently and more cheaply by Government personnel?

Dr. ADAMS. Mr. Congressman, could I tackle at least one cut of that?

Mr. LYNCH. Sure, that would be great.

Dr. ADAMS. I know others on the panel may want to, as well.

I think this contractor versus civil service versus uniform is one of those areas where you might get certain kinds of efficiencies, but you also pay certain kinds of costs. In other words, the key issue for me really here remains mission. What is it we are doing? And then who is responsible for doing it?

When I was at OMB, we did an awful lot of time working on what they call Circular A–76 comparisons. Would it be cheaper to contract it out? Would it be cheaper to do it in-house? These are notoriously difficult calculations to make.

The short-term advantage of doing it with contractors is, once the contract is done, the contractor can go away and you don't as-

sume responsibility for the contractor, so up front it may cost you more dollar-for-dollar in the given year to do a certain function with a contractor. Long-term, you are not going to be invested in that contractor for life.

Mr. LYNCH. And that is a great point, Dr. Adams, but we are talking about core functions.

Dr. ADAMS. Absolutely.

Mr. LYNCH. These functions are not going away.

Dr. ADAMS. No.

Mr. LYNCH. So this is perpetual contracting. I am talking about those functions, not something that is going to go away.

Dr. ADAMS. Absolutely. I am going straight there with you.

Mr. LYNCH. OK.

Dr. ADAMS. This is just an analysis I am giving you right now. On the do it on the government side, you can do it probably more efficiently, although the cost comparisons tend to be difficult because where you allocate wages and salaries, when you do it on the government side of course you are investing on somebody over a lifetime, which means it is not just the direct costs up-front, it is the lifetime costs that benefits the retirement pay and so on, so it makes these comparisons very difficult to do.

The problem that I think we have gotten into is more substantive than the issue of cost, and it is the question you raise. We are now asking contractors to do things which ought to be done under the inherently governmental function title by public sector employees. if we do the sets of roles and missions that we are doing currently, it is going to be enormously expensive to acquire the government personnel to do all of those, which is why the question of mission is tied to the question of whether you do it by a contractor or in the public sector. In other words, to have the right-sized force you have two things you have to deal with. One is how much are you asking people to do, and the second thing, which we haven't talked about, is what is the relationship between your tooth and your tail.

Historically, we have now something on the order of two-thirds of the active duty military personnel actually involved in tail not in tooth, and the ratio of combat forces to tail has actually gotten worse over the past 50 years. It was closer to 50/50 50 years ago. It is now about two-thirds/one-thirds tail to tooth. So the other piece of managing this in the government sector is not necessarily adding people, it is redefining what people's jobs are and how much of a tail you actually need as opposed to the tooth that you need up front.

Mr. TIERNEY. Thank you, Dr. Adams.

Mr. LYNCH. Thank you. I yield back.

Mr. TIERNEY. Thank you, Mr. Lynch.

Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman, and thank you for calling this hearing. It has been a very interesting and informative panel.

I don't have any questions. I just want to make a few comments.

When you add up the regular military budget, the supplemental, and emergency appropriations, the military construction budget, the money that comes in at the end of the year, anonymous bills, we are spending more on defense than all the other countries in

the world combined. As Mr. Conetta has pointed out, a 96 percent increase just since 1998, about three times the rate of inflation over that period.

Most people in the country, if you ask them, they will tell you they are against massive foreign aid, but what they don't realize is that we have turned the Department of Defense in the last many years into the Department of Foreign Aid, because most, or at least very much, of what the Defense Department does is just pure nation building, which is another word for foreign aid. We simply can't afford it.

I agree with Mr. Friedman that much of our interventionist foreign policy that we followed over the last several years has created great resentment around the world and has made terrorism more likely instead of less likely.

When you sit and think about it and about what we have gotten for over a trillion dollars now in Iraq and Afghanistan, fighting against militaries or organizations like Al Qaeda, the main antiterrorism official in the U.N. said a few months ago that Al Qaeda was now so small it was having trouble maintaining credibility.

But we are fighting against organizations or militaries with budgets of less than one-tenth of 1 percent of ours. And these threats have been so greatly exaggerated. I voted for the first Gulf War because I went to all those briefings and heard all the generals and the people from the Defense Department and the State Department tell how great the threat was and talk about Saddam Hussein's elite troops. And then I saw those same elite troops surrendering to CNN camera crews and empty tanks and I realized then that the threat had been greatly exaggerated, and it still has been over these last many years.

So what have we gotten for all this money? Last weekend we had another suicide bomber in Iraq, 48 people killed. The situation there is still just terrible.

Then I saw in the current issue of Newsweek Dr. Richard Haas, president of the Council on Foreign Relations, and he is in favor—there has never been an intervention that he hasn't favored, I suppose, but he wrote about Afghanistan. We are not winning, it is not worth it. And he says in this article the economic costs to the United States of sticking to the current policy are on the order of $100 billion a year in economic cost. The military price is also great, not just in lives and material, but also in distraction from other potential problems.

I was impressed with Mr. Harrison talking about the personnel costs, because we have sent so many factories to foreign countries, other countries over the last 30 years that now for many young people in small towns and rural areas their only way our or their greatest, the highest pay they can receive is in the military, but we can't afford to keep increasing the military pay and benefits like we have been, especially when we are headed into a time when the entire Federal budget is going to be taken up by Social Security and Medicare and Medicaid and various pensions.

So I appreciate what most of these gentlemen are doing. Most of the think tanks and others that favor increasing the military budget at this point are supported by the Defense contractors, and the Defense contractors hire all the retired admirals and generals, and

really what all this is about is about money and power instead of any real threat to us. I am just amazed that more conservative Republicans aren't awake. I think some are awakening to this, because fiscal conservatives should be the ones most horrified by what is going on here.

Thank you, Mr. Chairman.

Mr. TIERNEY. Thank you, Mr. Duncan. I appreciate it.

Ms. Chu.

Ms. CHU. Dr. Adams, you argue that U.S. involvement in Iraq and Afghanistan have led to the abuse of the emergency supplemental process, and actually funded defense spending that is wholly unrelated to the wars in Iraq and Afghanistan. Can you explain how the wars in Iraq and Afghanistan have bloated the non-war defense budget?

Dr. ADAMS. I am sorry. Could you say that again, Congresswoman?

Ms. CHU. You have argued that——

Dr. ADAMS. I heard that, yes.

Ms. CHU. So can you explain how it has bloated the non-war defense budget?

Dr. ADAMS. Yes. There are two principal ways in which the supplementals and the war titles have been used over time in a way that funds expenditures in the Department of Defense that are not directly war related. One which is pretty visible is putting into the supplemental budgets hardware, military equipment, and procurement, that is unrelated to equipment losses in the wars in Iraq and Afghanistan.

That has clearly been done. It was true of the supplementals more than it has been true of the recent war titles in the budgets, but every single war supplemental, starting with the first one, has carried spending for equipment that basically restocks inventories here at home or in exercises for the military but is not replacing equipment lost in Afghanistan or Iraq.

So one of the agreements that the new administration, the Obama administration, when it came in, negotiated with the Department of Defense was to restrict the uses of the supplementals for purchasing equipment that ought to be in the regular base equipment acquisition planning of the services. There remains a gray area there, and the gray area is what is called reconstitution, so I always urge the Congress to take a very close look at what is called reset or reconstitution in war titles and supplementals for equipment that really ought to be funded through the base budget because it is in the long-term plan for the services.

The other area that is more difficult to tease out is in operations and maintenance, and about two-thirds of the spending for the wars in Iraq and Afghanistan falls in operations and maintenance. This is the support for our troops that are in the field. It is not their pay, but it is the support services for the troops. Some of it is going to the contractors we were talking about earlier.

The unique characteristic of operations and maintenance funding in budgetary terms is its fungibility. That is to say, money appropriated for operations and maintenance to the departments and to the military services is essentially fungible with any other money appropriated to operations and maintenance, which means, from

the services' point of view, operations and maintenance funding, which is two-thirds of the war, is funding that is also useful for their general operations and maintenance and can easily be moved around inside the service budget to fund operations and maintenance requirements at home.

That area has not been sufficiently scrutinized by Congress. It does constitute a significant addition of O&M resources to the services.

Ms. CHU. You have also said that what we should learn from Iraq and Afghanistan is that we do not need a military capability of intervening globally in all conflicts and disorder, and that we could prioritize missions that could maintain or even enhance our national security at less cost with smaller forces. Can you explain what kind of military missions you have in mind, how it could work, considering the threat of Al Qaeda?

Dr. ADAMS. Sure, and I know others on the panel may have responses they want to give to that because they have talked about the area of mission.

This is, I think, the fundamental issue. What is the role and responsibility of the United States globally? What are the challenges that we face? What is the role and mission of the military in meeting those challenges? We don't often talk about it that way, but defense forces are basically a support function for our national security policy. They are not our national security policy. They are a support function for it.

So the real question that I think we haven't addressed yet but now need to urgently is: in the array of missions that we have, which ones are most important to the security of the United States, how much is the military role in carrying out those missions? And how much force do we need to actually execute those missions?

The most highly debatable area of mission right now today is in this area of counter-insurgency, stabilization, nation-building, counter-terrorism, and building partner capacity. That whole envelope of missions is an area where defense responsibilities have expanded enormously, and where the lesson we seem to have drawn from the war in Iraq and Afghanistan is we now need to be prepared to do those missions on a global basis.

There is no sustained analysis of that proposition. We have excellent work on how to do counter-insurgency—80 percent of it, by the way, is considered a civilian function in the counter-insurgency manual—we have no analytical text that tells us where, when, how, and why the United States is responsible for those missions on a global basis and where we are going to have to execute them.

So right now we have no analysis of that area of mission in terms of policy and challenge that should tell us how many forces we have, and I think that is highly questionable that our national security is engaged every time there is a terrorist attack, every country where there is an insurgent, every country that has a fragile state, every country that has a security sector.

Right now we have an open door on mission and an open door on budgets without any analysis. If we turn that around and take a hard, cold look at that area, I think we will discover that we don't have as many areas where we need to conduct those kinds of missions. We are not peculiarly well-suited in the military to carry out

governance reconstitution and so on, and we don't have so many countries where we need to worry about doing them.

Where that leads me is to say we can take a step back in that area of mission and we can look seriously at our civilian capacities in the government to execute those parts of those missions that involve governance and economic development, which is the long-term responsibility that we and many other countries and international organizations have, but involve substantially less commitment of military force, certainly not on a global basis.

We then return to missions that others have talked about here, which have more to do with the traditional functions of the military—deterrence, allied reassurance, conventional warfare—and a niche set of missions that may involve the military part of counterterrorism, humanitarian operations, non-emergency evacuation operations, and the like where we can tailor a force that I would suggest is considerably smaller than the force that we have today. It would be more efficient and more sculpted to do those kinds of missions.

So, in a very brief description, that is how I would approach the question of missions.

Mr. TIERNEY. Thank you, Dr. Adams. Thank you, Ms. Chu.

Mr. Jordan.

Mr. JORDAN. Thank you, Mr. Chairman.

I didn't get to hear everyone's testimony. I assume Dr. Schmitt is not, and frankly I wouldn't be either, but how many of the rest of the panel are supportive of a freeze to defense spending or a cut to freeze over an extended period of time, which would in essence be a cut? Who on the panel supports that step? We will go down the line: freeze or reduction? Doctor, do you support that?

Mr. HARRISON. For me it depends. It depends on what changes we are making in the missions that we are willing for our military to support and what risks we are willing to take.

Mr. JORDAN. OK. I didn't want to speak for you, Dr. Schmitt, but I assume that is where you are, just a blanket cap or freeze.

Dr. SCHMITT. No, I wouldn't support that.

Mr. JORDAN. OK. Dr. Adams.

Dr. ADAMS. Definitely support.

Mr. JORDAN. Yes or no?

Dr. ADAMS. Sorry, definitely support it.

Mr. JORDAN. Definitely support it. Now, three and a half, I guess, who supported the cap, would you support the same type of approach to every other agency in the government—Department of Agriculture, Department of Energy, Education, up and down the line?

Mr. FRIEDMAN. It depends. We have to talk agency-by-agency. I can't speak for every agency, so we have to go one at a time.

Mr. JORDAN. OK.

Mr. CONETTA. I think that, given our current circumstance, we should start with the premise of proportionate cuts. We should determine what types of deficit reduction. We need to begin with proportionate cuts as a premise and go from there. I don't think we end up with proportionate cuts. That becomes a question of matching needs to budget.

Mr. JORDAN. OK.

Mr. HARRISON. I think the spending freeze on non-security-related discretionary spending that is in the President's budget this year, I think that is a good thing.

Mr. JORDAN. OK. Dr. Schmitt, would you agree?

Dr. SCHMITT. Freeze and/or cuts.

Dr. ADAMS. Definitely support it. I worked for 5 years in the Clinton administration in OMB, and one of the most effective tools for both the executive branch and the Congress in dealing with deficit reductions was caps and pay-go. They enforced an incredible discipline on every element of the government.

Mr. JORDAN. Let's cut to the chase then. I have introduced the only balanced budget in Congress. Our budget does this. Frankly, until you do that, you don't force Congressmen to do the work we should have been doing all along: finding out which programs work, which ones are stupid, which ones are redundant, what makes sense, what doesn't make sense.

So it seems to me we should have some kind of cap, but I wouldn't say on defense, I would say on the overall budget because, frankly, as Mr. Luetkemeyer pointed out in his questioning, defense is where we are supposed to spend taxpayer dollars. It is everything else that is, according to Robert Rector at Heritage Foundation, it is the 71 different means-tested social welfare programs we have which, when you add State dollars and tax dollars from the State and Federal actually are more than national defense, so there is a whole host of areas that we should be focused on.

How many on the panel would support an overall spending limit, some percentage of GDP, would support that kind of concept in our budgeting process? We will go down the line again.

Mr. CONETTA. Yes. You mean with regard to the entire budget, or with regard to defense, a cap?

Mr. JORDAN. I am talking overall budget. I mean, it is the problem.

Mr. CONETTA. I don't think it is wise to——

Mr. JORDAN. We start with a $3 trillion deficit we have, the $13 trillion national debt we have. It is the overall budget, yes.

Mr. CONETTA. Yes. I don't think we should ever go to deciding that any portion of government spending or government as a whole should be tied to any particular GDP figure. So no, don't tie it to GDP.

Mr. JORDAN. Mr. Friedman.

Mr. CONETTA. You need to make a determination——

Mr. JORDAN. I need to go quick. Mr. Friedman.

Mr. FRIEDMAN. Yes. I support that, not indefinitely but sure, this year, next year, yes.

Mr. JORDAN. OK.

Mr. HARRISON. I would not support it for the overall budget for the simple fact that we have some things in there like Social Security benefits that have already been promised that are growing. Net interest on the national debt is rapidly growing in the budget. I think you have to look. Spending is only one side of the equation. I think you have to also look at the other side of the equation as revenues.

Mr. JORDAN. And I am going to get to the other side in a second if I get time.

Go ahead, Dr. Schmitt.

Dr. SCHMITT. I would support it.

Mr. JORDAN. Yes. Dr. Adams.

Dr. ADAMS. I support caps for discretionary spending, pay-go for mandatory spending. I would not take any part of the Federal budget, including defense, to a share of GDP.

Mr. JORDAN. It seems to me the one thing we need, in addition to doing this, putting limits and going through the exercise of figuring out what works, what doesn't, and getting spending under control, the one thing we really need more than anything to deal with our budget situation is growth. So give me your thoughts. You guys probably guess where I come from on the growth side, but we need to have the right kind of tax policy, the right kind of regulatory policy if we are going to have economic growth.

You talk about the years where we actually balanced the budget and started running surpluses. It is because we had sustained and strong economic growth in this country and, frankly, we are not having it now. I would argue the policies that Congress and the administration have been pursuing are making it difficult to get the kind of economic growth we need to deal with our budget situation long-term. So your thoughts on that quickly and then I will be done, Mr. Chairman.

Mr. CONETTA. Well, I think one thing for sure, looking back, I mean, this is not my area of expertise, how to feed productivity growth. But one thing we can say for sure is that much of the growth that we thought we had in the mid- and late 1990's turned out to be a castle of sand, which we are now paying for through our debt. So we obviously need a different approach to how to feed and stimulate our economy than the one that was present at that time. It wasn't just a government question. It was a question of credit and wealth building in the country, as a whole. It was built on speculation.

Mr. TIERNEY. Thank you, Mr. Conetta.

Mr. Frank, you are recognized.

Mr. FRANK. Thank you, Mr. Chairman. I appreciate this hearing. And I thank all the witnesses.

We need a thoughtful, non-rancorous discussion about the appropriate mission, and I thank all the panelists for the spirit in which we have it. That is the key issue: what should we be doing? What is the policy we should be setting? And we have not had that conversation, and I thank you, Mr. Chairman, for providing this forum for this continuing conversation.

I do want to add just one thing. I know there was a question raised about who served in the military. I think we ought to be very clear. Let me volunteer that I did not serve in the military. I wasn't wanted. I actually did try to line myself in once, but they didn't need me at the time in 1960, and then subsequently I guess there is no point in trying to go where you are not wanted.

But the question of whether or not you served in the military is very relevant to how we should conduct military operations. It is not relevant to whether we should conduct particular operations. That is what this is about. The mission is not about how you fight a war. When we do put our people into war, then I want to be guided by their judgments and I want to give them all that we can.

That is why war is very expensive for us, because you don't send our young people into war.

All of us here on this rostrum have had the terrible experience of going to a funeral of a young man or woman killed in these wars, and so that means you spend it. But whether or not you get involved, no, that is not a matter of military expertise. We honor the military's expertise when they get engaged.

Second, I would say this. Dr. Schmitt, I was a little surprised to hear you say that one of the big arguments for this is that is the way it has always been, or for a long time, that there has been a bipartisan consensus. Frankly, I had thought of the American Enterprise Institute as being somewhat more transformational in its approach. The notion that because we had always done this in a bipartisan way as one argument for continuing to do it I think is mistaken. It would certainly argue against your suggestion that we seriously alter entitlement policy. Social Security has an equally long bipartisan history, and no one I know thinks that, frankly—I mean, I think that is the kind of argument people throw in that doesn't really motivate them, whether that is the way it has always been.

But I would ask you, Dr. Schmitt, in terms of your view that the military has been denied funding it should have ideally gotten, what in the last 10 years or so would be examples of where we were unable to accomplish a valid national security goal because we lacked the military resources to do it?

Dr. SCHMITT. I think we have been able to accomplish those goals, but it has been extremely close run. Let me give you an example when it comes to, for example, the wars in Iraq and Afghanistan.

Mr. FRANK. All right. I appreciate it, but you suggested to me that there was a shortfall.

Dr. SCHMITT. There is.

Mr. FRANK. Yes.

Dr. SCHMITT. There is a shortfall, which others can talk to here as well as I can. There is a shortfall in replacing, recapitalizing the——

Mr. FRANK. OK, but I asked you a specific question. We have paid no price for that yet.

Dr. SCHMITT. We have paid no price for that yet.

Mr. FRANK. OK. I would say, in my view, I can find some resources, the Iraqi situation. Frankly, I think it almost doesn't honor fully the military goal. I am told we are going to keep 50,000 troops in there, but they are not going to be combat troops.

First of all, I think there is some fudging there, because they do, I think shooting and being shot at, I don't know how you define combat, but it does seem to me the people there are doing that. Continuing to keep people there makes no sense to me, but that is an example. If you leave the mission as it is, then you can argue for more.

I also wanted to comment on another important point that was made, Gordon Adams made, and others. Here I think some of my liberal friends may be a little bit inconsistent in over-emphasizing the extent to which you can reduce spending by simply getting rid of fraud, waste, and abuse. There has never been a budget item I

have seen that said fraud, waste, and abuse which you could zero out.

We talk about fat. Metaphors mislead us. Yes, there is fat in every human enterprise, and especially in some public enterprises, but it is not layered, it is marbled. You can't just slice it off at the edges. It is deeply involved. That is why I do believe that the most effective way to enforce efficiency is to put limits on spending, not flat caps, but to let people know there are limits, because imposing efficiency from the outside is very difficult. Incentivizing efficiencies from within is what happens.

I think one of our problems has been that the Pentagon has in general and the national security has in general been less subject to budgetary discipline, and because less subject to budgetary discipline less efficient.

Just one last question, again for Dr. Schmitt. I think we are over-extended. I would ask you to evaluate, because clearly the missions you talk about, oil from the Persian Gulf, it doesn't just come to the United States. In fact, we get more of our oil, I think, from other places. Do you believe that our wealthy western European allies are contributing sufficiently to the common purposes that we have?

Dr. SCHMITT. No.

Mr. FRANK. What can we do to do that? I think here is the problem. I agree with that. Well, no is a very good answer. Not everybody has to hedge everything around here. But the point is this: I think we are the enablers of that. There was a very interesting article in the New York Times a month ago about how the Europeans were able to afford more in some areas of their budget because we carry them.

What would you think we should do if you agree that they are not doing enough? Is there anything we can do to get them to do more, because clearly if they did more couldn't we do less?

Dr. SCHMITT. Yes, we could do less, but I would add that they are doing quite a bit. There are tens of thousands of allied troops in Afghanistan that have——

Mr. FRANK. Excuse me. How many NATO, non-American troops are in Afghanistan?

Dr. SCHMITT. Thirty-five thousand, forty thousand.

Mr. FRANK. Compared to what of us?

Dr. SCHMITT. Fifty thousand now, up to——

Mr. FRANK. And in Iraq?

Dr. SCHMITT. In Iraq, originally about a third of the force——

Mr. FRANK. Originally, but you said first that you don't think they were doing enough.

Dr. SCHMITT. Let me be clear: yes, the allies could do more. I have my doubts that if we reduce our posture in the world and reduce our own budget substantially, as the task force suggests, that we will, in fact, get more from our allies.

Mr. FRANK. Let me ask you that, though, because I think that, I mean, what do you know that they don't know? After all, excuse me, I want to phrase this question. There is, you say, a common purpose with our European allies. There are missions that have to be accomplished, fighting terrorism. I wish you could fight terrorism with nuclear submarines, because then we would win, because

we have more nuclear submarines than they have. Unfortunately, I don't think that much of what we spend helps us. I don't think the political part is a lack of ordnance, a lack of weaponry.

But, given that they have the same interests we have, why, if we did it with less, would they not do more? Would they say, oh, well, Persian Gulf, can't get the ships out, tough? Why would they not be incentivized if we stopped carrying them to do some more?

Dr. SCHMITT. There are free rider problems with the allies, but it is not as severe as sometimes people say. I repeat that if we cut back our forces, it is not as though, because of their own budget, the way they have handled their own budgets, toward which we are heading, they have less flexibility for actually increasing defense.

Mr. FRANK. Are they dumb? Would they endanger the shipping lanes, the Persian Gulf, the Straits of Morocco or whatever that I hear about? I mean, are they suicidal, the Europeans? Why would they not want to defend themselves if we stopped, cut back?

Dr. SCHMITT. Secretary Gates made the point a few months ago, talking about the NATO strategic review, and he said unless the NATO partners begin to up the ante in terms of defense spending the strategic review won't be worth the paper that it is written on. I agree with that. I am just saying——

Mr. FRANK. Would you add a threat that we would withdraw somewhat from western Europe to let them do some more on their own?

Dr. SCHMITT. No. We have withdrawn from western Europe. The amount of troops that we have there is fairly minimal. It is there for logistics and for use because logistics is easier to go from Europe to the Middle East than——

Mr. FRANK. Let me ask you one last question. The 15,000 Marines on Okinawa, which, of course, destabilized the Japanese Government by our insisting on them, I have assumed, and I think we should have sea power and air power available with regard to the People's Republic of China. Is there a contemplation that we are going to use 15,000 Marines in any kind of land war involving the People's Republic of China?

Dr. SCHMITT. No, probably not, when it comes to the land war with China, but the expectations, those troops are there to be able to be deployed in Korea, possibly in a conflict in the Taiwan Strait, and elsewhere.

Mr. FRANK. Well, the Taiwan Strait is——

Dr. SCHMITT. If I could——

Mr. FRANK. Excuse me. A conflict in the Taiwan Strait would be with whom?

Dr. SCHMITT. With China and Taiwan.

Mr. FRANK. OK. Seems to me the notion that we are going to use Marines in any kind of combat with China is, I think they are there for some kind of political reason to reassure the Japanese, keep the Japanese from spending money, and I think 65 years after World War II ended it is time for the Japanese military budget to become realistic.

Thank you, Mr. Chairman.

Mr. TIERNEY. Thank you, Mr. Frank.

I want to thank you and Mr. Paul and the others who were instrumental in having this organization do the report that gave us such a good platform to have this discussion. I thank all of you for participating.

I would allow everybody to ask another question or two if they want on that, primarily so I can ask the one that I want to on that. One of the beauties of being Chair, I guess.

Can any of you—and let's just go down the line—can any of you tell me the number of bases that the United States has overseas, and consequently the number of military personnel that we have in those bases?

Mr. Conetta.

Mr. CONETTA. I would say 873, but the number is probably wrong. It is an old number. It has changed a lot because of building in central Asia, Afghanistan, and Iraq. It is a number to start with. It is also important to recognize that much of that number are really small installations. The number of major bases is much smaller, though it is growing.

In terms of total numbers of people we have overseas, active duty military is in the vicinity of 350,000 divided now not quite equally. More are engaged in the CENTCOM area, Iraq and Afghanistan. The rest are pretty much tied down in Asia and Europe. And that is just the active component. I think it is probably around 45,000 more reservists who are overseas supporting them. So all told we have over 350,000 overseas.

Mr. TIERNEY. Thank you.

Mr. Friedman.

Mr. FRIEDMAN. Well, I was going to please Congressman Frank and just say no, I don't know the answer off the top of my head.

Mr. TIERNEY. OK.

Mr. FRIEDMAN. He knows more than me.

Mr. TIERNEY. That is acceptable.

Mr. TIERNEY. Dr. Adams.

Dr. ADAMS. What Mr. Conetta said is about the right number.

Mr. TIERNEY. OK. I ask that question because we have been working for about 8 months now with the Department of Defense trying to get those answers and they don't have them, so it is interesting that you can tell me the number of bases you think and the number of personnel, because we have gone around and around in charts and paths. We bring it up here and wind it, paper the wall.

Mr. CONETTA. I can only tell you a wrong number.

Mr. TIERNEY. It starts with what is the definition of a base? It is the installation? All the installations, satellite? The number of countries that they are in is astounding, and some of those countries—I think we had an interesting time finding what the heck is our national security interest in having troops in a base in that particular location.

It is a conversation we want to have on this group, but it is one that is very difficult to start until you get the facts on that, and the facts are so difficult to get from the entity that should have them. It should disturb us all on that. It makes you wonder how they can budget and control for those people on those bases and those materials that are in all those places.

I think that is part of it. All this theory that we are talking about is very interesting.

Dr. Schmitt, I was interested in the colloquy between you and Mr. Frank, but part of it would be much better informed if we really knew how many bases were overseas and where they were. It would be fair to you and fair to Mr. Frank to actually have a discussion and be able to point out, well, this one has some significance and this one doesn't. But the fact that we can't even begin to identify where all these people are and then try to figure out what is their impact on our national security interests and how do they play into it and are they essential or not is sort of incredible on that.

Do any of you have any comments that you want to make as we wrap this up, something that you want to leave us with that we may not have covered and should have into or gone into in more depth? We will go left to right if it is OK with you, Mr. Friedman. Mr. Conetta.

Mr. CONETTA. I wanted to underscore what I think is probably the small amount but real amount of consensus that we have discussed as a panel. I think we all agree that it is worthwhile going after problems of waste and trying to improve the efficiency of the Pentagon. I think we all agree that is important. I think we also all agree that it is relatively small peanuts, that if you are looking for big savings it becomes a question of affecting missions and structures, though we obviously don't all agree that would be a wise thing to do.

This pertains especially to Secretary Gates' efforts now to achieve as much as $100 billion savings from reductions in infrastructure and efficiency. It may cast some doubt on whether that is possible. But I think we have identified the notion that if you really want to have big savings, it is going to have to be structured, though we don't all agree that is the thing to do.

One step forward possibly for our thinking in that area is this: we all know what the input is to our military machine. It is dollars. But we seldom speak in terms of what the output is. We sometimes say that the output is structure, which would mean tactical units, or we might, as a proxy for that, say the output is trained individuals. But actually that is not the output in either case. The real output is military power. If we pay attention to the change in our military power, which is not a question of how many ships we have, how many people or planes we have; it really is a more complicated equation than that.

I think we would conclude that, in fact, our military is much more powerful today, although considerably smaller, than it was during the end of the cold war. And that may help our thinking about can we reduce and where can we reduce.

Mr. FRIEDMAN. Just two small points. Dr. Schmitt mentioned a couple of times the $300 billion in cuts that came from procurement programs that Secretary Gates canceled. That is true, but those programs were mostly replaced with other programs. So, while there was savings, they went right back into other procurement for the most part, and in this year, the procurement budget rose significantly. So it is not as if we have been cutting the procurement budget. We have not.

And then, second, with regard to this question I never served in the military, sure, I never served, but when I talk to people from the military I get the sense that they kind of like the idea of doing less and having achievable missions rather than really difficult nation-building goals. I think there is actually a large well of support within the military for the kind of thing that I was talking about in my testimony.

Mr. TIERNEY. Thank you. Mr. Harrison.

Mr. HARRISON. I would just add that I did serve in the military. I don't know that it qualifies me any more to speak about these matters than the other gentlemen at this table.

But my final note, I would just caution that, as we are going through this budget situation over the next several years, we do run the risk of optimizing our force for the wrong type of conflict. Right now Secretary Gates has put a lot of emphasis on optimizing the force for counter-insurgency warfare. We run the risk that 10 years from now, once we are out of Iraq, Afghanistan, that the Nation is not likely to want to get into a situation like that for a long time when you have a military that is optimized for the wrong type of conflict.

Mr. TIERNEY. Thank you. If I can just interrupt for 1 second, Mr. Harrison, I think you hit something on the head. I get constantly asked the question about whether or not this administration or the last administration or any of these people that promote the counter-insurgency theory are intent on doing that in Somalia, Sudan, Yemen, the other areas, is that their intention and goal. That is one of the things that we have to look at. I think Dr. Adams mentioned that.

Dr. Schmitt.

Dr. SCHMITT. Well, certainly you should look at it. I mean, I actually think we have been fairly discreet in some cases. I mean, we have not jumped into every conflict or every place of instability. I think actually some of the military has done a pretty good job of prioritizing where they have to be.

Just two points. One is, and this could be sort of read different ways, but I think the report, when you actually look at it, is probably more sanguine from my point of view about after these wars, about the Middle East, and it is more sanguine about the military balance in east Asia than I would be comfortable with.

I think the trend lines in east Asia are not good. It is something that we are going to have to deal with, and it is going to be costly to deal with it, because the way to deal with it, because it is the Pacific and the Indian Ocean, are fairly significant and costly platforms.

Again, I think Todd is right. There is an emphasis on today's wars. Maybe that is what has to be done. But there is stuff coming down the road that is going to be difficult for us to deal with.

The second thing is I would say that there is kind of an expectation that Iraq and Afghanistan are these one-offs and that we won't be doing that in the future. That may be the case. Maybe we will decide that is the case. But I would just say that both Democrat and Republican administrations have been involved in wars in the Middle East now for 20 years, and so I would say that if history

tell us anything, the likely trend line is that we are not going to be out of that area any time soon.

Mr. TIERNEY. As in we never learn, I guess.

Dr. Adams.

Dr. ADAMS. Four points, I think.

One, I congratulate you on going down this road, because it tries to marry up the problems that we have economically at home and in terms of the Federal budget with how we approach our national defense.

No. 2, as we go down that road, as you in Congress go down that road, dealing with the reality that to get an agreement everything has to be on the table is a good principle.

No. 3, efficiencies clearly are not enough, and I think you have a fair amount of consensus on the panel in that regard that efficiencies aren't going to get it, and Secretary Gates' ambition right now probably falls short of what you are going to have to deal with.

And, fourthly, I want to underline that the discussion that we have on this issue, and it is understandable because it is the subject of this particular hearing, all too often falls into the box of saying what should the military be, what should the military do, how should the military behave. We don't have enough conversations about what are the purposes of American statecraft and what is the role of the military in that broader engagement globally in dealing with the broader set of challenges.

I heard Dr. Schmitt say just a moment ago, and maybe he misspoke, but to say the military does a pretty good job of prioritizing where it should be. Well, it is not the military's job to prioritize where it should be. It is the national security policy apparatus, the White House, the Congress, the civilian agencies, all of whom need to be engaged in that decision, and ultimately it is the Congress and the President's decision about where the military should be engaged or not engaged.

I dig his principle, though. There are lots of areas where we don't have a stake, and defining policies as we defined them today puts us at risk of being in areas where we don't have a stake. I wouldn't use Afghanistan and Iraq as the proxy here for what else we may do. In both cases those were wars of choice. Those were not necessary interventions; they were wars of choice. We chose to go in and remove a regime in Afghanistan. And you can support it or disagree with it, but it was a choice. We chose to go in and depose a regime in Iraq. And in both cases, we ended up inheriting responsibilities for a whole array of functions that we have asked the military to do. I think it is very debatable that we are going to go into those kinds of situations again at any point in the near future.

Mr. TIERNEY. I would hope so. I would hope it is debatable.

Interestingly enough, we had a conference not too long ago about northern Africa, Algeria and Libya and Morocco and places like that, and one of the general consensus—and these were Members of the Senate and the House and both parties—the real question at the end became what is our interest there. I don't think we ask that question enough. What is our interest there, and who else might have an interest that ought to be taking the lead as opposed to us so that we don't have to do that everywhere all the time.

Let me again just say how much I appreciate all of your written testimony and your time spent here, your expertise today. I think you have helped us embark on a conversation that I hope continues. I think it is a valuable one for us to have. I hope it bleeds into some of the other committees both here and in the Senate on that and the American public. I think it is important, so thank you very, very much.

The meeting is adjourned.

[Whereupon, at 11:58 a.m., the subcommittee was adjourned.]

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