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BUDGETING FOR AMERICA'S NATIONAL SECURITY

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

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BUDGETING FOR AMERICA'S NATIONAL SECURITY

THURSDAY, JULY 7, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 10:00 a.m., in room 210, Cannon House Office Building, Hon. Paul Ryan, [Chairman of the Committee] presiding.

Present: Representatives Ryan, Garrett, Calvert, Akin, McClintock, Stutzman, Lankford, Ribble, Flores, Mulvaney, Huelskamp, Young, Amash, Woodall, Van Hollen, Schwartz, Kaptur, Doggett, Blumenauer, Yarmuth, Ryan of Ohio, Wasserman Schultz, Moore, Castor, and Tonko.

Chairman RYAN. Welcome to the reason everybody came here today. Today's hearing on the strategic choices we face in budgeting for our national security. I want to thank my colleague Mr. Van Hollen for requesting this hearing. We may differ over the appropriate level of defense spending, but we stand united in our commitment to America's security and a strategy-based debate when it comes to funding our military. Indiscriminate cuts in defense spending that are budget-driven, and not strategy-driven, are dangerous to Americans here at home and to America's interest in the world. Former Defense Secretary Gates put it quite well when he said, "That is math not strategy."

This Committee has examined, in depth over the last six months—and has advanced solutions to address—the fiscal challenges that stifle job creation today, threaten the economic security of American families and jeopardize our national security commitments, as well.

Our fiscal crisis is above all a spending crisis driven by the growth of our major entitlement programs: Social Security, Medicare, and Medicaid—critical programs that help provide health and retirement security for millions of Americans. In 1970, these programs consumed about 20 percent of the federal budget. These autopilot spending programs now consume about 40 percent of the federal budget.

Over the same period, defense spending has shrunk as a share of the federal budget from about 39 percent to 19 percent, even as we conduct an ambitious global war on terrorism. Clearly, defense spending is not driving our unsustainable fiscal path. There is, of course, considerable waste and inefficiencies at the Pentagon, which Secretary Gates did a great job of identifying. The House-passed budget builds upon this effort, devoting $100 billion of the

savings the higher priority defense programs and $78 billion of savings to deficit reduction.

We must work together to address the real drivers of our debt. We must advance solutions like those included in the House passed budget that strengthen our social safety net, save our critical health and retirement security programs, lift our crushing burden of debt, and spur economic growth and job creation.

America remains the greatest force for human freedom the world has ever seen. Lifting millions out of poverty and liberating millions from the shackles of terror and tyranny. Our leadership in the world is threatened by a fiscal crisis from within, and the stakes could not be any higher. It is critical for our national security and our economic security that we advance solutions that match the magnitude of the challenges before us. I thank our witnesses for joining us today and for bringing considerable expertise to help us frame the strategic choices we face. We have David Mosher, did I pronounce it right is it Mosher? David Mosher serves as Assistant Director for CBO on National Security. We will also hear from a former colleague of ours here in the House, former Senator Jim Talent, who is now a distinguished fellow at the Heritage Foundation and a member of the bipartisan panel that provided an independent assessment of the most recent QDR. Welcome back Jim, it is good to see you. We also have Dr. Gordon Adams, a distinguished fellow at the Stimson Center and a former national security budget official during the Clinton Administration.

The final point I want to make is this—a sentiment that I know Mr. Van Hollen shares: The men and women in uniform are not mere line items on our federal budget. Our budget debates must never lose sight of our solemn obligation in Congress to provide our troops fighting overseas with the resources they need to successfully complete their mission, and our commitment to them upon their return. We owe a debt of gratitude to our military families that have taken untold sacrifices for our security and our freedoms we hold dear. I want to thank the witnesses, and I now yield to Mr. Van Hollen for his opening statement.

[The prepared statement of Chairman Paul Ryan follows:]

PREPARED STATEMENT OF HON. PAUL RYAN, CHAIRMAN, COMMITTEE ON THE BUDGET

Welcome all to today's hearing on the strategic choices we face in budgeting for our national security.

I want to thank my colleague Mr. Van Hollen for requesting this hearing. We may differ over the appropriate level of defense spending, but we stand united in our commitment to America's security and a strategy-based debate when it comes to funding our military.

Indiscriminate cuts in defense spending that are budget-driven and not strategy-driven are dangerous to Americans here at home and to America's interests in the world. Former Defense Secretary Gates put it well: "that's math, not strategy."

This Committee has examined in depth over the last six months—and advanced solutions to address—the fiscal challenges that stifle job creation today, threaten the economic security of American families, and jeopardize our national security commitments as well.

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Clearly, defense spending is not driving our unsustainable fiscal path. There is, of course, considerable waste and inefficiencies at the Pentagon—which Secretary Gates did a great job of identifying.

The House-passed budget builds upon this effort—devoting $100 billion of savings to higher priority defense programs and $78 billion to deficit reduction.

We must work together to address the real drivers of our debt. We must advance solutions, like those included in the House-passed budget—that strengthen our social safety net, save our critical health and retirement security programs, lift our crushing burden of debt, and spur economic growth and job creation.

America remains the greatest force for human freedom the world has ever seen, lifting millions out of poverty and liberating millions from the shackles of terror and tyranny. Our leadership in the world is threatened by a fiscal crisis within—and the stakes could not be higher.

It is critical for our national security and our economic security that we advance solutions that match the magnitude of the challenges before us.

I thank our witnesses for joining us today, and for bringing considerable expertise to help us frame the strategic choices we face.

David Mosher serves as the assistant director of the Congressional Budget Office for national security.

We'll also hear from a former colleague of ours here in the House, former Senator Jim Talent who is now a distinguished fellow at the Heritage Foundation, and a member of the bipartisan panel that provided an independent assessment of the most recent Quadrennial Defense Review. Welcome back Jim.

We also welcome Dr. Gordon Adams, a distinguished fellow at the Stimson Center, and a former national security budget official during the Clinton Administration.

A final point worth keeping in mind today—a sentiment that I know Mr. Van Hollen shares: the men and women in uniform are not mere line-items on the federal budget.

Our budget debates must never lose sight of our solemn obligation in Congress to provide our troops fighting overseas with the resources they need to successfully complete their mission, and our commitment to them upon their return.

We owe a debt of gratitude to the military families that make untold sacrifices for our security and our freedoms we hold dear.

Thank you to our witnesses—and to all for joining in today's discussion, and with that, I yield to the Ranking Member, Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you. Thank you Mr. Chairman, and thank you for holding these hearings. As you indicated we requested a few months ago a hearing on the role of defense spending, security spending within the overall budget as well as a hearing on tax expenditures at some point; and I thank you for holding the hearing today. I hope we can do the other one. And I want to join the Chairman in welcoming all our distinguished witnesses hear today. The Congressional Budget Office just released a new updated report on the Pentagon's current plans that concludes historical cost growth will continue to put upward pressure on the budget at a time of large deficits, and we will hear more about that today. As Republicans and Democrats come together to work out a plan to get deficits and debt under control, we must get a better understanding of all the elements of the budget that continue to put pressure on the budget's bottom line and what options we should explore to get the most out of every tax dollar spent. There is no higher priority than providing for the security of our country and I join the chairman in expressing our gratitude to the men and women in the military who help keep our country strong. We all want a military that is second to none, but during this difficult fiscal period we have to be much smarter and more efficient in how we go about providing for one. The economy, the source of our ability to provide for a strong security apparatus, is at risk because of

large deficits and rising debt over time. Admiral Mike Mullen, the Chairman of the Joint Chiefs of Staff, warned the policymakers of this growing risk when he stated, "Our national debt is our biggest national security threat."

Over the last decade the base Pentagon budget has nearly doubled, and spending at the Pentagon is now at its highest level since World War II. The United States currently outspends the world's second largest military, China, by a factor of 7-1. Roughly $700 billion to $100 billion, and from 2001 to 2010, security spending including Pentagon, State Department, VA, and Department of Homeland Security, excluding emergencies and war costs, grew on average 1.5 percent per year more than non-security spending. Over the last decade the Pentagon was able to avoid making difficult choices because of this permissive funding environment. This is not my opinion, it is the opinion of the highest ranking officer in our military, Admiral Mullen said, and again I quote, "With the increasing defense budget, which is almost double, it has not forced us to make the hard trades. It has not forced us to prioritize. It has not forced us to do the analysis."

We can no longer afford to spend tax payer resources without ensuring every dollar is efficiently and effectively invested. There is now bipartisan consensus that all spending, including spending at the Pentagon, must be on the table as we figure out how to get our finances back on track. Many Republicans have expressed their support for reviewing defense spending to find savings, including Governor Haley Barbour, former Majority Leader Dick Armey, former Senator and three-term Chairman of the Senate Budget Committee Pete Domenici, and many others. Even in this year's Defense Appropriations Bill, Chairman of the Appropriations Committee, Hal Rogers, and Appropriations Defense Subcommittee, Bill Young, made the case that Defense cannot be excluded from this debate. Others have proposed far deeper cuts to security spending.

The President's Fiscal Commission, co-chaired by Democrat Erskine Bowles, and Republican former Senator Alan Simpson, proposed more than a trillion dollars in cuts to security programs over 10 years, including illustrative examples of how to save $100 billion per year at the Pentagon as part of a balanced plan to reduce the deficit. A majority of the commissioners voted to approve that plan by vote of 11 to 7, including a number of Republican Senators.

Even in this committee, where agreement is hard to come by, the notion that all spending, including spending at the Pentagon, needs to be on the table was agreed to by a majority of the members this spring in Sense of the House language. So where do we look for savings? We should look at all aspects of the budget, but the very first item to examine should be inefficiencies and wasteful practices.

After years of trying, the DOD is still the one agency, the one agency that cannot pass a standard audit. It does not keep track of the number of service contractors even though it spends roughly $200 billion a year on such contracts. Major weapon acquisition programs have experienced hundreds of billions of dollars in cost overruns in recent years. The GAO recently estimated cost growth of these weapon systems totaling $300 billion, and the GAO has identified a number of persistent, high-risk management areas at

the Department that need improving. There are also seemingly endless examples of stories of abusive contracting practices.

Last Friday, Leon Panetta was sworn in as Secretary of Defense, someone who is well prepared to deal with our fiscal challenge because of his vast security and budget experience. He released a message on Friday saying, "A choice between fiscal discipline and a strong national defense is a false choice." I agree with the incoming Secretary of Defense in that regard. We can make both tough decisions to put spending at the Pentagon on a more affordable path and still maintain a military that is second to none. Again, Mr. Chairman, thank you for holding this hearing. The Defense Department budget alone makes up approximately one-fifth of the entire federal budget, and more than half of all discretionary spending. So I think this hearing is an important exercise in our oversight responsibilities. Again, thank you.

[The prepared statement of Chris Van Hollen follows:]

PREPARED STATEMENT OF HON. CHRIS VAN HOLLEN, RANKING MINORITY MEMBER, COMMITTEE ON THE BUDGET

I would like to thank the Chairman for holding this hearing. I requested a couple of months ago that we hold a hearing on Pentagon spending and tax expenditures and I welcome this opportunity today. I would also like to join you in welcoming our witnesses. Mr. Mosher, Senator Talent, and Dr. Adams, thank you for coming today to share your views and analysis on the Pentagon's budget and budgeting for our national security in general.

The Congressional Budget Office just released a new updated report on the Pentagon's current plans that concludes historical cost growth will continue to put upward pressure on the budget at a time of large deficits. This report is very timely. As Republicans and Democrats come together to work out a plan to get deficits and debt under control, we must get a better understanding of all the elements of the budget that continue to put pressure on the budget's bottom line and what options we should explore to get the most out of every tax dollar spent.

There is no higher priority than providing for the security of our country. We all want a strong military that is second to none, but during this difficult fiscal period we have to be much smarter and efficient in how we go about providing for one. The economy—the source of our ability to provide for a strong security apparatus—is at risk because of large deficits and rising debt. Admiral Mike Mullen, the Chairman of the Joint Chiefs of Staff, warned policy makers of this growing risk when he stated, 'Our national debt is our biggest national security threat.'

Over the last decade, the 'base' Pentagon budget has nearly doubled, and spending at the Pentagon is now at its highest level since World War II. The U.S. currently outspends the world's second largest military—China—by a factor of seven to one (roughly $700 billion to $100 billion). And from 2001 to 2010, security spending (including funding for the Pentagon, State Department, VA, and Department of Homeland Security), excluding emergencies and war costs, grew on average 1.5 percent more per year than non-security spending.

Over the last decade the Pentagon was able to avoid making difficult choices because of this permissive funding environment. This isn't my opinion; it is the opinion of the highest ranking officer in our military. Admiral Mullen said, "* * * with the increasing defense budget, which is almost double, it hasn't forced us to make the hard trades. It hasn't forced us to prioritize. It hasn't forced us to do the analysis."

We can no longer afford to spend taxpayer resources without ensuring every dollar is efficiently and effectively invested. There is now bipartisan consensus that all spending, including spending at the Pentagon, must be on the table as we figure out how to get our finances back on track. Many Republicans have expressed their support for reviewing defense spending to find savings, including Governor Haley Barbour, former Majority Leader of the House Dick Army, and Former-Senator and three-term Chairman of the Senate Budget Committee, Pete Domenici.

Appropriations Committee Chairman Hal Rogers and Defense Appropriations Subcommittee Chairman Bill Young also made the case that defense cannot be excluded from this debate when they brought a defense appropriations bill to the

House floor that, while still increasing defense funding over this year's level, contained $9 billion in cuts below the President's February budget request for 2012.

Others have proposed far deeper cuts to security spending. The President's Fiscal Commission, co-chaired by Democrat Erskine Bowles and Republican Former-Senator Alan Simpson, proposed more than $1 trillion in cuts to security programs over ten years, including illustrative examples of how to save up to $100 billion per year at the Pentagon, as part of a balanced plan to tame deficits. A majority of Commissioners voted to approve that plan by a vote of 11 to 7.

Even in this committee, where agreement is hard to come by, the notion that all spending, including spending at the Pentagon, needs to be on the table was agreed to by a majority of its members this spring. The Committee voted to include 'Sense of the House' language to that effect in the 2012 budget resolution.

So, where do we look for savings? While we should examine all aspects of the Pentagon budget, the very first item to examine should be inefficiencies and wasteful practices. After years of trying, DoD still can't pass a standard audit. It doesn't keep track of the number of service contractors it has even though it spends roughly $200 billion per year on such contracts. Major weapons acquisition programs have experienced hundreds of billions in cost overruns in recent years; the Government Accountability Office (GAO) recently estimated cost growth of these weapons systems totaling $300 billion. GAO has identified a number of persistent high-risk management areas at the Department that need improving. There are also seemingly endless stories of abusive contracting practices. The most recent example is one uncovered by a government report showing that Boeing overcharged DoD for a number of spare parts it was providing. One spare part was marked up 177,000 percent above its cost.

Last Friday, Leon Panetta was sworn in as Secretary of Defense, someone who is well-prepared to deal with our fiscal challenges because of his vast security and budget experience. He released a message on Friday saying that a choice between fiscal discipline and a strong national defense is a false choice. I believe he is correct. We can make both the tough decisions to put spending at the Pentagon on a more affordable path and still maintain a military that is second to none.

Chairman Ryan, thank you for holding this hearing on the security budget. The defense budget alone makes up approximately one fifth of the entire Federal budget and more than half of all discretionary spending. It is important that we exercise as much oversight as we can over such a large piece of the budget.

Again, I thank our witnesses for coming today and I look forward to hearing their testimony.

Chairman RYAN. Thank you. Thank you, Mr. Van Hollen. We will begin with our testimony. I asked our witnesses if they could keep it to five minutes and then they will be able expand on all of their points in the Q and A. We will start with Mr. Mosher, and Senator Talent, then Dr. Adams. Mr. Mosher the floor is yours, and put the mic right up to your faces.

STATEMENTS OF DAVID E. MOSHER, ASSISTANT DIRECTOR, NATIONAL SECURITY, CBO; JIM TALENT, DISTINGUISHED FELLOW, THE HERITAGE FOUNDATION; AND GORDON ADAMS, DISTINGUISHED FELLOW, THE STIMSON CENTER

STATEMENT OF DAVID E. MOSHER, ASSISTANT DIRECTOR, NATIONAL SECURITY, CBO

Mr. MOSHER. Thank you Mr. Chairman. Thank you Congressman Van Hollen. Members of the Committee, I appreciate the opportunity to appear before you today to discuss CBO's recent analysis of the long term implications of DOD's budget request. DOD's plans are outlined in the Future Years Defense Program, or FYDP, for 2012-2016 period and in documents it is published on its long-term procurement plans. Because decisions made in the near-term can have long-term consequences for the defense budget, CBO projected the costs of DOD's plans for its base budget, that is, DOD's budget without war costs, from 2012 through 2030. CBO has projected what it would cost to execute those plans using cost factors that

are consistent with DOD's recent experience. CBO's detailed analysis was released last week and can be found on our website, but I want to emphasize that our analysis is intended to highlight the cost of executing the current plan. It is not an analysis of affordability or the requirements for defense; nor is it a prediction of likely actions taken by lawmakers.

CBO's analysis yielded the following conclusions. DOD anticipates that the base budget will grow about six percent in real terms over the next five years from $536 billion in 2011 to $569 billion in 2016 in order to execute its plans. I am using 2012 dollars in my presentation today. CBO on the other hand projects that that funding would have to grow about 11 percent in real terms over that same period or almost double what DOD estimates.

In 2030, CBO projects that DOD would need a budget of $642 billion to execute its current plans, an increase of 20 percent in real terms over what you guys appropriated in 2011. The primary cause of growth through 2030 would be the rising costs for operation and maintenance plus those for military personnel. In particular, CBO projects that there will be significant increases in the cost for military health care, military and civilian compensation, and various other Operation and Maintenance activities. If you could put Slide 1 up please.

As you can see from the top line in Slide 1, that is projected on the screen, it is Figure 3 in the prepared statement. The O and M line, which is that top line, grows rapidly over the FYDP and beyond. In fact it is the largest growing, the fastest growing of all those—a total of 42 percent growth from 2011 to 2030. The military personnel account, which is the next line down from the top, provides pay and most benefits to our soldiers, grows at about 26 percent over that same period.

CBO projects that together those two lines would consume about 71 percent of the budget in 2030, up from 63 percent of the budget today if DOD does not change the size of its force structure beyond 2016. In other words, the same force will continue to cost more and more every year. The growth in those two accounts represents the largest budget challenge to DOD in future years, particularly if defense budgets are cut below 2012 levels. I just want to point out, by contrast the procurement account would grow rapidly through 2019 but then start to fall thereafter. Growth in the Operations and Maintenance account is driven in part by rapid growth in the military health system. More than nine million active duty, reserve, and retired military personnel and their families are eligible for this benefit. CBO projects that the cost for the military health system will nearly double in real terms from 2011 to 2030. By far the fastest growing major component in DOD's budget.

Compared to levels in 2000, costs will quadruple by 2030. If you could show the next slide please. The figure on the screen, which is Figure 4 in my prepared statement, illustrates the growth in CBO's projection. Rapid growth would occur in all categories of costs in the military health system except the cost of military personnel, which is that bottom category, which will grow much more slowly. The growth rates for military health systems have been significantly higher than the rates in the national health care costs over the past five years, and CBO projects those differences will

persist. For example, DOD spending per user, for purchased and direct care, grew at three times the national rate from 2006 to 2010.

An important contributor to that increase are the accrual payments for TRICARE for Life, a benefit that Congress added in 2002. You can see the top category in the figure there in light blue. TRICARE for Life wraps around Medicare, significantly reducing out-of-pocket costs for beneficiaries who are eligible for both programs. They are generally military retirees and their spouses after reaching age 65. This leaves DOD with few tools to control these beneficiaries' utilization of services. It also has the effect of increasing Medicare spending, as well. Once again, I want to thank you for the opportunity to appear before you and discuss our analysis, and I look forward to your questions.

[The prepared statement of David E. Mosher may be accessed at the following Internet address:]

http://cbo.gov/ftpdocs/121xx/doc12162/07-07-FYDP_Testimony.pdf

Mr. GARRETT [presiding]. I thank the gentleman, Congressman.

STATEMENT OF JIM TALENT, DISTINGUISHED FELLOW, THE HERITAGE FOUNDATION

Mr. TALENT. Thank you Mr. Chairman. I remember the frequency with which I would read full statements when I was on your side of the table. So I am going to recap what I have to say and then make one observation, and then I would be happy to accept your questions and respond to them. In recapping my statement, let me give a little bit of a historical overview. I think that is the best way to do it. I came to the House in 1993, which coincided with the beginning of the post-Cold War policies and the Peace Dividend that the government took at the time. The force structure many of you know this, was cut by approximately 40 percent across all three services. Procurement was at the time cut by even more than the force structure was cut. They took a procurement holiday. As I pointed out in my statement, there was one year when they did not buy a fighter aircraft for the Air Force; the reason for that was the assumption that we would not have to put boots on the ground in the future, the assumption that for at least 10 years there would be no existential threat to the United States. These assumptions, by the way, continued through, mostly, through the 1990's, and the assumption that by modernizing the platforms and modernizing the force it would make each service member less vulnerable and more lethal and more capable so that we would be able to accept a smaller force and fewer platforms.

Then modernization was cut in the 1990s. At the same time, as Bob Gates has pointed out, we found out that history had not ended; it had just thawed out with a vengeance and deployments went up. Every president in the post-war era has sustained the commitments made by his predecessor and added to them, and that includes this president, who has sustained his predecessor's commitment, increased what we did in Afghanistan, and has now announced a responsibility to protect. And I do not intend to be critical of that; it just shows how busy our forces have been protecting American interests around the world.

Then 9/11 occurred, spending on defense did go up but it was largely eaten up by costs that were generated by the decisions in the previous decade. Operation and Maintenance has gone up because when you increase deployments and you cut the number of platforms and you do not modernize, maintenance goes up because you are trying to keep legacy inventory and operation. Compensation has gone up. I think that was justified, but it was also necessary because when you put this kind of stress on a volunteer force you have to pay people more.

Well, the upshot is that chickens are now coming home to roost. We have kicked the modernization can down the road as far as we can and now we have a force which is losing crucial capabilities. The Navy is the smallest it has been since 1916. The Air Force is the smallest and the oldest it has been since the inception of the service. The Army's missed several generations of modernization. The Army is not ready outside of the forces that are committed into combat. The tip of the spear is sharp, but they get that way by cannibalizing the rest of the spear. So if the balloon goes up some place else we are going to send in troops that do not have enough training and do not have the equipment, even the legacy equipment that they need, and that is why the panel which you all created which was consisted of people appointed by the leaders of Congress and the administration, the Perry-Hadley Panel, and I mention this extensively in my remark, concluded that a train wreck is coming in the area of force capability because we have to modernize the force. Now we have a modernization crisis and we have to increase the size of the Navy.

That, in sum, is my remarks. I do want to add one observation; I know that the budget times are difficult. It is an unusually difficult time and maybe unusually difficult to do what could have been done any time in the last 15 years to put in the funds that are needed to modernize and recapitalize the force and increase the size of the Navy, but at least recognize that there is a problem. Do not, because you cannot solve it right now, try and pretend that there is no problem. There is a problem. If you recognize that there is a problem it gives a sense of urgency to doing the things that you can do.

I mention in my written statement, for example, it would be a very good thing if we could increase foreign military sales because the defense industrial base is very fragile now. Well, we can carry, we can support that industrial base and carry some of these programs if we have more sales, but it is very difficult because we have an archaic system of approving these things and it takes a long time. You guys have probably studied it. Well if you accept the fact that there is a problem and we need to do something about it, you will approach that kind of a reform with a much greater sense of urgency.

CBO talks about the need to reduce the costs of military retiree health care. I would agree with that and I think it is possible to do that without threatening the quality of that health care. We need to meet with the retirement community and their leaders, and we need to work something out. There is an urgency in doing that if you recognize that we are losing capabilities: air superiority, amphib capabilities, the ability of the Army to move quickly and

move efficiently and effectively when it needs to. There is a bunch of things that you can do.

The other thing is if you recognize that there is a problem you can be opportunistic when the time comes. I have written in other forms about the stimulus bill. It was a decision to stimulate the economy by spending about $800 billion. I did not agree with it as a matter of fiscal policy but when I heard the government was going to do it, I thought, well now here is an opportunity to address some of these needs. For about a third of that money set aside judiciously over five to 10 years, combined with the procurement reforms that we need, we have could have taken care of this problem. Even if procurement and modernization had gotten the same percentage of that money that the DOD gets in any given fiscal year, we could have done a lot. We could have kept the F-22 line open; we needed to keep that line open as a hedge against the fact that the Russians and the Chinese are still building fifth generation air-to-air superiority fighters. We could have bought F-18s as a hedge against the fact that you may not buy out the F-35 requirement. We could have gone to production of a higher rate production of Virginia Class submarine earlier. We could have had the money available to reset the Army after these conflicts, and there would have been money left over. And I think had this body been conscious as a body, had we made the decision to recognize and confront the fact that there was a problem, there is a very good chance that that money would have been there. It would have been spent in American industries, high paying American jobs, which was the logic behind the bill. But instead there was no money spent on modernization or procurement, and I think that is because we did not confront the problem.

I think there would have been a greater sense of urgency last year about passing a defense appropriations bill. I am not going to comment on that greatly but you all know, the failure to pass the bill and funding it through CRs did damage to the way the department operates, and that was not even a money issue. And I think there would be a greater sense of urgency now, at least, to try and do what Secretary Gates has said for several years needs to be done, which is to pass budgets that have modest real increases in the defense budget, along with the savings that we are trying to get, so that we can at least stop the bleeding until the budget situation is resolved and we have more funds to address the modernization crisis.

I will conclude by saying what I said in the statement. Yes, there is a price to strength. There is an upfront cost to it. There is a price to weakness too, and we have been living with it. The reason that Operation and Maintenance budget is going up the way it is going up is they have to take care of legacy equipment that is breaking down. Some of it has mission capable rates of 50 percent. So you are shoveling money in without getting the value because we have not recognized the problem and we have not committed ourselves to a solution.

I understand the situation that you are in. You have a very difficult job in the best of times, and these times it is extremely difficult, at least confront the problem, and at least approach with a sense of urgency the things that we can do. Thank you.

[The prepared statement of Jim Talent follows:]

PREPARED STATEMENT OF HON. JIM TALENT, DISTINGUISHED FELLOW, THE HERITAGE FOUNDATION, FORMER U.S. SENATOR FROM THE STATE OF MISSOURI

Mr. Chairman, I am former Senator Jim Talent, from Missouri. I served in the United States Senate from 2002-2007 and I was privileged to be a member of the House from 1993-2001. During my years of service, I was a member of the Armed Services Committees in both bodies. I am currently a Distinguished Fellow at The Heritage Foundation focusing on defense and national security, though the views I will express today are my own.

I want you to know that I greatly value the work of this Committee and I honor and appreciate the work of every Member here. In the best of times you must make difficult choices; in these times your choices are particularly unpalatable.

You have asked me to testify regarding "Budgeting for America's National Security." I will focus my remarks on the condition of America's military today and its likely condition in the future given current trends.

Mr. Chairman, when I was on your side of the table, I always appreciated witnesses who stated their views plainly and with candor, because finding a solution requires first and foremost being willing to recognize the extent of the problem. In that spirit I will give you my conclusion about the state of America's military. Despite the dedicated efforts of our servicemen and women—who are among the finest who ever served any country—America's military strength is declining, both absolutely and relative to the dangers which confront us. The rate of decline is growing, and will soon reach a point—if the point has not been reached already—where our military leaders will not be able to honestly guarantee America's security within an acceptable margin of risk.

Allow me to briefly survey some history to explain how the current state of affairs came about.

After the Berlin Wall fell and the Cold War ended, many in Washington believed that the United States had entered an indefinite period of peace. Because of that, the government took too large of a "peace dividend" out of the defense budget. The size of the military was cut by approximately 40-50 per cent across all the services. Then in the mid-1990s, the government took what was called a "procurement holiday." It reduced modernization budgets, and reduced the rate at which it bought ships, planes, helicopters, tanks, and other inventory, far more than the size of the force was cut. There was one year, for example, when the United States did not purchase a single tactical fighter jet for the Air Force.

Yet as it turned out, the end of the Soviet threat did not bring global peace. To paraphrase Secretary Bob Gates, history had not ended; it had only been frozen, and in the post-Cold War years it thawed out with a vengeance. All the regional, religious and ethnic rivalries that had been suppressed beneath the Soviet/American competition came to the surface, and the United States used its military to manage the resulting conflicts. In the last twenty years, and beginning well before the 9/11 terrorist attacks, the American military has deployed at a far greater rate than was ever the case during the Cold War. America has fought four major regional conflicts—in Bosnia, Kuwait, Iraq, and Afghanistan. It is beginning a fifth conflict now, in Libya; at this point, no one knows what the extent or duration of that mission will be. In addition, the military has engaged in a wide variety of other missions—from fighting the drug war, interventions in places like Somalia, stopping piracy, and delivering humanitarian aid—most of which would have been unthinkable during the Cold War.

It's the age old lesson our government never seems to learn. Ignoring the potential for conflict does not make the conflict go away. Failing to prepare for a mission does not make the mission less necessary or less likely. In fact, there are some conflicts that are more likely precisely to the extent that we do not prepare for them, because the purpose of military capability is not just to win wars but to deter them.

Mr. Chairman, this highlights a benefit of military preparedness that your Committee cannot score in dollars but which is nevertheless very real: the savings from missions that do not happen because military power deters conflict from occurring. An excellent example is America's presence in the Northwest Pacific. During the first half of the 20th century, there were three wars in that region involving Russia, China, Japan, and Korea. During the last half of the 20th century, there were no wars. That's at least in part because after the Korean conflict, America created and sustained equilibrium in the region that has prevented conflict and promoted peaceful development. That equilibrium has proven beneficial to the United States and to the world. That is also why the four American Presidents in the post-Cold War era have continued America's presence in Korea. If our footprint there were to be

eliminated, decreased stability could end up costing far more than the burden of maintaining America's presence in the first place.

Here is another relevant example. In the 1990s, the active duty Army was cut from 18 to 10 divisions, on the assumption that America would not need to commit large numbers of troops on the ground for long periods of time. That assumption was driven at least in part by the desire to save money rather than by sound national security planning. As it turned out, two different Administrations decided—in each case with strong support from the Congress—that there was a need for large numbers of boots on the ground in Iraq and Afghanistan. Yet because the Army had become so small, its rotational base was inadequate, which is why the Reserves have been constantly mobilized and so many of our troops have had to do four or five tours of combat duty in the Mid-East. There is at least a substantial chance that if the Army had been bigger, America could have surged troops in Iraq and Afghanistan at the same time, and shortened one or both of the missions. If so, the savings would have dwarfed any savings that were achieved by the original cuts—not to mention the lives that would have been saved, the reduced stress on our servicemen and women, and the increased confidence at home and abroad that would have resulted from a more effective operation.

Here is another point. I'm sure you are all aware that the cost of pay and benefits for the military is continuing to increase substantially. Now, our servicemen and women deserve every dollar they get. But there is no question that because the force was too small to support the increased operational tempo of the last twenty years, extra money had to be spent for pay, bonuses and benefits in order to protect recruitment and retention.

Mr. Chairman, my point is this. There is unquestionably a cost to sustaining military strength, and the Budget Committee must take that cost into account. But there is also a price to be paid for weakness; it can be very substantial and if the Committee is going to budget honestly you must take that into account as well.

The upshot is that in the last two decades, the combination of increased deployment, reduced force structure, and underfunded procurement and modernization has caused a decline in America's military capability. In the late 1970s, America's military "hollowed." Now it is stressing and rusting; inventories are aging and increasingly out of date technologically. The Navy has fewer ships than at any time since 1916. The Air Force inventory is smaller and older than at any time since the service came into being in 1947. The Army has missed several generations of modernization, and many of its soldiers are on their fourth or fifth tour of duty in Iraq or Afghanistan. The Reserves have been on constant mobilization and are under stress; many vital programs, such as missile defense, have been cut; the space architecture is old and needs to be replaced; and in the past two years, no fewer than 50 modernization programs have been ended.

In fact, there are very few major modernization programs that are still actively underway at the Pentagon. As a result, each of the services has pressing needs that are largely unmet:

- The Air Force must replace the fighter inventory, develop new cargo and tanker assets, build a new bomber, and increase long-range strike capability.
- The Navy must increase the number of submarines, sustain the number of aircraft carriers, develop a new cruiser, replace the aviation inventory on the carrier decks, buy more destroyers, and buy out the requirement of new littoral combat vessels.
- The Army must, at minimum, sustain the number of troops at current levels as well as modernize and replace its inventory of fighting vehicles, and procure a next-generation attack helicopter—all supported by a more robust and secure battlefield network.
- The Marines must restore their amphibious landing capability and acquire both Harrier and A-10 replacements, while allotting sufficient funds to fix and replace equipment worn out from a decade of war.

These programs are not luxuries, but needs. Without them, the United States will lose basic capabilities that everyone has come to take for granted. For example, if current shipbuilding rates continue, the number of American naval vessels will continue to decline and the United States will no longer have a global Navy. The Marines have already lost considerable amphibious capability and are losing more, which means the Marines will no longer be able to storm the beaches. They have already lost a considerable portion of their amphibious capability. Because of Russian and Chinese advances in fighter capability, and the end of the F-22 production line, America's traditional air superiority is eroding. According to Lieutenant General David Deptula, recently departed Deputy Chief of Staff for Intelligence in the U.S. Air Force, "For the first time, our claim to air supremacy is in jeopardy * * * The dominance we've enjoyed in the aerial domain is no longer ours for the taking."

I said before that American strength is declining not only in absolute terms but relative to the risks we are confronting. Time does not permit me to survey all the risks confronting the United States, but I will offer two observations: about the conflict against terrorism and the implications of China's growing power.

First, for the purposes of this testimony, it's not necessary to speculate on the current status of the war against terrorism. What we do know is this. Whether the President's drawdown of our troop surge in Afghanistan works or not, and whatever else happens there, America is going to maintain a substantial presence in country for an indefinite period of time. Our troops may well remain in Iraq in some capacity or other, and the military is certainly going to continue conducting counter terrorism operations around the world on an ongoing basis. Moreover, it is at least possible and perhaps probable that America's military will have to get more involved in places like Yemen, if not in counterinsurgency than in enhanced counterterrorism activities.

The important thing for your Committee to consider is that whatever the exact nature of American operations against Al Qaeda and its affiliates, that mission will be substantial, and it is being executed by a force the size of which was determined in the 1990s before terrorism was considered a major threat. In other words, force structure was never adjusted upwards in response to the attacks of 9-11; the conflict against terrorism is a mission that was added to the burdens of a military that was structured without that mission in view.

Second, Chinese power is surging at a pace that no one anticipated when the current force was established. China need not become an enemy, and its increasing power should not be viewed as inherently hostile. The Chinese are simply recovering from a long period of unusual weakness and beginning to assert themselves as a major power. But the rise of Chinese power has implications for the United States that no Administration can ignore, especially considering the form it is taking. There is no doubt whatsoever that China is deliberately assembling naval, missile, and air assets for the purpose of acquiring the ability to deny the United States access to strategically vital parts of the Western Pacific. Whether and under what circumstances they might use that capability is an open question, as is the question of China's intentions regarding the assertion of its power globally. But whatever combination of engagement, diplomacy, and deterrence President Obama or future Presidents might use in response to Chinese ambitions, the foundation of any successful policy will be confidence in America's commitment and leadership, and that will be determined in substantial part by the presence and capabilities of America's naval and air power in the Pacific—power which is currently in a state of decline.

Mr. Chairman, I haven't said anything to this point that was not said, in much fuller form and with complete documentation, by the commission that Congress created last year specifically for the purpose of reviewing the condition of America's military and recommending steps for the future. I refer to the Independent Panel which examined the Quadrennial Defense Review produced by the Pentagon in the spring of 2010. The Independent Panel was chaired by former Secretary of Defense William Perry and former National Security Adviser Stephen Hadley. It was thoroughly bipartisan, consisting of twenty members appointed by the Obama Administration and the Republican and Democratic leaders of the two Houses of Congress. The Panel considered the likely risks facing the United States and examined the adequacy of the military to respond to those challenges. To that end, the Panel interviewed scores of top officials and examined all the relevant material, including classified documents. I heartily recommend the report to the Committee and will summarize for you today some of the key conclusions that are relevant to this hearing. Direct quotes from the report are italicized and page numbers are provided for reference.

The Perry-Hadley Panel unanimously concluded:

The United States has for most of the last century pursued four enduring national security interests. Those objectives include defense of the American homeland, assured access to sea, air, space, and cyberspace, preservation of a favorable balance of power across Eurasia that prevents authoritarian domination of that region, and providing for the global "common good" through such actions as humanitarian aid, development assistance, and disaster relief. (page vii)

Five key global trends face the nation as it seeks to sustain its role as leader of an international system that protects the interests outlined above. Those trends include the Radical Islamist extremism and the threat of terrorism, the rise of new global great powers in Asia, continued struggle for power in the Persian Gulf and the greater Middle East, an accelerating global competition for resources, and persistent problems from failed and failing states. (page vii)

These trends are likely to place an increased demand on American "hard power." (page vii)

"There is increased operational tempo for a force that is much smaller than it was during the years of the Cold War. In addition, the age of major military systems has increased within all the services, and that age has been magnified by wear and tear through intensified use." (page 53)

[The report] suggests an Army and Marine Corps of the same size as today, but suggests the Navy expand substantially * * * Air Force end strength * * * may be at about the right level (page 58)

"We have long been living off the capital accumulated during the equipment investment of 30 years ago. The useful life of that equipment is running out, and, as a result, of the inventory is old and in need of recapitalization. Because military power is a function of quantity as well as quality, numbers do matter. As the force modernizes, we will need to replace inventory on at least a one-for-one basis, with an upward adjustment in the number of naval vessels and certain air and space assets." (page 55)

The Department must fix its acquisitions process to regain credibility * * * [producing] real savings, which should be captured and applied to the modernization effort. However, those savings will be insufficient for comprehensive modernization. "Meeting the crucial requirements of modernization will require a substantial and immediate additional investment that is sustained through the long term." (page 61)

Finally, the Panel issued two warnings that are worth quoting in full as the conclusion to this portion of my remarks.

"The issues raised in this Report are sufficiently serious that we believe an explicit warning is appropriate. The aging of the inventories and equipment used by the services, the decline in the size of the Navy, escalating personnel entitlements, overhead and procurement costs, and the growing stress on the force means that a train wreck is coming in the areas of personnel, acquisition and force structure." (page v)

"There is a choice our planners do not have. As the last 20 years have shown, America does not have the choice of abandoning a leadership role in support of its national interests. Those interests are vital to the security of the United States. Failure to anticipate and manage the conflicts that threaten those interests—to thoughtfully exploit the options we have set forth in support of a purposeful global strategy—will not make those conflicts go away or make America's interests any less important. It will simply lead to an increasingly unstable and unfriendly global climate and, eventually, to conflicts America cannot ignore, which we must prosecute with limited choices under unfavorable circumstances—and with stakes that are higher than anyone would like." (pages 28-29)

NEXT STEPS

Mr. Chairman, I am going to recommend a series of steps that can be taken, on a bi-partisan basis and even in this extraordinary budget climate, to address the problem that I have raised in these remarks and that the Perry-Hadley Panel covered so thoroughly in its Report. Before I do that, I want to put the issue in context.

If the government were in anything approaching a typical budget year, this would not be that difficult a problem. The first step would be for the Department of Defense to work vigorously to reduce the cost of major new procurement programs. The Pentagon simply cannot continue taking up to 20 years to design and build major new military platforms that end up costing billions more than was originally estimated. The pace of technological change and the needs of modern warfare make procurement reform vital, even apart from the budgetary issues created by the current ineffective system.

Procurement reform would produce substantial savings that could be put towards the recapitalization called for in the Perry-Hadley Report. I comment more on procurement reform below. Except for the unusually difficult budget situation, the next step would be to do what the Perry-Hadley Panel explicitly recommended: increase the procurement and modernization budgets by an additional amount sufficient to recapitalize military inventories over the next five to ten years. The sum necessary would be substantial but fully affordable in the short term, and as I have already said, failing to spend the necessary dollars only increases costs in the long term. In fact, the shortfall is as large as it is today because in the past—when there was no budget crisis—the government did not spend the smaller sums that would have prevented the problem from ever occurring. It always costs more to catch up than it does to keep from falling behind.

To emphasize precisely that point, The Heritage Foundation advocated for years that the government adopt as a guideline funding the military force structure at a level equal to four percent of America's GDP. Heritage believed that over time, and assuming normal economic growth, a figure equal to that percentage was approxi-

mately what was needed to recapitalize and sustain the force. Beyond that, however, Heritage wanted to emphasize that no matter what fiscal policy Congress adopts, and regardless of your views regarding other budgetary needs, America can afford to defend itself. The government may choose to spend less than one out of every 25 dollars defending the country, but it certainly can spend at least that much. As the Committee is aware, the government has often spent much more than 4% of GDP on the military in the past, at times when the economy was much smaller and less prosperous than it was until the recent economic crisis.

Again, to put the budgetary issue in context, two years ago, the government spent close to 800 billion dollars in an extraordinary attempt to stimulate the economy. None of that money was spent on recapitalizing the military. It's not my purpose to comment on the stimulus bill as a matter of fiscal policy, though my views on that subject are easily available to anyone who wants them. But had perhaps a third of that money been reserved for and spent judiciously on military modernization over the next decade (and assuming the necessary procurement reforms had also been implemented) Congress would by that decision alone have met the vital needs which the Perry-Hadley Panel thoroughly documented. And the money would have been spent on high skilled, high paying American jobs in American industry, which was supposedly the point of the stimulus bill.

That was a missed opportunity. Congress should not miss such an opportunity again. If I were on the Committee, and regardless of whether I was a Republican or Democrat, I would vote to recommend the necessary funding to begin implementing the recommendations of the Perry-Hadley Panel—even given the current budgetary climate. The problem which the Panel report documented must be addressed, and the sooner Congress addresses it, the less it will cost in the long run.

Moreover, funding military modernization is fully consistent with finding a solution to the budget crisis. I do not pretend to be as expert on budget issues as Members of this Committee. But it does not take an expert to see that the core of the problem is a structural mismatch between the revenue dedicated to the entitlement programs and the growing cost of those programs. One way or another, Congress is going to have to resolve that issue. If it does, then a thoughtful plan to recapitalize the military over the next decade will be fully affordable. If it doesn't, then denying our servicemen and women the tools they need to defend us will not prevent the bankruptcy of the government. In fact, it will make the budget situation worse, if—as is entirely possible—America's growing military weakness causes conflict that could have been prevented, increases instability that inhibits economic growth, or allows a disaster to be inflicted on the homeland or the American economy.

In short, Mr. Chairman, this government is where it is not because of budgetary necessity but because of choices that were voluntarily made over the last 20 years. Making the wrong choices over time has multiplied problems and narrowed the number of solutions that are available. Making the right choices, on the other hand, will gradually reduce the challenges we face and create more palatable options for the future. The right choice is to meet the government's most basic responsibility and fund the military at the level that gives the greatest chance for peace and security in the future.

The current budget climate may make that decision politically or practically impossible in the short term. Here are some other steps I recommend for the Committee:

1. STOP THE BLEEDING IN THE SHORT TERM

Stop cutting the President's budget for defense, and—until the general budget crisis is resolved—make every effort to meet Secretary Gates' goal of a small real annual increase in the defense budget. I understand that in this budgetary climate, every aspect of the federal budget is "on the table." There undoubtedly are efficiencies that can be found in defense spending. When savings are achieved, however, they should be invested in the procurement and modernization budgets. Every dollar that is used effectively now in those budgets is money that will not have to be found later.

Also, Congress should pass a timely defense appropriations bill every year. Last year, Congress failed to pass a FY 2011 defense bill and instead funded the Pentagon through Continuing Resolutions that lasted well into this calendar year. Apart from the resulting cuts in the President's budget, which was already too low, the operational restrictions in the Continuing Resolutions caused significant disruptions in the Pentagon's contracting process for ongoing programs. That caused unnecessary and significant challenges for the Department and defense contracting community from which they have not yet recovered.

Third, on a forward going basis, Congress should make every effort to set and keep stable funding projections for ongoing programs. Of necessity, Congress appropriates on a yearly basis, while the Pentagon's major modernization programs last for a number of years. Without firm funding projections for the out years which Congress commits to keeping, it is impossible for the Department to plan and spend the money it is given efficiently. But with such a commitment, it would be possible to procure more platforms in an economical way, through multi-year programs and other plans to buy larger numbers of platforms according to set commitments over time.

2. PROCUREMENT REFORM IS NECESSARY BOTH TO SAVE MONEY AND FOR THE REASONS I HAVE OUTLINED ABOVE

But the Committee should be aware that every Secretary of Defense in the last 15 years has dedicated himself to procurement reform. Congress has passed several bills on the subject, and yet the system is at best no better and by most estimations has gotten worse.

A quote from former Secretary of the Navy John Lehman illustrates the problem:

"There were about 1,000 people in the Bureau of Ships during World War II * * * And they were the ones that mainly ran the shipbuilding program—not micromanaged the contractors, but developed and did the systems integration and oversaw the program. Through World War II, they built on average about a thousand ships per year. That's one ship per person.

Now in my day (in the 1980s), there were 4,000 people in the Bureau of Ships, and we averaged 28 ships per year.

Today we're averaging about 6 to 7 ships per year, and there are 25,000 people in the equivalent of the Bureau of Ships. That's a whole Pentagon load of people in the Bureau of Ships. Now they're scattered all over the country in different offices and functions, but the numbers are—you can get into lots of quibbles about it—but the numbers increased from 1,000 to 4,000 to 25,000 as the numbers of ships declined precipitously.

And so what's the answer? Reform? We have a new budget that will add 20,000 additional civil servants to oversee the already-bloated layers of bureaucracy that are there today."

The Perry-Hadley Report contains a brief but important chapter on procurement reform which I strongly recommend to the Committee. The Panel noted that the most basic problem was "fragmentation of authority and accountability for performance." In other words, the processes of procurement have been made so complicated—often in an effort to avoid mistakes or ensure oversight—that there is no single manager or small group of managers who have the authority to make decisions or feel accountable for the progress of programs. Someone must be clearly in charge of every procurement program, and must clearly have the authority that goes with that responsibility.

Second, the Panel noted that the Department must insist on no more than a 5 to 7 year delivery window for new programs. That means, among other things, accepting that a platform as initially delivered may have only incrementally improved capabilities which can be further improved through evolutionary upgrades over time after the platform has been deployed. Successful programs in the past have often gone through several upgrades over decades. Such a process is better suited to the rapid pace of technological change, and is much easier to manage in an efficient way, than trying to achieve every possible desired improvement before initial delivery.

To put it another way, we have to focus on getting more hulls in the water, more planes in the sky, and more trucks and fighting vehicles on the ground. We have to increase numbers quickly even if it means increasing capabilities more incrementally.

There are a number of other cogent suggestions in the Report. But the upshot is that a well trained line management force, with clear authority and responsibility, that insists on short timelines with reasonable deliverables, is the key to procurement reform. What is not needed are huge numbers of new regulations or new managers with complicated chains of command. If that is the manner in which "reforms" are instituted, they will increase rather than reduce costs.

It should be noted that one of the reasons program costs have gone up is the decline in the defense industrial base. The private sector has not been unaware that since the end of the Cold War, the government has not placed a high value on procurement and modernization funding. That has caused investment to shift away from defense industries and remaining firms to consolidate. This is not 1961 anymore; there really is no more "military industrial complex" or if it exists, it's a lot

smaller than it used to be. A decade ago, there were six major aircraft producers in the United States. Now there are two. Forty years ago there were eleven major naval shipyards. Now there are four. For the first time in almost a century, America has no manned military or civilian aircraft in design.

Fewer competitors generally means less competition, which puts upward pressure on prices. Moreover, it means that the remaining industrial base is less flexible and more fragile. Before Congress ends programs like the F-22 and shuts down major production lines, it should remember that those lines cannot be reconstituted without enormous cost and without taking a lot more time than it would have taken in the past. So where there is any doubt about whether further procurement of an existing platform may be required, every effort should be taken to keep the production line going. And in general Congress should consider how to protect the remaining defense industrial base, perhaps with small investments in crucial capabilities even where the money is not available to fund a major program. In this respect, I applaud the HASC for its efforts to keep open the Abrams tank line and the Bradley fighting vehicle line. Given the significant possibility that Army modernization programs will not be funded, keeping those lines open at least helps ensure that the industrial base stays intact, that new if not modern platforms will be available, and that evolutionary upgrades can be considered at some point.

3. CONGRESS CAN STRENGTHEN THE INDUSTRIAL BASE BY PROMOTING FOREIGN MILITARY SALES

Easing restrictions on sales of select platforms to allies and partners will achieve more efficient production rates and offset costs born by the American taxpayer as well as help protect the industrial base. One problem is archaic International Trade in Arms Regulations which are time confusing and confusing. They should and can be reformed without sacrificing real national security concerns. In fact, by reauthorizing and reforming the old Export Administration Act, Congress can strengthen protections against exports to state sponsors of terror while applying less stringent standards to more generic kinds of exports to friendly countries. Also, more can be done bilaterally to encourage defense trade cooperation. As a first step in this process, the Senate was correct to approve two treaties that exempted the United Kingdom and Australia—two reliable allies—from various restrictions.

Finally, with regard to personnel costs. Much has been written about how Congress has increased benefits to servicemembers, active duty and retired, in the last ten years, causing personnel costs to grow. That policy was, in general, necessary and right—though it was a mistake not to increase the topline to pay for the extra compensation—because it allowed the volunteer force to mature and play its part in carrying out American foreign policy.

After World War II, the logic of historical events pushed America to the forefront of world affairs. American leaders established a baseline goal of protecting the homeland and limiting the spread of totalitarian domination without precipitating a third World War. There have been many mistakes in judgments, operational failures, and periods of insensitivity and excess since that goal was established. But the baseline strategy has been a success, and because of that the United States and the world has experienced a tremendous growth in freedom, prosperity, and—relative to the first half of the 20th century—peace. Moreover, America achieved its goals while at the same time consistently reducing the percentage of its national wealth that was devoted to the nation's defense.

There are a number of tools our government has used to accomplish that strategy. I am an advocate for the tools of "smart power," as properly defined: diplomacy, international coalitions, engagement, the growth of economic and democratic institutions, and effective communication about America's values and intentions. But the underpinning of all those tools is America's military capability, and the underpinning of that is the dedication and competence of the men and women who have defended us over the last 60 years.

Those men and women have made the volunteer military an unqualified success. They have accomplished every mission we have given them. They deserve to be well compensated. Moreover, the sacrifices they and their families make, and the depth and diversity of their skills, has become so great that to keep them in the service we must compensate them at a level commensurate or greater than what they could earn in the private sector.

So in my view, and without commenting on every specific benefit decision, the increase in pay and benefits of the last ten years was justified and necessary. But there are three areas where I believe the compensation structure should be reformed.

First, too much of the compensation package is concentrated in the post retirement years. I do not begrudge our retired servicemembers their pay and benefits, but because the retirement benefits have become so generous, the government has made it financially prohibitive for many servicemembers to continue in the military once they are eligible to retire after 20 years of service. That pressure has become a burden on retention. We need these highly skilled servicemembers to stay longer in the military, and we need a compensation system that allows them to continue their service without feeling like they are doing a financial disservice to themselves and their families.

Second, the cost of health care is becoming a problem, particularly for retired servicemembers. I voted for TriCare for life when I was in the Congress, and I believe it was right thing to do. But it ought to be possible to work with the retiree community to lower the cost of that care without sacrificing quality or putting an unfair burden on retirees.

Third, Congress must understand that the cost of military compensation comes directly out of the same pool of dollars that pays for everything else on which our servicemen and women depend. It is politically popular to increase benefits, and as I said the increases were justified by the contributions of our military. But increasing compensation is irresponsible and self defeating when it means sacrificing the training or tools that servicemembers need to accomplish their missions at low risk and with minimal loss of life. In future, benefits should not be introduced or increased unless Congress is also willing to increase the top line defense budget enough to pay for it.

CONCLUSION

Mr. Chairman, I want in conclusion to thank you and the Committee again for inviting me to testify. The condition of America's military is a cause for grave concern. I know that your options to deal with the issue are not as robust as they would have been even a few years ago. The key at this point is to confront the problem rather than trying to avoid it, carefully consider the options that are realistically available in the short term, and then choose the right alternatives within the universe of what is possible. The good news is that making the right decisions now will expand the range of palatable alternatives in the future; the inherent resiliency of the volunteer force and the people who constitute it may make it possible to recover our strength sooner than might reasonably be expected.

Mr. GARRETT. I thank the gentleman. Dr. Adams.

STATEMENT OF GORDON ADAMS, DISTINGUISHED FELLOW, THE STIMSON CENTER

Mr. ADAMS. Thank you very much Mr. Chairman, Ranking Member Van Hollen, for whom I am also a constituent. It is a pleasure to be here. Thank you very much for asking me to testify today and talk about this issue. It is incredibly important work that you are doing and I want to try to offer a perspective, perhaps slightly different from either one that you have just heard, about how we might go about doing that work.

When I worked at the Office of Management Budget, which I did for five years in the 1990s; one of my bosses, who I think lurks behind that portrait over there in that corner, I am not quite sure because I am at a angle to it, would have been Congressman Panetta, who was the Chair of this Committee at the time is now the Secretary of Defense. We struggled very hard with this issue of the relationship between defense and the rest of the federal fisc and the US economy, and in the process of doing that struggle in large part because we were constrained by the budget rules that were laid down and the Budget Enforcement Act of 1990, spent a great deal of time negotiating between the Office of Management and Budget, and the Budget Committee; the Chairs, the Ranking Members, and the Members of the Budget Committee. So I am very conscious of the important role that you play. As we head into what Chairman Mullen called our most significant national security

issue, which is dealing with our deficits and our debt, your role is going to become ever more important. I appreciate it and I understand it.

Let me reassert then as my first point to summarize my testimony that our deficit, our debt, and the economy are our most important national security issues. I agree not only with Chairman Mullen but with the Simpson-Bowles Commission, with the Rivlin-Domenici Commission, and national security is part of that issue. All spending contributes to deficits. All spending contributes to the borrowing we have to do to fund the deficits. All revenue changes contribute to deficits, and to the borrowing that has to be done to make up and fund those deficits, and that includes national defense. It always has and it always will.

The Congressional Budget Office and further work on their data by the Center on Budget and Policy Priorities show that over the past 10 years, and stretching out over the next 10 years, the deficits and the accumulated debt the United States has have stemmed largely from three things: the tax cuts of 2001 and the reduction of revenue, the increase in defense spending, and the combination of revenue and spending increases that happened as a result of the recession. A much smaller proportion of the deficits and the accumulated debt is attributable to the one time TARP Bill, and to the stimulus package of 2009.

So defense is part of the problem. All federal spending, all federal revenues are part of the problem, and that is why for you everything has to be on the table.

Defense, point number two, is always resource constrained. We speak as if we lived in a universe where defense and resources are unlinked. One of the major weaknesses of the panel in my judgment that Senator Talent served on was that it dealt with the world as if there were no resource constraints on any part of the federal budget, especially defense. But as Bernard Brodie, prominent strategic analyst, said many years ago in 1959, "Strategy wears a dollar sign." Resources and strategy are always linked; they will always be linked.

In doubling the defense budget over the past 10 years, as Admiral Mullen said and Congressman Van Hollen referred to that, "We have lost our ability to make the hard choices and do the trade-offs." Well the piper who is playing the piping tune now that we have to pay is making those tough choices and doing the trade-offs that have not been done for the past decade.

Third point, we are in a build-down. The build-down is already underway in defense. It is the fourth defense build-down that we have done since the end of the Korean War. This is not a new experience in American national security history. We have built down each time we have ended major involvement in a conflict, Korea, Vietnam, the Cold War, and now Afghanistan, and Iraq. This build-down is driven by the end of those conflicts and by an increasing concern about our deficits and our debt.

We managed a build-down in 1990s. That build-down actually began under the George H.W. Bush Administration. The first 500,000 people who came out of the military force structure were taken out by Secretary of Defense Dick Cheney, and Chairman of the Joint Chiefs of Staff Colin Powell. We managed that build-

down through the 1990s, and frankly despite some of the issues raised by Senator Talent, it was in fact the best managed build-down we have had in American history and left behind a dominant global military force; one that took out Saddam Hussein like a speed bump in 2003. So it is possible to manage a build-down. We have done it before, we can do it again.

Fifth point, in my judgment the $400 billion over 12 years the Administration put on the table is best the Defense Department is likely to do; it is a minimal. As I say in the testimony, we can achieve $400 billion in savings in defense over the next 12 years providing the Defense Department with growth at the rate of inflation over that same 12 years as against the current defense projected baseline.

The commissions that have been mentioned before in introductory remarks, and we did the staffing on defense for the Rivlin-Domenici Panel, have proposed more significant reductions, $500 billion to $1 trillion, which at $1 trillion comes to something like 15 percent of the projected resources over the next 10 years. It is possible to do a build-down. We agree that if you reach numbers of those magnitudes it is very important, as you suggested in your introductory remarks, to link it to strategy. And so in the testimony and in work we did for Rivlin-Domenici and published in Foreign Affairs in January of this year, we have talked about what some of those priorities may be, and I hope we get a chance to discuss them more in the context of this hearing. Terrorism obviously won, and we can talk about how one approaches that. It is not predominantly a military issue. Cyber protection is one, also not predominantly a military issue. Large steel conventional combat, we judge to be relatively unlikely, not likely. The rise of China is an issue of serious discussion and serious consideration, but not manifestly a threat against which we need to throw a significant growth in defense resources. And most important perhaps in our view, the counterinsurgency mission, the dealing with fragile states using the military instrument, expanding the force to cope with that kind of a problem, we would be drawing the wrong lessons from Afghanistan and Iraq not the right lessons, and I am prepared to talk to that proposition.

So we suggest in the testimony options that involve shrinking the American military force, dealing judiciously with our procurement vectors in the future, the Army fortunately has spent a good deal of money through supplementals over the past three or four years to help get ahead of the ball on its own reset problem and to deal seriously with the problem of defense infrastructure. When we have more than 500,000 American combat forces, or I should say uniformed forces, which are not in combat and do not deploy according to the Defense Business Board, we have a serious problem of tooth-to-tail; and that tail needs to be dealt with in a serious way.

Final point, and I will close with this, it is important to point out that even if you took all of these steps the United States retains today and would retain 10 years out a globally dominant military. We sometimes lose this point in talking about problems that the military has. We have the only military in the world capable of flying anywhere in the globe. We have the only military in the world

capable of sailing anywhere in the world. We have the only military in the world capable of deploying ground forces anywhere in the world. We have the only military with global intelligence, communications, transportation, and logistics. The only military, no other country in the world even comes close. Ten years out in a well managed build-down we would have exactly the same thing. Thank you very much.

[The prepared statement of Gordon Adams follows:]

PREPARED STATEMENT OF DR. GORDON ADAMS, PROFESSOR OF INTERNATIONAL RELATIONS, SCHOOL OF INTERNATIONAL SERVICE, AMERICAN UNIVERSITY, AND DISTINGUISHED FELLOW, PROJECT ON BUDGETING FOR FOREIGN AFFAIRS AND DEFENSE, STIMSON CENTER

Chairman Ryan, Ranking Member Van Hollen, and Members of the Committee, thank you for the invitation to appear today on the critical and timely subject of our national security budget.

As you search for avenues to deal with our continuing fiscal crisis, it is important to keep in mind that a solution can only be found if everything is on the table, including national security spending. The underlying theme of my testimony today is that our defense budget is not only part of our fiscal dilemma; it can and should be part of the solution as well. We are at a critical juncture in defense planning and budgeting at which international conditions make it possible and timely to rethink how we use our military as part of our toolkit for international engagement.

The Defense Department has not faced strategic or budgetary discipline for more than a decade. Our military budget has more than doubled in the past decade, consuming 55% of our entire discretionary costs. Last year it reaching a level in constant dollars unprecedented since the end of World War II. And the missions we have asked the military to perform have grown virtually without end.

Such discipline is now both possible and necessary. In the long term, strategy and resources—human and fiscal—have always been linked. As Bernard Brodie, one of America's great strategic thinkers, put it more than fifty years ago: "Strategy wears a dollar sign."[1]

A disciplined approach to both will produce budgetary savings and ensure that our military capabilities and global leadership remain powerful and well focused on core missions. This means making choices linked to a realistic assessment of risks, defining missions better connected to a more coherent strategy, and doing so within constrained resources.

My testimony draws on work we have done at the Stimson Center's project on budgeting for foreign affairs and defense, including consulting with the Bipartisan Policy Center's Rivlin-Domenici Debt Panel, as well as my more than thirty years experience in policy research and government service in the area of national security planning and budgeting.[2] It is based on several key principles:

- Our central national security crisis today is our looming federal debt and annual deficits. All ingredients of national spending and revenues must be on the table for our deficits to be brought under control and our debt to be stabilized. A budgetary solution is achievable only if it is balanced, with every element of federal spending and revenues playing a part.
- A defense "build down" is already under way. Defense budgets are primed to decline, as they generally do at the end of combat deployments and with changes in the international environment, and will do so gradually over the next decade. In my judgment, the starting point for budgetary discipline is the FY2011 appropriation for the base defense budget—$529 billion. The slope of this build down will be gradual, implemented over a number of years, and it should be linked to a coherent set of strategic, mission, and program choices.
- Much deeper reductions than those proposed by the administration are possible, likely, and can be executed with little or no risk to American national security if properly planned. The twelve-year, $400 billion reduction that President Obama announced in April is a very small step in that direction; it could be accomplished

[1] Bernard Brodie. Strategy in the Missile Age. (Princeton: Princeton University Press, 1959). p. 358.

[2] Stimson project work is publicly available at (*http://www.stimson.org/programs/budgeting-for-foreign-affairs-and-defense/*) and blog (*http://thewillandthewallet.org/*). See also Gordon Adams and Cindy Williams. Buying National Security: How America Plans and Pays for its Global Role and Safety at Home. (New York: Routledge, 2010).

while continuing to provide growth with inflation to the defense budget. Deeper cuts are possible and likely. The Simpson-Bowles Fiscal Commission, the Bipartisan Policy Center's Rivlin-Domenici Panel, and the Sustainable Defense Task Force have all endorsed reductions between $500 billion and a trillion dollars over the next ten years. Even those can be accomplished successfully, representing something like 6-13% of the currently projected defense resources.

• The key to a successful build down will be linking strategic and mission discipline to this need for fiscal discipline. This means setting mission priorities for the military. In a Foreign Affairs article earlier this year, we recommended focusing on combating Al Qaeda's organization and cybersecurity as the most critical missions and divesting from counter-insurgency and nation-building.[3]

• The strategic, mission, and fiscal discipline I recommend creates little risk for our national security. Indeed, priority-setting might enhance both our security and our global leadership. Even with such reductions, the US military would continue to be decades ahead of any other military in capacity and technology, with the only capacity to fly, sail, and deploy ground force on a global basis and the only global capability for communications, logistics, transportation, and intelligence on the planet.

UNDERSTANDING THE TREND: DEFENSE BUDGETS IN CONTEXT

It is not my intent here to analyze the risks that unprecedented US debt and continuous high deficits pose for the US economy and our global role. But it is important to underline that our economic strength is as critical or more for our future security as the level of our defense spending. As Admiral Mike Mullen, Chairman of the Joint Chiefs of Staff, put it, "the single-biggest threat to our national security is our debt."[4]

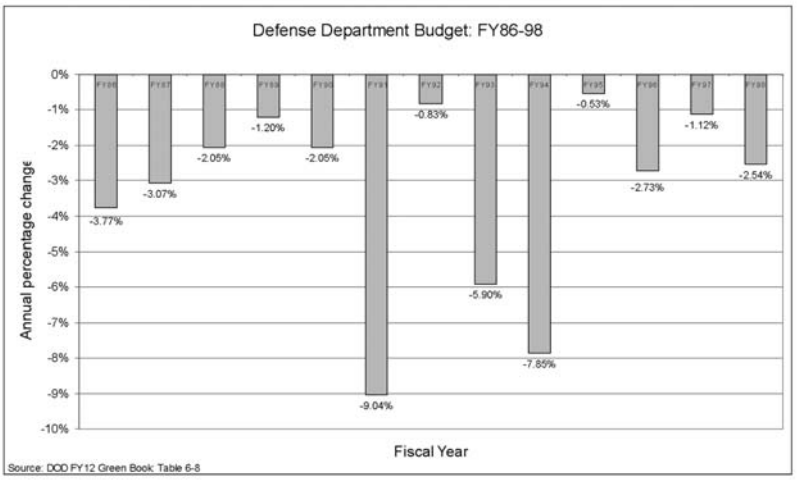
Today's fiscal problems require perspective. Many attribute our crisis to continuing growth in particular parts of the federal budget, especially mandatory entitlements, and there is no doubt that entitlement spending has grown at a great pace, driven largely by health care costs (which have had their own impact on defense health care costs). Yet it is an overstatement to say that entitlements alone are responsible for our recent deficits. A recent analysis by the Center on Budget and Policy Priorities shows that the deficits of the past decade, as well as those forecast for the next ten years, are primarily the result of the 2001 tax cuts, rapid growth in defense spending, and declining revenues resulting from the economic recession.[5]

Assigning blame for our federal debt and deficit crisis is less important, though, than understanding that defense budget reductions will play a role in getting it under control. It will not be the first time defense savings have been found, or that they have played such a role. In fact, this build down follows three previous ones: the end of the Korean and Vietnam wars, and the Cold War. As OMB Associate Director for National Security and International Affairs from 1993-97, I had direct experience of the last such build down, and it is both instructive and reassuring. The pace was modest, the cuts were real, and the forces that remained were capable.

[3] Gordon Adams and Matthew Leatherman. "A Leaner and Meaner Defense: How to Cut the Pentagon's Budget while Improving Its Performance," Foreign Affairs (Jan/Feb 2011).

[4] Admiral Mike Mullen. Chairman of the Joint Chiefs of Staff, Detroit Marriott at the Renaissance Center, Detroit, Michigan. 26 August 2010.

[5] Kathy A. Ruffing and James R. Horney. "Economic Downturn and Bush Policies Continue to Drive Large Projected Deficit," Center on Budget and Policy Priorities, 20 May 2011. At *http://www.cbpp.org/files/5-10-11bud.pdf.*



The chart above tracks this build down. The median annual reduction was 2.54%, real but gradual, the margin by which this Congress reduced the FY2011 appropriation for the Department of Homeland Security (2%). Reductions at this pace should not lead to sharp changes in strategy. Near-term savings opportunities could include streamlining our "tooth-to-tail" ratio which, at eighty-four support and administrative troops for every sixteen combat personnel, is the highest among industrial powers.[6] Another option would be to consolidate headquarters infrastructure, especially combatant commands, which according to the Defense Business Board have now grown to ten organizations with 98,000 military and civilian staff and a total budget in FY2010 of $16.5 billion.[7] And, even more immediately, Congress could collect the $100 billion from Secretary Gates' recent efficiency scrub, all of which was left with the military services to re-spend.

Budget reductions paced gradually over several years would provide fiscal discipline and an important contribution to deficit reduction. Over time, such a build down would produce real change in the defense budget. The 2.5% annual reductions shrank the Pentagon's budget by 36% in FY1998 relative to FY1985, or $206 billion in constant dollar savings that year alone. Change at this pace allows time to rethink strategy and mission. Over the thirteen years in the last build down, the Pentagon reduced active-duty troops from 2.2 million to 1.47 million, defense civilian employment from 1.11 million to 747,000, and procurement spending by two-thirds. The force that emerged was able to help bring peace to the Balkans in the 1990s, topple the Taliban in 2001, and overrun the Iraqi military in 2003.

This build down was managed by Presidents Reagan, George H.W. Bush, and Clinton working in a bipartisan manner with seven Congresses. Much of it was accomplished under the leadership of Secretary of Defense Dick Cheney and Joint Chiefs Chairman Colin Powell. To some extent, this bipartisan process is again under way; the FY2011 base (i.e., non-war) Pentagon appropriations of $528.9 billion effectively froze the FY2010 amount, marking a shift away from endless growth and creating a starting point for a sustained process of budgetary discipline.

TARGETS FOR BUDGET DISCIPLINE AND STEPS ALONG THE WAY

Congress needs to continue this process. Cuts mean a lower funding level than the previous year, not a slow-down in projected budget growth. A lower level of budget growth does not contribute to deficit reduction; it only slows the pace at which defense is deficit-funded. As long as defense budgets grow, the discipline the Pentagon needs is not being provided.

Secretary Robert Gates claimed that he had cut the defense budget but he only slowed its growth. Some of what he "cut" was overstated. Most prominently, he claimed that his FY2010 weapons system terminations cut $330 billion from future

[6] Scott Gebicke and Samuel Magid. "Lessons from around the world: Benchmarking performance in defense," McKinsey, Spring 2010. Exhibit 3.

[7] Arnold Punaro. "Reducing Overhead and Improving Business Operations," Defense Business Board, 22 July 2010. Slide 30.

spending. Those savings were gross, however, not net. They included terminating the F-22 and the C-17, though neither was in DOD's long-term budget plans. And Gates routinely did not net out the investment in follow-on programs to replace the ones he terminated, including Army combat vehicles and Marine Corps amphibious landing vehicles. The Gates defense budgets continued to grow—2.9% in FY2010, despite the terminations—and were planned to push even higher over the FYDP.

Congress also has conflated defense growth with budget-wide cuts. The $20 billion cut in the administration's FY2011 base defense budget request was, nonetheless, "approximately $5 billion above last year" for defense.[8]

Congress should use "current services" as its baseline, starting with the FY2011 base defense appropriation. The experience in the Reagan-Bush-Clinton period showed it is possible to manage a gradual budget reduction pace, and the FY2012 request should be the first one to sustain such discipline. The administration's $553 billion base budget request is already overtaken by events. Were it appropriated, as the House Armed Services Committee authorized, it would represent $24 billion (5%) in growth over FY2011. This is unrealistic. Even the President acknowledged it on April 14, seeking a minimum of $400 billion in reductions from his own projections over the next 12 years and using the FY2011 appropriation as the baseline. Similarly, the House Appropriations Committee reduced the FY2012 request by $8.9 billion, but that still leaves a 3% increase and makes no contribution to deficit reduction.

The President's proposed $400 billion in reductions from the plan should be treated as a "ceiling" for defense, the most the Department might expect to receive. The Defense Department could provide those savings and more from current budget projections and still maintain budget growth at the rate of inflation. This level of build down does not require a change in strategy, despite the "strategic review" Secretary Gates began (see table below).

Defense Department Budget Authority: Current Plan and Obama Administration Alternatives

Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total: FY12-23
FY2012 Plan	553.00	570.70	586.40	598.20	610.60	621.60	632.80	644.10	655.70	667.50	679.52	691.75	7511.86
FY2012 Planned Growth Rate		0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	
GDP Chained Price Index	0.014	0.016	0.017	0.017	0.017	0.018	0.018	0.018	0.018	0.018	0.018	0.018	
Real Freeze in FY2012 Adjustment	536.30	544.89	554.15	563.57	573.15	583.47	593.97	604.66	615.54	626.62	637.90	649.39	7083.61
Reduction from '12 Budget	16.70	25.81	32.25	34.63	37.45	38.13	38.83	39.44	40.16	40.88	41.61	42.36	428.25

Indeed, deeper, real cuts are clearly both possible and responsible. The President's Simpson-Bowles debt panel, the Bipartisan Policy Center's Domenici-Rivlin Debt Panel, and the Sustainable Defense Task Force sponsored by Representatives Barney Frank (D-MA) and Ron Paul (R-TX) all proposed more substantial reductions ranging between $500 billion and $1 trillion over ten years. Most interestingly, working different paths, although with some consultation, these panels found common priorities for defense discipline: the size of the force, hardware investment decisions, personnel policies, and management efficiency (see chart on page 8).

Some of these recommendations are already subject to congressional action. This is an important, if minimal, step. The cost of the military health care program has more than doubled since FY2001, from $24 billion to $52.5 billion, and the Pentagon projects it to continue growing at disproportionate annual rates of 3% to 5% through 2016. Working-age military retirees and their dependents were expected to pay approximately 27% of program costs when TRICARE was established in 1995 but have not seen any cost increase since then. Medical inflation and policy changes thus narrowed their cost sharing to approximately 11%. The fee increase being considered would increase costs for single members by $2.50 a month, from $230 to $260 per year, and for members with families by $5 a month, from $460 to $520 a year. The Defense Department would save $340 million next year if the fee is increased, and indexing that fee to Medicare inflation would accelerate savings in later years.[9]

Congress also appears ready to support the Pentagon's request to terminate two programs targeted by the independent defense savings panels, the Marines' Expeditionary Fighting Vehicle (EFV) and the Army's Medium Extended Air Defense System (MEADS). Both programs needed such budgetary discipline. The Government Accountability Office reported that EFV costs per unit grew by 170% since 2000, to

[8] See *http://republicans.appropriations.house.gov/—files/41211SummaryFinalFY2011CR.pdf.* Congress was able to grow the defense appropriation while also freezing the Pentagon's base budget, referred to earlier, because of savings from the military construction appropriation resulting from the wind-down of the 2005 BRAC process.

[9] Robert Hale. "FY2012 Budget Briefing," 14 February 2011. *http://www.defense.gov/transcripts/transcript.aspx?transcriptid=4770.* For the history of TRICARE cost sharing, see "Report of the Tenth Quadrennial Review of Military Compensation: Volume II," Department of Defense, July 2008. p. 46.

$24 million, and that the vehicle's design and schedule were in doubt.[10] Meanwhile, no amphibious landing of the sort that would justify EFV has been executed under combat circumstances since the Korean War's 1950 Battle of Inchon. MEADS, also on the block, duplicates the ongoing PAC-3 update to theater missile defenses and has long been a low priority for the Army.

Consensus among these panels can provide further guidance for the Congress. Additional savings could come from slowing and terminating parts of the F-35 Joint Strike Fighter program and from reducing end strength as we withdraw from Iraq and Afghanistan.

Defense Savings Options: A Comparison

	End Strength Reductions	Investments	Personnel	Overhead
Simpson-Bowles	50K overseas stationing	Cancel V-22 Osprey Cancel Expeditionary Fighting Vehicle Halve USAF/USN F-35 & cut USMC F-35 Reduce Research & Development (10%) Cancel Navy sea-basing Cancel Army tactical vehicles and radios Reduce "Minor" procurement (22%)	Modernize health care cost sharing Freeze civilian pay (3 years) Freeze military pay (3 years)	Pocket "Gates efficiency" savings Double Gates' contracting-out cuts Substitute 62K civilians for 88K troops performing commercial activities Reduce maintenance at bases & facilities Consolidate commissaries with Service exchanges Integrate children into local schools
Rivlin-Domenici / Stimson Center	92K COIN ground forces 80K overseas stationing 100K "infrastructure"	Cancel V-22 Osprey Cancel Expeditionary Fighting Vehicle Cancel F-35 Joint Strike Fighter Reduce Research & Development (19%) Reduce "Minor" procurement (19%) Prioritize Missile Defense (ballistic & cruise) Defer VA-class submarines Streamline intelligence activities	Modernize health care cost sharing Freeze civilian pay (2 years) Freeze military pay (2 years; Stimson plan) Reform retirement structure	Pocket "Gates efficiency" savings
Sustainable Defense Task Force	92K COIN ground forces 50K overseas stationing	Cancel V-22 Osprey Cancel Expeditionary Fighting Vehicle Cancel F-35 Joint Strike Fighter Reduce Research & Development ($5B/yr) Curtail ballistic missile defense Reorganize USN to 230 ship fleet Retire 2 aircraft carriers Retire 4 USN/USAF fighter wings Reduce nuclear arsenal & cut bomber leg of Triad Delay KC-X Tanker	Modernize health care cost sharing Recalibrate military compensation relative to civilian pay	Scale recruiting costs to force reduction Streamline depots, commissaries, exchanges Scale command, support, and infrastructure costs to overall cuts

* Simpson/Bowles and Rivlin/Domenici options are illustrative only. Both commissions' formal recommendations targeted only a savings number.

LINKING FISCAL AND STRATEGIC DISCIPLINE

Returning defense budgets to the peacetime levels more typical of the past 40 years, as proposed by the fiscal panels, raises the more fundamental question of strategy. Budgets discipline strategy and strategic (and mission) choices can discipline budgets. Such discipline has been noticeably absent over the past ten years. The Domenici-Rivlin panel moved in this direction and it is also the focus of our article, based on the panel's work, in the January/February 2011 edition of Foreign Affairs.[11] In contrast to the Quadrennial Defense Review of 2010 and, very likely, the current strategic review, this approach would set meaningful priorities among military missions, calculate acceptable levels of risk, and tailor the force within budget constraints. Priority would go to military missions that are probable, consequential, achievable and appropriate.

In our judgment, the United States has never been as secure as it is today. Despite the rhetoric about an increasingly dangerous world, the US faces no existential threat and substantial choice about the international commitments it makes. Confronting Al Qaeda's central network is an important priority. Defending against cyber attack also is significant, though the US needs to be cautious that it does not stimulate an even greater threat though our own offensive investments and to ensure that we work with the international community to control the challenge we

[10] "Assessment of Selected Weapons Programs," Government Accountability Office, 29 March 2011. *http://www.gao.gov/new.items/d11233sp.pdf.*

[11] Gordon Adams and Matthew Leatherman. "A Leaner and Meaner Defense: How to Cut the Pentagon's Budget while Improving Its Performance," Foreign Affairs (Jan/Feb 2011).

face. The quality, rather than the quantity, of our defense investment against these two challenges is what matters. As the bin Laden mission demonstrated, special operators are the most effective capability to deal with the terrorist threat, combined with international action, financial tools, and law enforcement. A large ground force is not the right instrument.

Large-scale conventional combat, a capability that deters adversaries, and some level of sea lane patrol to provide presence are next-level priorities. But, again, the end of the Cold War has brought unprecedented levels of security to the US. Large scale conventional war is less likely and the US is gradually slimming its nuclear deterrent to reflect the much lower level of nuclear threat it now faces. Neither of these missions justifies continued growth in defense spending.

Still, as Secretary Gates pointed out in May 2008, military services with lesser roles in current wars chronically plan around "Next-War-Itis," a fixation on potential future conflicts that would feature them more prominently and thus inflate their budgets well beyond demand. China is the scenario on which this planning focuses, especially for the Air Force, Navy, and advocates of programs that are aimed at ensuring US "access" to the Pacific theater.

There is no doubt that China is a rising power and is making substantial investments in its defense capabilities, but some perspective is needed here. China's military investment is, according to the most informed sources, one-seventh of ours. Chinese capabilities at sea and in the air are minimal compared to those of the US and will take decades to catch up, a goal reachable only if the US stops investing in defense. Moreover, there is little indication that China seeks a military confrontation with the US and no grounds at all for viewing the relationship as one driven by fundamental ideological hostility. We must be careful to avoid the contradiction of viewing China as a country with intentions but no capability for confrontation while considering ourselves as a power with capabilities but no intention for confrontation. There is ample room here for a long-term strategy that maintains our military power and presence in the Pacific region, avoids an arms race, and engages China on the diplomatic, economic, and financial levels. Indeed, the Chinese may be looking for the US to get its fiscal house in order, which is in the interests of both powers.

The prospect of a major conventional confrontation elsewhere is minimal. North Korea's military is numerically impressive but would be confronted by a substantially different South Korean military than that which existed in 1950. The US role in such a confrontation would be significantly lower, limited to sea and air power. Pacific strategy more broadly can and should be one of nuclear deterrence, air support, and naval presence. The prospect of a long-term conventional conflict with Iran is also low. Iran's vast size, to say nothing of the public hostility to any US presence, makes anything more than air strikes or Special Forces operations unlikely. And for all the rhetoric and concern about Pakistan, the likelihood of a major US ground presence in that country is near zero for the same reason.

It is hard to find another case where a sizeable US conventional ground presence is likely any time in the near future. It is appropriate to hedge against a conventional ground conflict or the use of naval and air power, but a smaller US force and budget would be ample to cope with this risk. Today the US already has the most dominant global conventional capability on the planet, providing a significant hedge against such challenges, and we would continue to have such a capability even should the budget go down as it did in the 1990s.

The most cited danger is also the most recent addition to US military missions: fragile states, insurgencies, nation-building, and post-conflict reconstruction. Here we are at substantial risk of learning the "wrong" lessons from Iraq and Afghanistan. The US was not dealing with state fragility in either country. We consciously pursued a strategy of regime change using conventional combat forces in both cases. Once the occupying power, we faced an insurgency our invasion helped stimulate. The internal capacity to govern and provide for balanced development disappeared partly because we "disappeared" it.

Basing future policy on this model is a dangerous but lesser-known case of the "Next-War-Itis" Secretary Gates warned about. It is far from clear that the US military is or will be in demand for large-scale invasion, regime removal, occupation, nation-building, or fighting insurgents. These missions have had their day, our success has been less than stunning, and, thus, they deserve a low priority. Future conflict resolution, conflict prevention, and support for governance and development are civilian missions for the US, in concert with international partners, not the future of the US military.

Reviewing defense missions in this way would lead to tough, strategy-driven choices on personnel and investment—the areas that the Pentagon most seeks to protect from budgetary scrutiny. US ground forces have grown by 92,000 soldiers

and Marines since 2007, in large part linked to the rotation requirements of long counterinsurgency and nation-building campaigns in Iraq and Afghanistan. Our proposed priorities could reverse that growth. If the likelihood of conventional confrontation is as we see it, our Asian and especially European allies are sufficiently secure to permit a drawdown of the 80,000 US forces permanently stationed overseas. And if the tasks facing US military forces are less than we have given them over the past ten years, the defense infrastructure could shrink as well, eliminating another 100,000 uniformed positions from the half-million service members that the Pentagon classifies as working in overhead positions and not deployed.[12] Taken together, these end strength reductions could be phased in over five years, providing significant savings but retaining a globally operational military capability.

Mission prioritization can also inform investment choices. Our current air dominance suggests that continuing current fighter-jet programs rather than building a new F-35 may be adequate. Slowing the rate at which we buy new Virginia-class attack submarines also may be sufficient given our global dominance, and lowering our current investment in missile defenses may be better tailored to the real missile threat. Ultimately, the defense savings proposed by the independent debt panels would lead to this kind of strategic rethink. Yet these panels would also retain a dominant global military force, and their savings are achievable through modest, incremental steps over a period of years, long enough to accommodate discussion and implementation of a changed strategy.

ENDURING SECURITY OF THE UNITED STATES

All of these strategy and mission thoughts are, for now, suggestive. We are currently working, with the support of the Peter G. Peterson Foundation, on a more detailed review of military mission priorities and the forces and costs associated with resetting them. Making choices in this way would do what the 2010 Quadrennial Defense Review failed to do and what the ongoing strategy review is unlikely to do: constrain the defense budget to a strategy that prioritizes missions, deliberately manages risk, and accepts the resource discipline reality advised so long ago by Bernard Brodie.

A broad approach to strategic and fiscal discipline in defense helps provide a sound footing for federal finances and the economy while also improving our security. It is possible while retaining the most superior global military capability history has ever seen. The United States would continue to be the only country able to patrol the world's oceans, deploy hundreds of thousands of ground forces to any point on the globe, and dominate the global airspace with superior combat fighters, long-range bombers, and unmanned aircraft. At roughly 60,000, US special operations forces alone would be larger than the militaries of more than half the world's countries. More broadly, the United States' entire post-reform active duty force would exceed the forces of any other country except for China and India. Supporting this overwhelming force, the US would retain the world's only global military transportation, communications, logistics, and intelligence capabilities. And, even with a trillion-dollar reduction over ten years, an unsurpassed defense budget would enable this force. For perspective, our FY2009 military research and development spending alone exceeded China's entire defense budget.

Admiral Mullen has underlined the importance of returning this budgetary discipline to the Defense Department. As he acknowledged in a budget press briefing on January 6th of this year, "the defense budget has basically doubled in the last decade. And my own experience here is in that doubling, we've lost our ability to prioritize, to make hard decisions, to do tough analysis, to make trades."[13] He is precisely right.

Congress and the administration now have the opportunity to improve our national security at a reduced cost, while ensuring a balanced package of deficit reduction. The experience of the Reagan-Bush-Clinton exercise shows how meaningful that modest defense budget reduction, implemented gradually, can be. When the next generation of policymakers looks back on the era of restraint under way today, they will see that matching fiscal and strategic discipline led to a bipartisan defense program that responsibly and soberly saved as much as a trillion dollars from the coming decade of defense spending while ensuring that the US continues to play a leading role on the world stage.

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[12] Arnold Punaro. "Reducing Overhead and Improving Business Operations," Defense Business Board briefing, 22 July 2010. Slide 23.

[13] Admiral Mike Mullen. Chairman of the Joint Chiefs of Staff, Pentagon, Arlington, Virginia. 6 January 2011.

Mr. GARRETT. And I thank the gentlemen, and I thank the panel. I yield to myself for the first five minutes for questions. So, I will begin where the Chairman left off, one of his closing comments that I think is very apropos, it says, "Our budget debates must never lose sight of the solemn obligation in Congress to provide our troops fighting overseas with the resources they need to successfully complete their mission and our commitment to them upon their return." And I think that is really what it is all about, why we are here right now. And I would say, as well, in making sure that last line, "Our commitment to them," to make sure that they are to have their safe return and that may necessitate making sure that they have the resources, the training, and the equipment necessary so that they actually do come back safely.

The first point, I just recently had the opportunity to look at some of the so-called top secret memos and what have you with regard to Libya. I will not reveal what I have learned there but in the public releases on those that we received from the White House about a week or so ago with regard to Libya, the administration estimated that the cost of military operations over there through September 30, so a month or so from now, will total approximately $1.1 billion. And I am wondering whether you all have analyzed the basis for the administration's estimates in that regard and if so, how do you make that analysis?

Mr. MOSHER. We have not independently looked at that number. Those numbers are still rolling through and we have not done a separate analysis of that.

Mr. GARRETT. Do you do a pre-analysis of that? Have you done any look at this that we can say, turn to you folks who we always turn to about these things.

Mr. MOSHER. No, we have been keeping track of it and we would be happy to take a look at it for you but we do not have anything to share with you today a CBO analysis of those numbers.

Mr. GARRETT. Okay. And last question on this then, so going forward should we anticipate something from you or do we need a specific request.

Mr. MOSHER. If you ask us to take a look at it, we would be happy to do so.

Mr. GARRETT. Okay. Very good. To some of the comments that Dr. Adams raised, but I guess it goes to the whole panel, and maybe goes to a Congressman as well to begin with. So the Defense Department is said to be consistently over budget over the years, both in equipment procurement and in acquisitions. I understand in fact of the 92 major defense acquisitions, 75 percent are over budget, and 20 percent of the programs are over budget by more than 50 percent. I wonder well first of all, whether the Congressman would like to speak about that issue and then also, back to CBO again whether you have done any analysis or maybe Dr. Adams has done analysis, as to why is that the case. And I have been here for eight years trying to get some explanation from DOD on some of these things. To the entire panel.

Mr. TALENT. Sure well, you know I will comment on it Mr. Chairman. Yeah we need procurement reform. I go into some depth anyway in the statement and so does the Perry-Hadley Panel and I think there are savings that can be achieved from that. I said be-

fore there was a price to weakness, well, you know one of the issues when you are underfunding Procurement and Modernization over time, and particularly when you underfund it and then you are inconsistent with it as well, you contribute, when I say you by the way I mean the government, you are contributing to the driving up of costs.

One thing for example, normally the costs of programs go down as you buy them out, as you buy them in volume. Okay? Well, yes the DDG-1000 Destroyer's going to cost a lot more per copy if you buy only one or two, as opposed to the 32 that you originally decided to buy. The reason why these programs and the numbers are cut back over time is because we do not have the money to go out and buy the requirements. So yes, the per copy cost goes up.

The defense industrial base is capable of seeing the direction this government is going in, and when we are not funding these budgets adequately, they do not put a lot of money into the defense industrial base. We do not really have a military industrial complex anymore. If we do we have a much smaller one than we used to. We only have two aircraft, at least prime aircraft manufacturers, any more; all of that has slimmed down. Well the smaller a defense industrial base that is undercapitalized has less competition and is less capable of producing these systems and these platforms at an efficient price.

Now there are a lot of things internal to the department; and I mean in my statement what I said was, I think in an effort to bring down costs, and this is not a new thing by the way, every secretary that I served under wanted to bring down procurement costs, and Congress passed several pieces of legislation to do that. Typically what is resulted is increase in processes, you know the number of people involved in supervising these programs and the number of desks that decisions have to go through. And as we pointed out on the panel what that does is it reduces accountability and responsibility within a chain of line management. So, the answer is, if you are going to have more process or the same amount of process, make certain that there are people designated to be in charge of the particular programs, that they have the authority, and that they are held accountable for what they produce. Another very important thing, is to reduce the design bill cycle which you know now can be upwards of 20 years, reduce it down to five to seven years maximum and just say, look we are going to get the capability that we can get by producing these platforms in five to seven years. We are going to get them in the field. We are going to get hulls in the water. We are going to get aircraft in the sky. We are going to get tanks and track vehicles on the ground, and then we will have evolutionary upgrades over time. But part of the difficulty has been the funding line.

Mr. GARRETT. I understand.

Mr. ADAMS. Let me comment on that Mr. Chairman. Years ago a very wise person in the defense procurement world, Norm Augustine, defined something called Augustine's Law; and Augustine's Law basically pointed on a trajectory given the increase in unit costs of hardware programs that would lead us by 2054, which now does not look that far away, where we would have essentially one airplane in the air capability of the United States military. The Air

Force would get it three days a week, and the Navy would get it three days a week, and the Marine Corp would get it one day a week, and, of course, they would work. And he was right. Augustine ended up being the Chief Executive Officer for the Martin Marietta Corporation and a very distinguished defense events industrial based spokesperson.

The problem in procurement is it goes way past this Administration and way back in history as Senator Talent has said, and one of the very effective pieces I think that the Perry-Hadley Report does talk about is procurement. The problem is it is very difficult to fix. And it is very difficult to fix because the incentive structure is wrong. The incentive structure both in the services and in the industry is backwards from an incentives structure that would lead to the kind of efficiencies you would want in procurement. For the services, getting a program into the budget is the top priority. If you get the program into the budget and get a Program Element 9 for it and begin the program, you then worry later about the fact that it is going to cost you more than you originally projected, but it looks cheaper at the start and that is a way to get it into the budget. So the incentive is to get it into the planning process. For the industry, the incentive is to get the contract. So if you put the program in at a very cheap rate at an R&D level you hope to make up that benefit in the procurement of the program when the dollars grow.

So the incentive for the services is backwards, the incentive for the industry is backward, and the end result is we end up with what I call the "Adams Law of Defense Procurement" which is almost everything we buy costs us twice as much, takes twice as long, and gives us about half the performance that it should, and it starts with the incentive structure. It is very hard to change those incentives even with powerhouse administration at the Pentagon, even within the Pentagon the incentives structure is to get it in the budget first. So it is an enormously difficult problem. Only one Secretary of Defense, or Deputy Secretary, that I know of has begun to even get a handle on it, and that is Dave Packard, who was Deputy Secretary back in the 1970s. And Dave Packard, who came from Hewlett Packard, therefore had a lot of private sector management experience, managed to start to get his arms around the procurement process, and then of course like all senior officials left office.

So I have watched this cycle of reforming procurement go on for probably 40 years now, and there is not a new idea in the barrel and nobody yet has figured out how to get the right incentive structure.

Mr. MOSHER. We have not done independent analysis of this, but there is a very rich literature going back many years as both the other witnesses have suggested that suggests that it is 20 to 30 percent cost growth in weapon systems; it is not an iron law that obviously many factors that happen; it is not a lot of physics but you have incentives and there are just many things that happen. DOD tends to buy weapon systems that are at the cutting edge of technology, which is always a perilous place to try to predict what costs are going to be, and although there are incentives that they talk about, well-meaning people can come up with estimates that

turn out to be low when you try to deal with the reality of putting systems together. So there are a lot of reasons why costs of weapon systems grow and as I said, the history is long that is 20 to 30 percent on average for weapon systems cost growth.

Mr. TALENT. There are examples of programs that they have done right or that they have fixed midstream. I mean C-17 is an example. When Bill Perry took office, C-17 was a very troubled program and he fixed it, and he did it through the kinds of procedures that we recommended. He took personal control of it. He took charge. He had the authority. He had the responsibility. He was accountable and he brought the plane in under budget and on time. The F-18, the ENF, is an example of a really outstanding program. That was an evolutionary upgrade which points to the direction that I think we need to go in.

Again, we have to accept responsibility with the rest of the government because when we have funding that is not up to the task, they feel they have to cram a lot of technology into the platforms they are given. I am concerned about this cargo tankard they are going to try because they need cargo and they need tankards, so they are going to try and build a cargo tankard. Well I hope they can do it, but if there are problems with it, maybe because they are trying to put two functions into one plane. So I think there is responsibility in a lot of different areas.

Mr. GARRETT. I appreciate that, and just as I said, sitting here for eight years there is just a mountain of frustration of trying to ever be able to look to CBO or look to the DOD when they come here to testify to say, is what we really should be anticipating and not in this year's budget but out of the 10 year budget. I guess the commonality here is nothing is going to change any time soon. Gentleman.

Mr. VAN HOLLEN. Thank you Mr. Chairman. Let me thank all of you for your testimony this morning. Senator Talent, let me begin with you because I was a little bit struck that in your testimony nowhere do you mention the very important connection between the strength of the U.S. economy and the strength of our military. I assume you do not dispute the idea that the strength of our military flows in large part because of our strong economy. Is that correct?

Mr. TALENT. Yeah, I mean our economic wealth and prosperity has been many times in history a key aspect of our military strength. It goes the other way too.

Mr. VAN HOLLEN. Absolutely, and do you agree with what the Chairman of the Joint Chiefs of Staff, Admiral Mullen, said that our debt is currently the largest threat to our national security? Do you agree with that assessment?

Mr. TALENT. I think there are three, and I would not want to choose. I think the vital importance of getting back to sustained economic growth and job growth is hugely important, and I sense within the free market and the private sector that the government wants that to happen and it wants to encourage that to happen. I think the issue with the debt is hugely important. Now, you guys are the experts, but to me the core of that problem is the structural, and I am going to try and state this as neutrally as possibly, a structural mismatch between the revenue that is dedicated to the

entitlement programs and the cost of the entitlement programs. And the rest of the budget, yes it is a factor, but a minor factor. And then the third thing would be these national security challenges. So I would say it is one of three.

Mr. VAN HOLLEN. Right. So I take it that you clearly disagree with the conclusions of the two bipartisan commissions with respect to defense spending and the importance of trying to address that issue as part of an overall strategy to strengthen our economy. Do you disagree——

Mr. TALENT. Those are budget-driven analyses.

Mr. VAN HOLLEN. I will get to that in a minute, but if you could just indicate whether or not you agree with what Admiral Mullen said, which, and I quote, "With the increasing defense budget, which is almost double, it has not forced us to make the hard trades. It has not forced us to prioritize. It has not forced us to do the analysis." Simple question, do you agree with that statement by the Chairman of the Joint Chiefs of Staff?

Mr. TALENT. No, I agree with his statements a few years ago when he suggested we needed to spend four percent of the GDP or we are not going to have a capable military. If I can explain. I do not see how he can say hard choices have not been made when the service which he used to be the Chief of Staff is headed down to 210 to 240 ships, a level which nobody believes will allow us to be a global Navy. I mean, if that is not a hard choice that is being made. He is retired ships, he and his successor chiefs, have retired ships because the cost of maintenance was too high, and so the numbers of them is going down. That is a pretty hard choice.

Mr. VAN HOLLEN. I think, Senator, what he is doing is strategy in the grand sense with respect to the situation we face with the deficit and the debt. You mention in your written testimony the rising power of China. Nowhere do you mention the fact that China is the largest holder, foreign holder, of our debt, and the influence that foreign entities can gain over the United States through the holdings of those debts.

I mean, that is not raised there. Now, I could not agree with you more that the defense budget should be driven by strategy, not by budget, and Dr. Adams mentioned that. I think there is agreement on that. As you well know, you will find across the political spectrum, very different views as to what needs to be done to make sure that the United States remains number one. From the Cato Institute on the more libertarian side, to other think tanks on the left and everywhere in between. But I certainly do not dispute the basic premise that defense is our number one obligation and it needs to be built off a strategy. The question is what strategy, and there I have to ask you, a number of times you have mentioned sort of pegging defense spending to GDP. My question to you is, is not that just doing it by the math? Well you are, are you not? I mean you are picking an artificial number. That is not driven by strategy, is it?

Mr. TALENT. Well, I am actually glad you asked it because it gives me an opportunity to make a point. It is our belief, at Heritage and when we advocated at Four Percent for Freedom, that that was approximately what we needed. That percentage would produce what we needed in order to provide for the capabilities of

the DOD according to a strategic-based analysis, because it would have freed up about another $40 to $50 billion a year that we could have put into modernization and procurement. The reason though that we phrased it in terms of a percentage of the GDP was to make an overall point, which I think is a point that maybe we can all agree on, and we ought to stop and think about this because it is so easy on the Budget Committee to think of any expenditure of government as kind of an enemy that you want to reduce and as too big.

Let's go back and look at this strategically for just a second. At the end of World War II the leaders of the United States on a bipartisan basis changed strategically their approach to the world. They had been playing a secondary role outside of the western hemisphere. That was a tradition in American foreign policy. Well they recognized it had not been a success, that policy, in the first half of the twentieth century. We had two world wars and then we were entering a nuclear age, an age of asymmetric weapons, when another world war would just simply be intolerable, and so what they decided to do was to engage, to be more proactive, to manage risk and conflict instead of letting it get out of control with a view towards achieving three things, three baseline things: preventing the spread of totalitarian domination, protecting the American homeland, and doing that without a third world war. Now here is my point.

Mr. VAN HOLLEN. No. Look I am very familiar with that history, really I am, and my point was a pretty simple one. That I agreed with your assessment that military strategy should be based on strategy, not budgets, and that there is an inconsistency with that in picking an artificial GDP number. Now if what you are saying is, you have looked at the strategy and your conclusion is that, forevermore into the future, four percent is what is needed. There seems to be a little inconsistency there.

Mr. TALENT. Not forevermore, just for the foreseeable future.

Mr. VAN HOLLEN. Dr. Adams, if you could just expand on your testimony regarding the approach of the Quadrennial Defense Review and how you can do exactly what I think everybody in this room would like to do, which is make sure that we do have a military strategy that is based on making sure we protect our vital interests, but that we do it recognizing that the economy and the debt is also an important part of our overall strategy. And to talk about one without considering any of the other is to take a very narrow view about the power of the United States and how we project power and interest.

Mr. ADAMS. Yeah, I would be happy to address that. The reality historically for the United States or any country in the world has always been that their resources and their strategy are linked. And that resources issue is not just budgetary resources, it is human resources, it is economic resources, it is the industrial capacity of the country, the productive capacity of the country, the trading capacity of the country. All of those issues are part of what any decent strategist would call grand strategy. It is not just about military capability, and we have had a tendency to focus just on military capability as what defines American leadership in the world. It is

an important element; it is not the only element, and it is largely a supporting element to a broader sense of strategy.

We also have a deficit in this country of thinking about strategy in the broader sense. So that when produce strategic documents, they tend to be documents that come from the Department of Defense, which has typically and rightly a concern about the military capabilities of the United States, but it comes the dominant strategic thinker for the government of the United States. Stepping back and looking at our capacities as a country. Stepping back and looking at the global situation we face, looking at our mixture of tools in the tool kit; civilian tools, military tools, trading tools, investment tools, all the elements that go into state craft and grand strategy is where the focus really should be.

The major problem that I had with the Quadrennial Defense Review and, arguably, with the Perry-Hadley Report as well, was that it took too narrow a view of what strategy is, and it did so saying we must simply cover every single potential danger, risk, threat, challenge, or difficulty that the United States may face in the world and build a military capability to deal with it. The major weakness of the Quadrennial Defense Review mirrored in the Perry-Hadley Panel, was to say all missions must be fulfilled, all missions are equal, all missions must have reduced risk to zero. No country in the world has ever been able to do that. No country in the world will ever be able to do that.

So every country measures its risks and challenges, evaluates what risks it is prepared to accept, weighs its defense commitments in the context of its broader domestic internal economy, its capacity to produce, its involvement in the global economy, the stability of its currency, its trading relationships. That is grand strategy. We have not done that and we have tended to be biased in terms of the military instrument here.

Our view in doing work that we did for the Rivlin-Domenici Panel was to say, is there within a resource-constrained world, because it always is and always will be, a way of providing a scaling of the challenges that America may face on the military side that allows us to build capable military forces that retain the global superiority that we have today? This was in other words a strategy, not a numbers-driven exercise. Frankly in my judgment a share of GDP as a way of measuring defenses is a totally numbers-driven exercise; it is math, not strategy. So we tried to tailor it to what do you do in the world? What is the appropriate role for the United States? How likely and unlikely, and what capabilities do we need for dealing with nuclear challenges? How likely and unlikely, and what capabilities do we need to deal with potential risks of conventional war and conventional deterrence? How likely and what resources do we need to deal with terrorism? What do we need in terms of capacity to steam the world seas? What do we need to handle insurgencies in fragile states and how important are all of those missions in terms of our overall security for the United States? How much of them are really military responsibilities or the responsibilities of some other capacity in the US government? Which I certainly encourage this Committee to take a good look at. And therefore, what is an appropriate level of expenditure and an

appropriate level of forces that we would need to handle those challenges?

And as I say without exhausting you with the details on it at this point, what we came to was a conclusion that we would retain a globally dominant military capability with 15 percent fewer resources over the next 10 years than currently projected in the Department of Defense budget, that retains the capacity to steam the oceans, that retains the capacity to deploy forces, that would be a smaller conventional force but more at the point of the spear than in the infrastructure because that is how you would have to rebalance that capability, and you can accomplish America's national security purposes for 15 percent fewer resources than currently projected. It is both math and strategy. And these Budget Committee members have to deal with both of those things, math and strategy. Math is important, strategy wears a dollar sign.

Mr. FLORES. I am going to try to get in two questions quickly if I can. Mr. Mosher can you recap for us, you pointed out the rapidly increasing price of health care on our military. Can you go through those metrics again quickly? And maybe we can get that slide back up as well.

Mr. MOSHER. Sure. Certainly, Mr. Flores. I, see if we could, it would be the second slide. It is actually also Figure 4 in the prepared statement in front of you. You can see that the growth is going to from 2011 to 2030, roughly double in the military health system costs. That is what we have here. And the point I made before was if you would look at the year 2000 to the 2011 we have seen a doubling since then.

Now a number of those, you know, a lot of that growth if you look at the bottom three lines which is the military personnel involved in the providing medical service and research, et cetera, and then the direct care which is what is provided in the military treatment facilities, and then purchased care and contracts which is the services that DOD purchases through contracts with private sector providers. Those three lines have been with us for a long time, and what started to happen after 2000, there were a number of benefits that were added, the big one is the TRICARE for life accrual payments and that is a big wedge there; but you also see that the direct care and the purchase care lines, the dark blue and the medium blue line, those start to grow significantly. And it is the growth that we see in the DOD experience focusing on the last six years because that is when a number of policies that were taken, and new policies have sort of taken place, and so if we do it much earlier it is hard to do the measure. But that growth has been much higher, as I say, and in some cases three times higher than the national growth rates per user.

There is been another factor in those numbers and that is that you have seen an increase in the number of dependents and retirees who have come into the system, under 65 retirees. And so whereas in 2000, I believe the numbers were about 75 percent of those who are eligible among family members, dependents and retirees, that number's gone up to 85 percent. So you have more people joining the system.

Mr. FLORES. I think you are making the picture pretty clear, in other words we are creating obligations for people who have moved

out of the military and are not serving and are becoming an increasing part of our defense cost. My question would move more to somebody who is been on the frontline of this, and that would be for Senator Talent. What are your suggestions as far as what changes you would propose to try to mitigate the explosion of costs in this particular part of our defense budget?

Mr. TALENT. Well, if you are talking about military health care, I think it is really important to meet and talk with a community of retired folks and talk about how you can provide the services that we are providing at lesser costs. And generally I believe that is to try and make it a program where you are expanding their choices and therefore creating greater competitions so that they will hold down costs. I think that is the way. Now what I said in my statement was that I think the increase in compensation is fully justified by the performance of these individuals, because they have preserved the peace, they have protected our interests, and they have done it with a declining share of the federal budget and a declining share of the GDP. This is the point I was making, rather than thinking of defense spending as a failure, we should think of what we have achieved at a small percentage of the GDP that has been declining basically over time.

Mr. FLORES. I agree with you. I think many people have done a lot for very little.

Mr. TALENT. No question.

Mr. FLORES. I want to move on to another quick question.

Mr. TALENT. The way it is structured now, we have to great an incentive for them to leave the service too early and then we lose the benefit of their experience in training.

Mr. FLORES. One other question, you talked about the C-17 experience and what Bill Perry was able to do and I have another experience and that has to do with USS Missouri, which was built by General Dynamics, it came in under budget, delivered nine months early. It seems like those were more the exception than the rule, when it comes to defense procurement. How do we inculcate those experiences into defense procurement more broadly?

Mr. TALENT. Now that is a really good question. I personally think it is going to be easier to do; it will be easier to do in the aircraft side, because you are producing higher volumes of platforms, and because if you just think of an aircraft production line as opposed to a ship building production line, you are not moving as heavy or as big of stuff. I would encourage you, if you have not done it and you have an opportunity to visit both lines, and you will see; and that is why I think there are more successful experiments on the aircraft side. There are more contractors who have done really good lean manufacturing techniques, and really perfected it and gotten us platforms at low per copy cost.

I think ship building is going to be a bigger challenge, but if on the government side it can say look this is the kind of funding we are going to provide. It is a reasonable funding in terms of the kind of ships that we expect. We are going to have to do a lot more in terms of ship building if we want to protect the size of the Navy. And then set targets for them and hold them accountable, and supervise them with small groups of empowered people within the DOD, and avoid what both my colleagues here have been talking

about, requirements creep. You cannot do everything with every platform. So get hulls in the water. And I think you can make it better over time but there is no substitute for senior people taking responsibility and being accountable for the outcome.

There is a quote from John Lehman in my statement which is very interesting because John points out in World War II we had 1,000 people in the ship building bureau. We produced 1,000 ships a year. When he was Secretary of the Navy I think we had 2,500 people and we were producing like 20 ships a year, something like that. Now we have got 4,000 people, we are producing six ships a year. And it is not because it is not good people, it is the confused authority and accountability.

Mr. FLORES. Thank you.

Mr. GARRETT. Thank the gentleman. Thank the panel. Ms. Schwartz.

Ms. SCHWARTZ. Well I really appreciate some of the conversation we are having and I think it is incredibly important one to have. So thank you to the ranking member for asking for this hearing and for us being very attentive to I think what are really two issues. One is that certainly on this side of the aisle, but I think all of us agree very strongly that we are first and foremost committed to a strong defense to be prepared for any future, current or future concerns and threats to our nation and that is our number one priority as members of Congress and as a nation to be safe and secure.

Secondly, we are very concerned about the debt and in reducing the deficit, and are well aware of the fact that the Department of Defense is a good chunk of our budget, and I think you have talked about how much it is. It is 60 percent of our discretionary budget. We spend a lot of time on this committee and in other committees focusing on 12 percent of our budget which is the non-defense, non-security discretionary budget, and yet every external expert, and many of us I think both Republican and Democrat on this committee, feel very strongly that everything has to be on the table. We took a vote in this committee while we were doing the budget and there was strong support, bipartisan support, for including Department of Defense in our call for greater efficiency, greater accountability in the use of public dollars, and in helping us to be able to reduce our deficit.

And in fact, ignoring the Department of Defense budget and taking it out of this process, which as I understand it we often have done. You could have anything you want, no accountability for the way they spend the money and it has really hurt us and it will hurt us in the future if we ignore the Department of Defense.

So to me it seems, and maybe this is unfair, but just completely unacceptable to not have the Department of Defense be a part of helping reduce the deficit. And what we are talking about is some of the things that Mr. Mosher you have talked about and Dr. Adams talked about, which is demanding greater efficiency in what they do and simply in procurement. Not simple, but in overhead. Do we need this many administrators? I mean do we need in the rank, in the Department of Defense how many supervisors do we need? How many senior officials do we need to be watching the store that actually still cannot tell us how many subcontractors

they have? How many contractors they have? What they really spend on procurement. Can they not reduce their cost by one percent, two percent, three percent, four percent? Mr. Talent talked about wanting to shift that money into other ways of doing things. I think there is been some discussion about wanting to modernized our forces and modernize our purchasing of equipment. I think many of us agree with that. But my real question, two areas really simply is, we talked about some of it and asked Mr. Mosher, but about the efficiencies. Simply how can it not be possible to get greater efficiencies out of this large of a system, these many dollars, to demand that? And my second question, that may be for either Mr. Mosher or Dr. Adams to address very briefly the issue of health care costs. We have been very hesitant to go this direction because of our commitment to providing quality health care for our active military, but in fact we are calling on the entire health care system, certainly under Medicare and Medicaid, and maybe the private system too, to do greater efficiencies and to improve quality and coordination, and reduce costs in that way. Can we not do that in a system we actually have more control over, if anything, which is the military one? So, in one minute or less if you would just comment on those two areas that would be very helpful. Mr. Mosher.

Mr. MOSHER. Just very briefly, we did not analyze efficiency in our piece, and we have not looked at it carefully, but obviously there are always places to get efficiencies, but I would be hesitant to speak about the magnitude that you could get from them.

As to health care, you know I think I have shown the growth and one of the points that I wanted to make when Mr. Flores was asking a question was one of the reasons you have seen such growth, well there have been two-fold, is that the military health care system, as other health plans that become more expensive, the military system for those who have a choice has seen a cheaper and cheaper option over time. So you have seen much more of people moving into the system, and just to give you an example, for retirees for example, that is the under 65 retirees, according to DOD's numbers, their out-of-pocket expenses are about $900 a year for a family in that system. So let's say you pay your premium and then you are out-of-pocket as your co-pays. Co-pays have not really been adjusted since the early 1990s. And if you compare that to someone who has health care in the private sector, their out-of-pocket expenses are roughly $5,500 a year. So it is $900 versus $5,500; it is a factor of what you know six. That would be one way if you are trying to get the cost of the system under control, we would look at that sort of thing. CBO has done this annual volume every year that looks at options for reducing the budget and we have several options in there that look at health care as things you might do to try to control the cost of health care in DOD's system.

Ms. SCHWARTZ. I believe we are out of time. I do not know whether we would admit Dr. Adams to make a comment about the efficiencies would be great.

Mr. ADAMS. Just two points Congresswoman. The efficiency question is usually subsumed in the phrase "waste, fraud and abuse." There is not a line item in the Defense Department budget to call waste, fraud and abuse. It is in fact, an extraordinarily large infrastructure. Everything the US government does, anywhere that it

does it, is done in the Department of Defense in miniature. Every function is performed in the Defense Department and we have created an unbelievably large infrastructure to do it. The infrastructure the Pentagon estimates is 42 percent of the budget. There are 340,000 people doing what are essentially commercial functions. There are 560,000 uniformed forces who never deploy because they are involved in managing the infrastructure. We have probably the worst "tooth-to-tail" ratio in terms of combat forces at the point of the spear and infrastructure behind it of almost all the industrialized militaries in the world, according to McKinsey. It is a huge, huge problem.

CBO, I think, in the report that Dave Mosher referred to, rightly targets infrastructure or rightly targets O&M as an area of concern because that is where most of this is buried. It is somewhere buried in the civilian payroll in O&M, which is 40 percent of O&M. It is buried in the functions that they are doing and it is very hard to get your arms around it and so I encourage CBO to do more arm-getting-around in this subject because it will help us to decipher exactly what is going on here. But the rate of growth in O&M is about one-and-a-half to two-and-a-half percent per year whether you like it or not, and the only way that it comes down, and I think this is important to note, is the way budgets come down is they come down, which sounds just like a tautology, but the reality is when you set a lower budget level, it induces a level of efficiency. Usually efficiency does not happen bottom-up because people are used to doing business that way. When at the top the services say you will have less for base operating expenses, be more efficient, people find ways, and we did find this in the 1990s. One of the healthy effects of the build-down of the 1990s was that it in lowering the defense top line, choices had to be made. And the choices can be very efficient when they come from the top down so budget constraint and budget discipline is an important element in inducing efficiency and operations and lowering the infrastructure cost.

Ms. SCHWARTZ. Changing the culture. Thank you very much and thank you Mr. Chairman for your indulgence.

Mr. GARRETT. Thank you. The gentleman from South Carolina.

Mr. MULVANEY. Thank you Mr. Chairman. That actually ties in to the question I was going to ask. Let's stay on this topic of the infrastructure and the efficiency because coming out of the private sector one of the first things I would try and do if I wanted to get my arms around any particular situation is try and get as much data as I could about it and in my world that might imply an audit and you heard the Ranking Member, and I think correctly so, identify the Department of Defense as either one of or the only major agency that has never been able to audit itself or have an audit performed on it. I think I have heard even that the Defense Department claims it is beyond an audit. That it is not able to be audited.

And I guess my question to you gentlemen is should we tolerate that? And if the answer is no, because I think the answer should be no, how do we fix it? How do we at least start the process of fixing what we seem to recognize here as a problem without getting the information? How do we audit the Department of Defense? And I will throw that open to anybody.

Mr. MOSHER. Well, we are not auditors so I would not presume to tell you how you should audit them. We account the budget but we are not auditors. That would be GAO with probably the auditors. I mean I will say that on the O&M question that Mrs. Schwartz raised, one of the challenges is getting good data on O&M, and that Gordon raised. It is very difficult to get good data on Operations and Maintenance spending.

Mr. MULVANEY. Why?

Mr. MOSHER. While we get the data that DOD provides to us. So I am not saying that it is impossible to get good data, I am saying that the data that we receive, that we the Congress receive on Operations and Maintenance is relatively limited and it makes it difficult to dig into the very complicated things that go on in the O&M account. One of the problems that we have and we have a study that we have released in, I believe, January where we looked at some of these issues but we had difficulty doing it in large part because once supplemental money is appropriated for the wars and when you start looking at what DOD has now actually spent on O&M, those moneys are comingled. So it is very difficult to separate what war effort money would be. That is the very legitimate things that you need to be doing to fund our soldiers and airmen and sailors overseas fighting wars to what DOD needs to do in its day-to-day, in its base budget: activities it gets to get those forces ready, to train the forces, to develop weapons, and it is very difficult to separate those moneys once they have been commingled because DOD does not track it that way.

We have some recommendations where we talk about some ways to do it but it is not about auditing, that is we did not take it that far. What we did is we looked at where additional money, additional information would help the Congress in trying to understand that O&M account. And just so you know, we are also doing a study at the request of the House Armed Services Committee where we are looking at how DOD models the requirements and how it comes up with its budget for Operations and Maintenance, operational readiness specifically. And so we have gone to all the services and we are in the process of doing that and should have something on that in the fall.

Mr. TALENT. I think the Department absolutely ought to be tasked to improve its auditing performance. Now I will just tell you, the O&M budget is not going to go down as long as we have an inventory that is this old because they have to spend the money to maintain it. I am sure that we can reduce some of the combat support, combat service support personnel. You do not have to have the guy in uniform taking the tickets at the movie theatre but then you are going to have to hire somebody privately to do it. Congress is going to have to authorize privatization by the way too.

Mr. MULVANEY. Let me press you on this point because I think you and I generally philosophically would agree on a lot of things. As a conservative, how can I in good conscience even contemplate this four percent for freedom concept? How can I even contemplate plussing up any defense spending until I solve each and every one of the issues that Mr. Mosher just addressed? How can I in good conscience go to the tax payers and say listen I want to spend more

money on defense when I do not have any clue how the money that we are spending now is being spent?

Mr. TALENT. Because there is a tremendous connection. In the first place, we ought to get the savings and that is what the Perry-Hadley Commission said, that is what Heritage says, that is what I say, and then you are going to have to devote it to recapitalizing the inventory and modernizing the accounts. If you do not, you are going to generate huge extra costs that are going to swallow anything that you have saved. And that is been the history of the last 15 years. We predicted in the 1990s that the O&M accounts would go up precisely because of this; and while there is a connection between the economy and military preparedness, there is also a connection between military preparedness and the economy. If we are weak and are perceived as being weak around the world it increases the level of instability and risk which decreases economic growth. I gave an example in my testimony. The United States maintaining stability in the Northwest Pacific around the Korean Peninsula has prevented a war there for the last 60 years. How good has that been for the economy? And the increasing instability last year in the Western Pacific as China started throwing their weight around, was not good for economic growth. It caused a lot of issues among our allies. That is a hugely important part of the world. So you have to recognize the connections but yes, let's get the savings. What we are saying is realistically, there is a no way that Secretary Gates is talking about $15 billion a year he hopes he can get. They have been trying to get this for 15 or 20 years. I would love to get that. It is not going to be enough to do everything we need to do. We do not even have a new bomber program plan and we are flying 50-year-old bombers. Remember, decisions you are making now are going to affect what this force structure is 10 or 15 or 20 years from now. Our guys are going to be flying 70-year-old bombers and that is not consistent with the United States protecting its security.

Mr. MULVANEY. Mr. Adams I apologize I am out of time. I leave it to the discretion of the Chairman, but thank you gentlemen.

Mr. ADAMS. Over to the Chair whether he wants me to answer or not. Briefly put, we believe that this begins with mission discipline and one of the things that is striking about the conversation so far is that there is not been much discussion about mission discipline in the Department of Defense. We recommended with the Rivlin-Domenici Panel that we take 100,000 people out of the active duty force structure solely in infrastructure positions. Now, for those who then say well then you are going to have to hire contractors, you are going to get some civilian to do it because you are taking out of the combat force, no, it is linked to mission discipline. If we tell the military here are the things that are important, here are the priorities, here is the thing you are going to do, you are in fact going to need less infrastructure to do it, but my bottom line here is you start the process of eliciting the data you want by imposing budgetary discipline in the areas where you want that budgetary discipline imposed and O&M is one of the key areas to impose that discipline. So some of this has to happen through leadership, top-down decision, and mission discipline that says you are going to require less infrastructure to perform these missions.

Mr. GARRETT. Gentleman from New York.

Mr. TONKO. Thank you Mr. Chair. Gentlemen, thank you for joining us. Senator Talent, have you been employed by or served as a partner in the Fleishman-Hillard or Mercury Communications?

Mr. TALENT. I was with Fleishman-Hillard and then there was a corporate reorganization and it became Mercury, which is the sister company in the Omnicom umbrella.

Mr. TONKO. Because I have a release from Fleishman-Hillard that says the firm's area of focus is the defense and aerospace industry and by the firm's own description and I quote, "We leverage our long-standing relationships with industry influences." And I assume with something like defense, those influences include us members of Congress, so the firm's stated aim here is to help defense industry firms and I quote, "Win new programs and keep existing projects." So, Senator, is it as serving as an independent arbiter on the QDR Review Panel, is it fair to say that either through your work with Fleishman-Hillard or with Mercury in the past that your job was to advance defense as an industry?

Mr. TALENT. No, not in that- We have defense clients. I offer strategic advice from time to time. I do not lobby. My views on this subject date back to 1993. Everything that I have said and done here is consistent with what I said and did entirely in my career including when I was in public life. So this is not something that I have come to lately when I took this position. Anybody who knows me knows that through three different administrations, Republican, Democrat, I have been consistently concerned about underfunding the military and I have criticized on a bipartisan basis, policies that I thought contributed to that.

Mr. TONKO. And it would be fair to state, I believe, though that their efforts here are to advance new programs and keep existing projects that firm up investment in defense. With the acquisition of weapons systems having been the area of inefficiency and cost growth at the Pentagon, I would like to focus on in recent years that this area has been particularly egregious. The GAO recently estimated that acquisition costs for the Pentagon's major defense programs grew by some $300 billion or 25 percent above initial estimates. The GAO cited two main reasons for that growth. First, that DOD's processes for funding programs create, and I quote, "An unhealthy competition for funds that encourages sponsors of weapon system programs to pursue overly ambitious capabilities and to underestimate those costs." So we have a systemic problem that encourages private contractors to feed us technology of debatable utility for an unrealistic price.

The second reason GAO cited for that phenomenal growth rate in acquisition costs is that the Pentagon's process for acquiring weapon systems allows, and again I quote, "Acquisition programs to proceed through key decision points without sufficiently reliable information on funding, schedule, and technology upon which to make sound decisions." So, I would ask the panel, do you agree with that assessment or do you think that recent reforms to DOD's acquisition system adequately address these causes? Mr. Mosher.

Mr. MOSHER. We have not looked at that, nor is that an area that we tend to examine, but Mr. Garrett you did ask a question

earlier and I was remiss in saying that in our estimates in this work that we did, and the estimates we always do, we try use those cost growth figures to estimate what costs will be, and so we try to capture historical cost growth in the systems that we estimate but we have not done independent analysis of the causes of these sorts of things.

Mr. TALENT. I would say yes and no. Yes there is a problem with enacting either on the basis of not enough information. I would say though it is more a question of there are too many people trying to get the information and nobody's accountable. And no, they have not done enough to deal with it. On the issue of infrastructure and particularly personnel, as personnel costs have grown the chiefs in particular have made every effort to reduce the number of personnel in their services because they want to get the platforms, they do not want to pay for the people. In particular, the Air Force and the Navy, I think reduced too far which is why we now have a process for example where we have to cross deck sailors; sailors come in from one task force, or steaming in from one helicopter to go on another task force that is going out. They have had an incentive to try and reduce personnel and where they could do it, they have done it because they have been trying to protect other parts of the budget.

Mr. TONKO. Thank you. Dr. Adams.

Mr. ADAMS. The last part of the question is the one that I wanted to address, are the current forms likely to get a handle on the problem that you have described? And the honest answer is it is too early to tell. My analysis of those proposals is probably they are too weak to have such an impact. I see nothing in the data so far. GAO provides the most compelling data that we have on cost growth. Nothing in the present data suggests that the overall judgment that I have about the ability to control procurement costs has been fixed by any of the current procurement reforms. It is really tilting at a windmill because the incentive structure is wrong.

Mr. TONKO. Thank you.

Mr. GARRETT. Mr. Ribble.

Mr. RIBBLE. Thank you for your testimony today and Senator Talent this is a little surreal for me. Back in 1995, when you were Chairman of the Small Business Committee of the House side, I was sitting on that side giving testimony while you were at the chair. I would like to ask the same question to you and to Dr. Adams. One of the things that intrigues me is it seems a little bit like we are continuing to defend our country as if we are in the very close post-World War II era. We have tens of thousands, hundreds of thousands of troops stationed in safe harbor nations like Germany and Japan, and other places around the globe. Are those numbers appropriate given the speed in which we can move people about the globe and equipment?

Mr. TALENT. Well, the basis, first of all with regard to base closure. We did a number of rounds of domestic base closure. I voted for all of them and I am not sure you guys would know, I mean, have they actually determined that we saved any money? I do not know that we have because we have to invest upfront costs in closing a base. And the bases are there to help us get in and out of places. We could not have done what we have done in Iraq and Af-

ghanistan without the bases, in Kuwait and Qatar. If we did not have the troops, or the bases, in Germany we would not have a place to evacuate the wounded. It is pathways in and out. So if you do not do that and I think we should be constantly looking at infrastructure, but understand that we are still going to have the ability to get in and out.

Mr. RIBBLE. Yeah, and I am not really looking at infrastructure per say, I am looking at troop count.

Mr. TALENT. They have tried to reduce, in fact, have in Europe and in Korea, they have reduced footprints. I mean, again these are not people who have tried to have more personnel. This is why I simply dispute the idea they have not made hard choices. They have made a number of hard choices. I can submit you a huge list of them, I do not have time I guess to talk about it because they have been under increasing budgetary pressure. So you have to maintain the bases, or you have to substitute something for them. You can operate off the naval vessels, then you need a bigger Navy, or you need more cargo lift. Well you cannot shut down the C-17 line because you got to get the people and the power from here to there one way or another. So, it is not my sense that you are going to get a lot out of the foreign bases or reducing those footprints. It may be possible, and if you can, you should. I would love to tell you there is some silver bullet that you can get out of the rest of the budget, but the budget's O&M is going up. The budget's personnel, he just said that is going up, its overseas contingencies; maybe that will go down. Remember even if the draw-down in Afghanistan is successful and I certainly hope it is, we are going to go back to 60,000 to 70,000 troops, which is almost twice as many as we had when the President took over. And I am not saying he is wrong, in doing that. The idea we are not going to do counter-insurgency, I mean I do not know how you can draw that conclusion given what we have done the last 20 years. That leaves procurement and modernization basically. So if you pressure them, it is got to come out of procurement and modernization, which is where it is come out of.

One other point I want to make about the overall budget picture. Everything should be on the table. Defense has been a declining portion, both of the GDP and the federal budget, which is why I said in this statement, if you resolve the broader issues between the mismatch between revenue and entitlement programs, there is going to be enough money to pay for defense. If you do not, not funding these basic requirements, is not going to keep the government from going bankrupt. I think that is just a statement of fact.

Mr. RIBBLE. Dr. Adams.

Mr. ADAMS. Yeah, a couple of points to make. First off, in the work that we did for the Rivlin-Domenici Panel, we explicitly come to the question that you asked in the narrowest sense. That is to say there are areas where the United States has forward deployed forces where one can, I think, safely say those forces could be reduced, not eliminated but reduced. And Europe is the biggest one of them right now, at about somewhere between 80,000 and 100,000 depending on how you count Naval forces and you probably could bring that down to 20,000 or 30,000 where you would be operating the health infrastructures at Ramstein and places where

you need capacity because you are doing deployments elsewhere and not have the combat for forward deployed combat forces that you have there today. And in fact, the Defense Department's considering bringing a brigade combat team out of Europe, we would say two brigade combat teams could safely come out of Europe.

The deployment in Asia, we also think could come down in terms of the ground forces, specifically. It is not a large presence but we would not bring it down as heavily as we would in Europe because the security situation is less certain in the Asian theatre than it is in the European theatre, but in ground forces terms we are unlikely to be using those ground forces in areas where we think they are deployed forward to be used, largely Korea. We are certainly not going to a ground war with China. So there is opportunity there. The reality in budgetary terms is, of course, is that you do not save any resources unless you bring down the size of the force structure to match. So if you actually bring forces down and a trip to force structures so you match the numbers that you have brought back, it may not be the same people, but it may come from somewhere else. You can easily do that.

Let me address one other question that was raised or implied by your question, and that is this question of counterinsurgency. I want to come back to that because it is maybe the first time in this discussion so far that we have really addressed a strategic or military mission-related issue. And I think there is a very important argument that we put on the table here that we have not in fact been conducting major counterinsurgency operations for the last 20 years. We have been conducting them for the last 10 years in countries we did not invade because of insurgencies. We invaded those countries because we had a regime change prospect in mind. Explicitly that was policy. Remove Saddam Hussein, remove the Taliban. We inherited an insurgency in part stimulated by the capability they would put in there to remove a force in a country that did not have a fragile government. The reality is we are not going to fight insurgents around the world. We are going to choose where we fight. We are going to choose where we deploy forces. There are areas with major battles raging today we would not dream of deploying American military, Democratic Republic of Congo comes to mind for example. That we will not engage in counterinsurgency warfare on a global basis because no sensible president is going to decide that it is America's military mission to fight whatever an insurgent is, wherever he or she is, somewhere around the world.

So it strikes us at least, and this is part of our strategic analysis for Rivlin-Domenici, that the counterinsurgency, nation-building, global policing role with ground forces in a lot of countries doing something called counterinsurgency is a very unlikely future mission for the American military. It is if you will the wrong lesson of Iraq and Afghanistan. We are unlikely to do 250,000 person deployments in a counterinsurgency mode somewhere else in the world.

Mr. RIBBLE. Thank you. I yield back.

Mr. GARRETT. Mr. Yarmuth.

Mr. YARMUTH. Thank you Mr. Chairman. Senator Talent I just want to follow up on the line of questioning that Mr. Tonko had started. This really is not about credibility but I am just confused

about something because as you said, the views you expressed today have been long held views and this is somewhat of a chicken and egg situation but it goes to also kind of the revolving door that we have these days. I assume that one reason you are retained by the people who pay you is because you were, you held these views.

Mr. TALENT. No. The reason I was retained, not because of any specific view in any particular area of public policy, but because of a perception that I understood how the Congress operated and could give good strategic advice to clients who cared about that and very little of what I have done over the years has been related to defense. It is mostly in other areas, health care regulation, that sort of thing.

Mr. YARMUTH. Well, and you tried to make a distinction. I just asked you to explain because to me it is a distinction without a difference. The fact that you are not lobbying but you are being paid for it.

Mr. TALENT. No I was just explaining what I do. And I felt the question went to what I do.

Mr. YARMUTH. Okay, fine. Thank you very much. Again, your views are your views and I accept that.

Mr. TALENT. It really has gone back 20 years. And it is really, whatever else I have done, this has been very bipartisan to what I have said and I believe very strongly that the views that I hold are necessary to a successful foreign policy no matter what point of view you are coming from. I wrote an article in 2009, at great length about this, advising that these needs be taken care of in order to make the incoming president's foreign policy successful, and I bet that he wishes right now that he had increased in capabilities when he had that stimulus bill in front of him.

Mr. YARMUTH. Well, that is water under the bridge unfortunately. Following up a little bit on the foreign presence that we have, and I know this differs from country to country, but I address this to you Mr. Mosher first. To what extent do foreign countries subsidize our presence there and is it a significant factor or not? And is that an opportunity perhaps to write the budget a little bit?

Mr. MOSHER. You know, this has obviously been a very difficult political issue for a long time. There was long debates about burden sharing within NATO, and in Japan, and you know there is also this problem that you are not asking, nor do you want to ask foreign governments to pay for our forces themselves. That would not be right. So it tends to boil down to infrastructure and you know paying for bases and paying for those. And there are varying degrees of support in different countries, and I said Japan and NATO being the most advanced, that is the most well-developed. You know, that ends up being a political decision that a president and a congress and another country has to make about supporting that arrangement, and you know every country is different. Yes, there are potentially some savings if you were to do it, but it is not going to solve our budget deficit problem.

Mr. YARMUTH. Dr. Adams, you mentioned earlier in your prepared testimony that you would like to have the opportunity to discuss some other recommendations that the Quadrennial Commission had come up with ways we might do things. I will give you remainder of my time to talk about a few of those, if you want.

Mr. ADAMS. Well, let me come back for a moment to this question of mission because I think a strategy driven conversation is in order at this point in our history. The major critique that I had of the Quadrennial Defense Review that we had and one of the major critiques that we had of the Perry-Hadley Commission was the real failure in both cases to say some threats are more likely than others. Some missions are more likely than others, and some elements of risk are more acceptable than others. Any good strategist will tell you that that calculated against resources is exactly what a strategist does. He says, what are we likely to do, what are we less likely to do, what is not likely to happen, how much do we really need to hedge? We have precious little guidance from either of those exercises to do that because both of them were consciously developed independently of any sense of limitations on resources. The consequence is really weighing, for example, what the likelihood of the use of combat forces is going to be in Europe, and what would one can then reduce the force in Europe as a result has not been done.

The real weighing of the likelihood of a major ground warfare in Asia, has not been weighed. It will not happen against China, it would be mad to go into a ground war in China. It might happen in Korea, but the Korean capability that exists in South Korea is vastly different than what it was that we faced in 1950 when the North Koreans came across the 38th Parallel. Where you are going to face conventional forces? Where are we going to deploy 250,000 in a conventional mode? And if you start weighing the cases and saying, is it Iran? Unlikely. Is it Pakistan? 160 angry Pakistanis coming at our military force is not a prospect I think anybody would lightly weigh. You begin to run out of cases. You begin to run out of scenarios for major combat deployments of American forces, and that does not mean you reduce American combat capabilities to zero. That is not what we are talking about. It is an appropriate hedge to then rethink how much you need in the ground force, how much of it is active duty, how much of it is reserve, how much you exercise it, where you exercise it, and how you are likely to use it. And you do a similar analysis in any mission area that you think is important to American national security. What is the global steaming tempo of the United States Navy? What need it be? What should it be?

We have managed to retain global naval superiority for the last 60 or 70 years, even with a shrinking Navy. In large part because no other country is as crazy as we are to develop as large a Navy as we have. So we have the globally dominant Navy, even at its current size. There is no other Navy that comes close, and no Navy within reach within decades. No country that even looks like it has the intentions of going to that length. So if your mission area is global presence at sea, we have and still have and would have in the future global presence at sea.

I have already mentioned my own views with respect to counter-insurgency nation-building exercises in the military. We are structuring, exercising, forming, training our military today in pursuit of DOD Directive 3000.05 and the 24 Doctrine from the United States Army as if we were going to pursue major large-scale insurgency operations on a global basis. If we look at the global scenario,

we do not see that as a likely exercise of American military forces, nay if anything it is not likely to be well received given the experiences that we have had in Iraq and Afghanistan.

So you set priorities among missions. We think dealing with terrorists organizations, particularly the global Al-Qaeda network is a key priority. Does it demand a large ground force? No. We specifically tailor our forces and we use largely Special Forces for that threat to deal with the kinetic edge of what is a broad problem of law enforcement, finances, and military operations, and governance stability in other countries, and so on through the chart. In other words in each area a hardnosed analysis that says, what is the threat, what is the issue, what is the real risk, what are the tools we use, and how do we calculate that risk? It leads you to a strategist answer which is some risks are more acceptable than others, and it leads us to the conclusion that on almost all areas that I can think of, 10 years out and a trillion dollars less than the more than $6.5 trillion currently projected, we still have a globally dominant military in every threat area I can imagine.

Mr. TALENT. Mr. Chairman, this is the third or fourth time that my good friend and colleague on this panel has criticized Perry-Hadley. Nobody is asked me for a response to that. Am I going to have an opportunity? I feel Bill Perry and Steve Hadley would be very upset if I do not say something.

Mr. LANKFORD [presiding]. Let me do this. Senator Talent, I do concur on that one. I am going to put us back on schedule with a five minute clock on it just for all those future that are coming up behind because we are bumping up against noon in a hurry, and I know several schedules are against that. I have the first series of questions at this point, and I will defer to you to begin my time and we will honor with the five minute time limit.

Mr. TALENT. And I will try and do it quickly. Look, we did a strategic analysis. The whole first chapter was about a grand strategy because you do define what you need in terms of defense, in terms of what your foreign policy objectives are. So we set forth what we thought the enduring national interest and objectives of the United States were based on the strategic habits on a bipartisan basis of the presidents of the last four years, identified the five threats, and decided what force structure would be necessary to meet them. We knew we were resource constrained. The force structure we recommended specifically says, look it would be nice to increase the size of the Army and the Marines, but that is not the top priority. The top priority is increasing the size of the Navy and recapitalizing the whole force. This is specific understanding that resources are not unlimited.

Now, Mr. Adams, with his usual eloquence and civility talks about the strategic analysis they have done instead of math. Later on you heard him, though, and what he said described what strategic analysis really is. Which is basically, look, tell them what their budget ceiling is, subject them to some pain, and force them to make some hard choices. In other words, it is a budget-driven type process. Now he talked about risks that are extremely unlikely. What you are seeing with that analysis is two things that happen all the time. One, an assumption, and we're not talking about it very much, is just assuming risks away. You are going to

say we are not going to have to do counter-insurrection again, put a large number of troops on the ground. Exactly what they said in the 1990s. They cut the force then, we had to put them on the ground, and it created a huge number of costs.

The other is the assumption that you know more than you know throughout the planning horizon. We are talking about planning 10, 20 years down the road. The world is an unstable place. So yes, you have to be resource constrained, but you have to understand what you do not know and as Secretary Rumsfeld said one time, "What the unknown unknowns are, as well." And I thank you for giving me the opportunity.

Mr. LANKFORD. No, I understand. A well equipped military personnel as far as a well trained becomes a large part of our edge worldwide and has been in many of our conflicts.

Mr. TALENT. We tend to get hit where we are not prepared.

Mr. LANKFORD. Yeah, I understand. That is part of the frustration that weapons procurement systems, that where we tend to see large cost overruns at times. There is also a balance of experimenting we know with a new drug being formed. Sometimes they go down a long way and it ends up being a dead end and it does not work and they lose a lot of money in the process. It is just very painful when we do that in the public eye with the modernization system. We also have a frustration right now with the number of times that Guard and Reserve members are headed back a third or fourth tour, the way we have cut back on active duty and now we are very dependent on a very protracted that we did not expect 10 years ago that now we are deeply into and we have people that have private lives as well as public service in that, and that are being asked to serve again and again and again in these different tours.

Let me come back to a couple of questions on this in the two minutes that I have. How do we create some incentives for efficiency? We have talked about it several times. Whether it be in modernizing weapons and procurement systems, give me a one-two of the low hanging fruit of how we create an incentive for efficiencies in some of these systems. Type of contract, way the contract is overseen, the frequency of contracts, whatever it may be. Anyone can jump in but they need to be brief.

Mr. TALENT. Look, I think that the people response over the top and they have their weapons programs that they like, and you have to exercise control because like the Air Force always wants fighters. Does not mean that you do not need fighters, but I think they have an incentive. I mean they want the cost overruns because it undermines the credibility of the program, and means they can buy fewer platforms and have fewer programs. But I think what they are failing to do, and I have said this several times, I do not think anybody here is really disagreeing with this either, they are failing to establish clear chains of command empowering people in line management, and then giving them the responsibility and the authority to keep these programs on budget and on time. The other thing is they are trying to get too much capability in many cases with platforms. Instead of settling for something incremental and getting it out into the field.

Mr. LANKFORD. Dr. Adams. Can I ask you a quick question as well? You referred earlier to a private versus commercial that you are saying that there are some folks that are military uniformed that should be more commercial, I think was the term that you used on that. Can you expand on that some?

Mr. ADAMS. They are performing essentially commercial functions, that is to say, they are doing things that you would do in the private sector in the economy rather than things that you would do in the Department of Defense. The answer to that is not necessarily, however to convert 100,000 people to private sector entrepreneurs because as I said earlier, it is mission related. You can shrink the entire infrastructure, and that would be one place to target in shrinking the entire industry.

Mr. LANKFORD. You are saying take that task, not say, 10 people did it, the military needs to be 10 people over here, but that task needs to be pushed over and they would bid it out for a cheaper amount.

Mr. ADAMS. Exactly. It is not necessarily, the argument is not necessarily one for privatization. It is some of those functions when you have shrunk the mission set and focused on the risks is you may not require a lot of those functions to be performed.

Mr. LANKFORD. Okay. Thank you very much. Mr. Ryan. You are recognized for five minutes.

Mr. RYAN OF OHIO. Thank you Mr. Chairman. So Mr. Talent, Senator. I was interested in what you were saying, the military equals stability which equals economic growth, and for example, up in the North Korea region. One of the issues I know I have, and I think a lot of people on this Committee have, and I think a lot of people in the country have, is they see us spending hundreds and hundreds of billions of dollars in the military, and compared to 30 or 40 years ago, and industrial towns like the one I come from in Youngstown, Ohio, and throughout the industrial Midwest, we seem to be seeing less and less of that money being spent and driven back into the economy of the United States.

Mr. TALENT. Right.

Mr. RYAN OF OHIO. And not only, as I think Mr. Mulvaney said about auditing, it seems like you are even saying that $10 to $15 billion a year would be great if we could get to that number in savings.

So I have two issues, one is we are spending a lot of this military money in the Northwest Pacific area as you stated and now we are going to sign trade agreements with South Korea. We have huge globalization, which has put thousands of Americans out of work, and yet those people are still paying taxes to fund the military, to have the economic stability, so that we can have a global economy, although it is kept their wages stagnant for 30 years. So there is a level of frustration in the country when we are spending all of this money and we are not seeing it driven back into the manufacturing defense industrial base in the United States of America. So four percent of the GDP is a big number, but many of us here advocate for increases in transportation for example, where we are at one maybe two percent of the GDP, when China and India are at nine or 10 or 11 percent of their GDP. And back in the day, we were at eight, nine percent of our GDP. So we need to figure out

how we are going to one, get this money driven back in the United States because we are also advocating for transportation and that puts our building trades right back to work. How do we go about doing that? How do we figure out how we start bringing some of this economic stability to benefit average people in Youngstown, Ohio?

Mr. TALENT. I agree. I was a huge advocate for infrastructure, by the way, when I was on your side of the table. And I think when you have a debt problem, you have to do two things. You have to decide where you do not want to spend, and you have to decide where you do continue to need to spend in order to support the economy so that you can get out of the debt situation.

Mr. RYAN OF OHIO. You believe investments should be made?

Mr. TALENT. Yeah, exactly. I think, part of the problem here is that when you have hugely increased deployments, which we have had the last 20 years, you have a reduced force in terms of number of personnel. You are not buying the platforms, the equipment, you know the ship's planes that they need, and you are not modernizing. You get huge amounts of stress which costs money. This is basically the reason that the Operation and Maintenance budget has gone up and then that has deprived procurement and modernization of the funding that it needs. And I think we are all in agreement that that is a problem, we have different opinions about how it happened and what we should do about it.

One of the things I used to say all the time when I was in your position and people would ask me, what do we do for manufacturing and manufacturing jobs? I said, well one consensus thing I think it could be a robust defense manufacturing base.

Mr. RYAN OF OHIO. Yeah, we all agree with that, but that is not the case. These companies take a lot of their work offshore. They are spending a lot of money in other countries. The Berry Amendment has got a loophole so big you can you know drive an Abrams tank through it, and you know, it is just this problem that we have been having. I know the nine years I have been here, I have been trying to deal with it, and it is going to be very difficult for anybody to advocate for four percent of the GDP being spent on the defense industrial base when we know that money is not going into RTI Titanium in Niles, Ohio. It is going to a Russian company for example. And these examples are you know everywhere, so you know I think we have got to clear that up.

And the second point I would just like to make and have you give a brief comment on it because we only have 30 seconds. It seems to me the people making the money in the United States, the big corporations who benefit from this military investment and stabilization, I believe should be helping us pay for these investments. And I do not think it is a big sacrifice to say go back to the Clinton Era levels for the top one percent who will benefit from this military investment, who will benefit from the economic stability, and who will benefit from the global trade. Quickly if you can.

Mr. TALENT. Look, I am here to talk about defense issues; I have my opinion about other fiscal policies. Heritage has written a lot about the tax situation. I would say to you, I will take the Heritage and the panel hat off and just say as Jim Talent, I mean my concern about the tax situation is that what we all want is more tax

revenue but that does not necessarily mean higher tax rates. And there is a link between the rate of taxation, and the actual economic growth. I mean, I know there is an awful lot of research, I'm going into dangerous waters here because I am certainly not an expert, that shows no matter what you do with the tax system you get what about 18.5 percent of the GDP in revenue to the government. So if you increase taxes, the danger is you do not get higher revenue, and you do get fewer jobs.

Mr. RYAN OF OHIO. I would just say it seems like there is a major service being provided here for multinational corporations that take advantage of these sea lanes and the protection of the United States Navy and the stability that is provided in Asia. That is a service that the government's providing, and I believe it is not you know inappropriate for us to ask them to help us continue this policy.

Mr. TALENT. Well, we can agree that everybody ought to pay their fare share. Thank you.

Mr. RYAN OF OHIO. Then we are in agreement.

Mr. LANKFORD. Thank you. Mr. Young recognized for five minutes.

Mr. YOUNG. First, thank you to all our panelists and the fascinating discussion here and as a member of not just the Budget Committee but the Armed Services Committee let me share with you the perspective of a freshman member of Congress. Within days of being sworn in, you can imagine we are asked to make all manner of different platform sort of decisions. Expeditionary fighting vehicle, fund or defund. If you are going to fund, do you decrease the funding?

Next decision, you know, two engines or one engine for this aircraft platform? Next decision, there is no strategic context to so many of these decisions articulated by the Administration. This is not meant to be partisan. These challenges go back a number of years, a number of administrations. We have to find some way out of this. Now, both Senator Talent and Dr. Adams to your credit, I think did discuss the strategic implications of investing more or investing less in our military. I wish our Administration could articulate the same sorts of things and I would like perhaps a discussion for another day to get into some of the mission discipline concerns or perhaps we need less discipline. I think there are probably intelligent and intelligible arguments that say, no we are not committed enough in certain areas, we need to invest further. I am frankly open to both arguments, but they need to be made, and the Administration is just not doing it.

Now, there is a $400 billion defense savings initiative that our current President has launched, and Dr. Adams, I saw you quoted recently, perhaps out of context, we know how that happens around here, but quote, "This review is going too fast to mean something," is what the press indicated you had said. And I share those concerns that perhaps it is going too fast to very critically look at what our grand strategy should be as a country. What our role should be in the world. That, of course, should drive what missions we are asking our military to perform, then prioritize each of those respective missions. That, in turn, should drive our force structure, our R&D decisions. Along the way let's cut out the waste and ineffi-

ciency, there are certainly opportunities to do so and I am open to that. The question is this, how absent choosing some dollar figure $400 billion of cuts to enforce some discipline on our bureaucracy. Absent that, how can we get the Pentagon, the Administration to articulate what our role should be in the world and all the other things that fall beneath? Do we need to scrap the QDR and replace it with something else? Do we need to just improve the QDR or are we left with this very uncomfortable situation where we are asking managers of our military, of our Pentagon, to manage down to a dollar figure? Something I am entirely comfortable doing, frankly, in the USDA, but less comfortable doing in DOD. I will give Dr. Adams about two minutes to answer that, followed by Senator Talent.

Mr. ADAMS. Happy to take a crack at it. It is a very big, and I think very important question. We, over the past 30 or 40 years, and particularly over the past 20, have basically allowed administration after administration, whether it is Democrat or Republican, to get away with having the Department of Defense be the primary strategic planner for the United States government when it comes to our international engagement. It is quite stunning when you think about it. Until this past year there has not been a strategic planning document of any kind from the Department of State to the Agency of International Development, and while there is been a national security strategy from the White House, it has followed, most of the time, the Defense Department's strategic planning document, not preceded it. So, we have allowed it to happen, and just as a bracket I want to say it so that Senator Talent does not think I disagree with him on everything, I think while I disagreed with the content, the strategic planning document that the Bush White House did, the first one they did, was a masterpiece of strategic thinking. It was actually quite good. I disagreed with its thrust, but they actually prioritized what they thought was important and de-prioritized what they thought was less important.

Mr. TALENT. Which Bush White House?

Mr. ADAMS. The Bush White House. The second Bush White House.

The other part as I said in my earlier remarks, I am not sure whether you were here yet or not, Congressman, was that resources and strategy are always related. So strategy wears a dollar sign as Bernard Brodie said, it is always resource-constrained, so you plan with that knowledge in mind. You do not plan with it absent from your mind. You know, therefore, that you can never reduce risk everywhere all the time to zero. You have to prioritize your risks and capabilities.

Mr. YOUNG. Mr. Chairman if I can have 30 seconds to allow Senator Talent to respond.

Mr. TALENT. Look, I agree very much with what you are saying. I think this is something Gordon and I agree on. The lack of strategic clarity, I wrote a huge article on this, the lack of direction from the highest level of civilian authority since the Cold War ended through now, almost four presidents, is extremely frustrating. What we had doing the Perry-Hadley Commission is to look at what they had actually done from administration to administration and deduce from that the strategic, what we call the stra-

tegic habits of the United States, and to deduce from that the interests and objectives that we needed to defend.

Mr. YOUNG. I guess the counterpoint would be, should those habits change, and I look forward to that robust dialogue.

Mr. TALENT. I do not think DOD is hungering to do deployments out there. That has never been. They really want the deployments reduced. It is, and I agree with him also, with Gordon also, it is been a default thing because we have not planned, and we have not had clarity. We have sent troops in because we do not prepare anything else, so look I agree very much with that comment and I think a hearing on that would be great.

Mr. YOUNG. Great, thank you.

Mr. LANKFORD. Recognize Ms. Kaptur for five minutes.

Ms. KAPTUR. Thank you Mr. Chairman, gentlemen welcome and I want to associate myself with Mr. Amash's remarks. There are discussions going on inside DOD right now about, well, in terms of threat levels, what is the role of the Marine Corps in the 21st Century? I think that a hearing on their perceptions of the threat and then following suit on systems makes a great deal of sense because often systems seem to lead us rather than a connection to the threat level.

I also want to associate myself with Mr. Ryan's remarks in terms of outsourcing with the F-35 and the amount we are going to expend on that. I just returned from Italy, visiting some of our bases there, and the amount of outsourcing that is going to go on in that is incredible.

And so those of us who represent states where DOD is closing facilities, whether it is the dual sourcing on engines for the F-35, or whether it is the expeditionary fighting vehicle, Ohio is hit very hard by that. So, I am very much for production in this country and also very concerned about what I have learned in my career on contractors and the amount that that is costing us and getting a straight answer out of DOD on how much more we are spending because of this growing reliance on contractors as opposed to insourcing. I hope in your research you will focus on some of that because I think each of you is really providing the country with a great service.

I just wanted to say I heard a number yesterday that if we reduced unemployment to seven percent, we would cut our deficit in half. That is an astounding number and I want to focus my remaining short time on those in the military who are returning to us who have no jobs. It is a staggering figure. The post-9/11 veterans, according to data from May of this year, shows the unemployment rate was 12.1 percent, for younger male veterans aged 18 to 24, 26.9 percent and they are coming back to places like I represent where the unemployment rate has been way over the national average.

The suicide rate corresponds to what is happening there, with what they are facing with the foreclosure rate and so forth in our parts of the country are truly very difficult.

And so my question to you really has to do with, we are wasting an enormous amount of human capital in these returning veterans. And how would we better position these returning vets in readjustment to capture their talents and to get them reemployed? In the

work that you are doing, especially where they are coming back in the economically distressed areas, how can we leverage the skills of our returning service members to improve outcomes for them who have served us, and to gain useful assets for our country and providing a better outcome across the board? It seems DOD drops them and the VA does not really completely pick them up. What do we do in order to reduce this unemployment level and focus on this large pool of 232,000 veterans, a quarter of a million veterans just since post-9/11, that are out there unemployed?

Mr. ADAMS. Let me take a first crack at that Congressman. It is a very important question. The issue for me has always come down to push versus pull. There are obviously government programs that we can do that help people try to adjust, transfer skills, move into employment and so on. That is a push side. My sense, though, is that the history of base closures, which is a proxy here for what I am about to say, is that the demonstrated evidence from base closures is the most successful transition for communities and institutions and businesses and people who work in communities when a base closes, is the health of the local economy. The best thing that we can do, in my judgment, to get people like that employed and use their skills is if we focus on restoring the health of the American economy because that is going to create the context in which employers want to hire them, have money that they can hire them with, they are going to provide them with opportunities. So you need both a push and a pull approach.

Ms. KAPTUR. I hear what you are saying, but it is not working fast enough.

Mr. ADAMS. Right, I understand that.

Ms. KAPTUR. Right, and it is a real problem.

Mr. ADAMS. Understood.

Ms. KAPTUR. In communities across this country.

Mr. TALENT. A concrete suggestion. DOD is, I assume they are doing because they are supposed to do when Veterans leave, an examination of their baseline medical condition. They are supposed to do that when they come in and then also when they leave, almost an exit type of thing. Now, that is an opportunity, and I would think you might be able to do this at very little cost, to sort of expand that to talk to them about their employment profile, their ambitions, their skills, et cetera, so that you get that. I do not think DOD should continue, so then you need to hand that off either to VA or Labor, and you have got a good profile there and some guidance for that individual, and some opportunity. So you may want to ask what DOD is doing when people leave. What they ask, what kind of suggestions they make to them, because they have got them at that point.

Ms. KAPTUR. Well if I use their medical exam as any indicator of how we should deal with unemployment and reemployment of these Vets, I would not want to trust DOD on it.

Mr. TALENT. Yeah, I worked on that issue with Senator Clinton; it has is been like four years, so I am not aware but they are supposed to be doing that better, but you asked, and that was the only concrete suggestion I had.

Mr. KAPTUR. Right, I know that my time is up but I just wanted to say I hope I have sensitized you to this issue. It is a serious,

serious problem, and I can also say Mr. Chairman, in closing that for instance if they try to go to community colleges to use their GI benefits, there are many of them they cannot concentrate in normal classes. This subset of our society, this is the new America. They are coming home to us and they are out there. They are alone many times. They do not group like the World War II vets. They are in our homeless shelters. They are in our food lines. This is not the way to treat America's returning vets. Some group of intelligent people has to help us keep a focus on this subset of our population. Thank you.

Mr. LANKFORD. Thank you. Dr. Adams I know that you have an appointment that is coming up soon. You feel free to be able to step out when you need to. We had asked you to be able to stay through noon and obviously it is ten after at this, point.

Mr. ADAMS. Right. I am going to have to leave shortly, thank you.

Mr. LANKFORD. If you need to be able to slip out, feel free to be able to do that. We are glad to be able to have you and your time. I recognize Mr. McClintock for five minutes.

Mr. MCCLINTOCK. Thank you. I am afraid I had to miss the last hour so if you have already covered this just tell me so and we will move on. I agree with Ronald Reagan that Defense is not a budget issue. You spend what you need to spend in order to defend your country. If you fail to do that you end up without a country, but that does not mean that you spend more than you need to spend. So if I could ask Mr. Talent and Mr. Adams just in a minute's overview, what do we need that we do not have and what do we not need that we do have?

Mr. ADAMS. I have offered at some sense I think in the hearing so far of what I think we do not need and can probably do without and safely build down to, given the fact that as I said earlier, 10 years out and 15 percent fewer resources we will still have the world's dominant military. Now there are a lot of specific inside that about that I would recommend some things up and some things down, but I think that is dominant. It is interesting though that you do cite President Reagan because President Reagan did have that view, and when Gramm-Rudman-Hollings passed, he learned that indeed Defense is in part a resource issue. That resources do constrain our defenses, and the history that we had of 1985 to 1998 was that our defense resources, along with most federal spending, went down as part of the Gramm-Rudman-Hollings and then Budget Enforcement Act Deficit Reduction exercise.

Mr. MCCLINTOCK. Mr. Adams, actually I agreed with your earlier analysis which is you do not set a budget number and then figure out what you can buy with it, you figure out what you need and then adjust your budget number to meet those needs.

Mr. ADAMS. Well I think you actually do both, it is interactive. Strategy wears a dollar sign as I said earlier.

Mr. MCCLINTOCK. Mr. Talent any thoughts?

Mr. TALENT. Well, look, on a very practical level. What I have recommended is we have increase the size of the Navy. It is about 285 now, it is headed down because there is a 30 year average life of the ships, and we are buying six or seven a year, and you can figure out that means we are going down.

Now the Perry-Hadley Panel recommended the Bottom-up Review force structure, this came out in 1993, I think it was 340 ships or so, and to increase ship building and try and get us up to there. That was the force structure. It Les Aspin's force structure, that the government thought we needed in the 1990s. This was before the global war against terrorism or whatever it is you want to call it.

So I think increasing the size of the Navy and then recapitalizing the equipment in the rest of the force because it is impossible to have an Armed Services where people are flying or driving and trying to maintain and keep in place you know inventories that are 30, 40, 50, 60, 70 years old, and that is what is driving up your O&M costs. So I would just say this, you mentioned Reagan, an investment, getting that done as quickly as possible is going to save you money, and not doing it is going to cost you more money, and that is the history really of the last 50 years.

Mr. MCCLINTOCK. Let me ask you a couple questions been bothering me about you know what we are paying for that we probably do not need, and one of them that screams out is why we are paying to defend Europe from the Soviet Union 20 years after the Soviet Union seized to exist?

Mr. TALENT. We should not be, it is my view, we should not be maintaining commitments abroad primarily to serve somebody else. This should be designed to protect America's vital interest. Now, the Perry-Hadley Commission recognized four enduring national interests we need to defend. One is defense of the homeland, which is increasingly a challenge in an age of asymmetric weapons. Second is freedom of the commons, you know the air, the sea, the space, all directly related to our economy and our quality of life. Preservation of an acceptable, non-totalitarian balance of power in the Eurasian space, and if you look at where we have been involved in the last really 60 years, but in the last 20 years, I mean look at it; it is from Korea, the Western Pacific, Southern Asia, et cetera because of a sense if that spins out of control somehow it is going to affect the American security negatively. And then a fourth was, the provision of a kind of humanitarian sort of goods to people, at least participating in a delivery system.

Mr. MCCLINTOCK. Is that not Europe's responsibility with respect to Europe and its area of influence and interest?

Mr. TALENT. Look, I do not believe, personally, I think we can discuss what the European Allies ought to be doing that they are not doing. And this question came up, how do we get the Allies to take more of a burden; yes it would be great. But the precondition to that is a belief that the United States is going to remain committed. Because if we do not remain committed and we are not showing leadership, they are much less likely to step up than they are to try and come to a deal with the Russians, who invaded Georgia two years ago.

Mr. MCCLINTOCK. I cannot get to this final question but I would appreciate your directing me where I can get more information on it, and that is a subject that you brought up, procurement. How is it that we end up ordering new weapon systems without setting aside the dollars necessary, not only to meet our needs but also to

assure that we can obtain these copies at an affordable per copy price?

Mr. TALENT. Yeah, because as all of us I think agree, the procurement system is in many respects screwed up. And I would, on this subject certainly, I would advise to the members of the Committee that they take the time to read the chapter in here. I do not think the chapter on procurement reform is one that anybody would disagree with on a philosophical point of view, and I thought it was very powerful, and I really did not have any hand in it. It was the people on the panel who had done this, I mean really savvy type veteran of the system, and it sure makes a lot of sense to me and that is one of the things, I think, we are all in agreement, we need to do and do as quickly as possible.

Mr. LANKFORD. Thank you. Gentlelady from Florida is recognized for five minutes.

Ms. WASSERMAN SCHULTZ. Thank you Mr. Chairman. We have heard in this committee over the last number of months, many of our Republican colleagues espoused the need to slash discretionary spending, and Medicare as we know it and direct some pretty painful cuts. Knowing that 60 percent of our discretionary budget goes to the Defense Department, if we couch Defense as a sacred cow that is untouchable, then everything is a sacred cow because Senator Talent you have criticized the president for proposing for $400 billion in defense cuts, and I think you said at the time, that defense spending is not the cause of our deficits and those cuts would not make a large difference in reducing the deficit.

Mr. TALENT. I think I said it was fantasy to propose that.

Ms. WASSERMAN SCHULTZ. Okay. So that is even stronger.

Mr. TALENT. Right. If I did not say that, I said it in the first draft and then took it out later.

Ms. WASSERMAN SCHULTZ. You are underscoring what I am suggesting that you said, rather than running from it. The defense budget makes up one-fifth of the entire federal budget, and I mean we have got bipartisan consensus that we are going to have to put sacred cows on the table in order to make a dent in the deficit. By your logic, would you argue that non-defense discretionary spending should also be excluded from a deficit reduction because that is even less, that is even more of a drop in the bucket and further, let me finish my question please.

Mr. TALENT. Oh, I am sorry.

Ms. WASSERMAN SCHULTZ. By the same logic, conversely would you argue that more revenues should be part of the solution because that is an area in which we can, if significance, in terms of the impact on deficit reduction is your marker, it would seem to me that you should be for putting revenue on the table and for making sure that we can address this effort in a significant way. And against things that are not significant, like slashing indiscriminately non-discretionary, discretionary non-defense revenue, which like you said is a drop in the bucket.

Mr. TALENT. All right. I thank you, and I am sorry to interrupt, and by the way, before the hearing closes I want to apologize to Mr. Van Hollen because I insisted on giving him more answer than he gave me question on a couple of points.

Ms. WASSERMAN SCHULTZ. Your apology is cutting into my five minutes, so if you would.

Mr. TALENT. I keep forgetting how disciplined you are. On defense, my concern here is that if you underfund basic capabilities that are needed to deal with risks that are not going to go away, you end up causing a whole lot more in expenditures than you save. I think a classic example, is when the government cut the size of the Army in 1990s in the belief, which I think was a budget driven belief, that we would not have to put large numbers of troops on the ground, it meant that we could not prosecute the Afghanistan and Iraq-

Ms. WASSERMAN SCHULTZ. So let me just ask you, so your point was not that we should not touch defense, we just should not indiscriminately touch it.

Mr. TALENT. Right, and we should put the savings back into things that we do need.

Ms. WASSERMAN SCHULTZ. So the criticism of the President's $400 billion in proposed cuts is not general criticism? Was it specific to what he was proposing to cut?

Mr. TALENT. Well, he did not say what he was proposing. I am prefer the President's approach of the last several years because a part of this, to be frank, is the President arguing with himself, because his own Administration proposed, at least modest real increases in the defense budget until that speech. And he has not been specific about what he wants to do. I have no problem with finding savings but I do not want to cut the top line. Find the savings, and then put into the things that we need to put it in to.

Ms. WASSERMAN SCHULTZ. But you would retreat from your statement, that we should not touch defense because it just does not cause the deficit; it is not a significant impact on the deficit and so therefore it should be untouchable.

Mr. TALENT. With respect, I never said defense was untouchable. I said the savings that we can achieve in defense we should put back into things that we need more within the department's budget.

Ms. WASSERMAN SCHULTZ. That is not what I have you on the record as saying, from what I understand. But let me just ask Mr. Mosher a question. We are spending nearly $50 billion a year on military retirement benefits, and if we look, direct your attention to that chart up there, there have been a lot of defense analysts secluding the conclusions of the Quadrennial Review of Military Compensation, who criticized the current system as not being fair or efficient. You can only collect military retirement benefits, unless you are disabled, after serving 20 years. That means that most of the individuals deployed to Iraq and Afghanistan, including many in my district, who are not going to get any retirement benefits, because as you can see they really only were serving for four, five, six years. So, to me that does not seem fair, especially given that members of Congress, Congressional staff, law enforcement officers, firefighters, can accrue pension benefits after five years. We accrue them after six. So is the current retirement system for military fair and efficient, and if not, how could we make it better?

Mr. MOSHER. I cannot speak to fairness and efficiency. We have not analyzed that in any detailed way. What I can say is that there

have been numerous proposals over the decades to try to change the military retirement system, and there are defenders on both sides. You know, there are advantages as you point out, what that is called cliff-vesting, you do not get anything until you reach 20 years except for some disability cases. So you cliff-vest, and that creates an incentive for people to leave afterwards. Right? Sooner than you might want them otherwise, and for folks particularly in those first 10 years of service, it tends not to entice them to stick around for that pension. You know, once they get beyond ten years, then people tend to stick around because they are a little older, a pension means more, and it is closer to them.

Ms. WASSERMAN SCHULTZ. It is worth it to them.

Mr. MOSHER. It becomes worth it to them, but that is the way the system is designed and there are pros and cons to it and what you say is absolutely true, people who do not serve the 20 years do not get the money and a lot of people enlist and then leave. I mean it is often it is a choice on their part. They do not want the military life. You could do something that would be like a TSP system which would be sort of a hybrid, a small defined benefit program infers and then a contributory program. You could do something that would be like the old CSRS system, which was that federal system where you had a defined benefit only, you did not have to worry about the state of the market at the time. Or you could have something that is much more like a 401k, that many people have in the private sector; but all those have advantages and disadvantages and I guess the right people to talk about this would be the folks at DOD who could talk about. You know there is a force management issue as well. There is an equity issue, clearly. If I am the managers of personnel in DOD, how is it that I ensure that I get the force structure that I want that has the capabilities that I want, that has the pyramid structure that I want, because you know as you move up in rank there are fewer and fewer people at those ranks. And it is a very complicated discussion, but yes, clearly there are people who have argued that it needs to be changed, and there are people who have argued that you know it has some advantages.

Ms. WASSERMAN SCHULTZ. Right the point and the concern is that there is quite a bit of sacrifice without really anything to show for it at the end.

Mr. MOSHER. In terms of a pension, you are absolutely correct.

Ms. WASSERMAN SCHULTZ. Yeah. Thank you. I yield back.

Mr. LANKFORD. Thank you Mr. Van Hollen, just a quick question.

Mr. VAN HOLLEN. Thank you Mr. Chairman, about three minutes ago the Chairman turned to me and said to me do I have any closing statements, I said no and that was until Senator Talent mentioned that the President's $400 billion in proposed defense spending cuts was quote, "a fantasy." I would just point out that if that is your standard, I would ask you to look at the members of the President's Bipartisan Fiscal Commission. The president proposed $400 billion over 12 years, which would allow the current defense budget to grow at the rate of inflation.

The Bipartisan Commission, recommended a $1 trillion in cuts, so by the standard that $400 billion over 12 years is fantasy, I am assuming that you put such individuals like Senator Coburn, Sen-

ator Crapo, former Senator Craig, Senator Domenici, in the land of the totally delusional. We have got to get serious about our budget deficit. To say that 20 percent of our budget is a trivial contribution to that national effort, I think neglects the very important duties that we have. And I will just end by where we started. I agree with you that our defense spending has to be driven by strategy. We have had that conversation. That is why I think putting an artificial GDP percentage on it is math and not strategy. Part of that strategy requires United States to retain the economic power and full potential that it has. If we do not deal with this deficit and debt as the current Chairman of the Joint Chiefs of Staff has said, we will all be in a world of hurt and that will hurt our military, and it will hurt the ability of the United States to project its interest, power, and values around the world. And so, I just ask you when we throw around phrases like fantasy for $400 billion, put that in the context of what bipartisan commissions have recommended. Thank you Mr. Chairman.

Mr. LANKFORD. Thank you. Mr. Talent did you want to make a quick response to that?

Mr. TALENT. Well, what I think it is fantasy to believe that we can cut that much out of the defense budget over the next 10 years and protect American security within an acceptable margin of risk. That happens to be my view, strongly stated. I understand that the members and the people you talked about disagree. I do think that the Simpson-Bowles report, as far as it referred to defense spending was budget-driven rather than strategic-driven. Now as far as the Administration is concerned, I certainly meant no disrespect.

I do think this is a situation where the Administration in its first two years has been proposing, and I thought this was not everything we needed to do but it was partly, modest real increases in the defense budget. And now the president has unveiled this idea of cutting the defense budget over the next 10 years.

So I think that it is an internally inconsistent position, and I mean if I were still on the HASK and I would had officials of the DOD in front of me, I would say well, if this new position is right then does that mean the old one was wrong? And if the old position was right, does that mean the new one is wrong? But I appreciate what you are saying and I agree with much of it. And now I get a chance to apologize personally to you, like I said, giving you more answer than you gave me.

Mr. VAN HOLLEN. No apologies necessary on that front Senator.

Mr. TALENT. Thank you.

Mr. VAN HOLLEN. Thank you both for your testimony. Thank you Mr. Chairman.

Mr. LANKFORD. Thank you and we are still waiting on the details of what that $400 billion cut is over the next decade, and so that is part of the ongoing pursuit of this, as well, is when to recommend it, but it is another one to be able to get the details of that. Obviously defense spending is falling dramatically over the last 50 years and a percent of the federal budget and what we are doing. But it is just a matter of being judicious with that process. So and I do appreciate you all coming and being a part of the panel today. With that we are adjourned.

[The prepared statement of Hon. Peter T. King follows:]

PREPARED STATEMENT OF HON. PETER T. KING, CHAIRMAN, COMMITTEE ON HOMELAND SECURITY

I would like to take the opportunity to thank Chairman Ryan for holding this hearing regarding the National Security budget. I also thank the Chairman, Ranking Member Van Hollen, and Members of the Committee for considering my statement and including it in the record.

Homeland Security Secretary Janet Napolitano has warned that our Nation is currently at its highest level of a terrorist threat since September 11, 2001. We must work to ensure that the Department of Homeland Security is receiving sufficient funding to keep our Nation safe.

Homeland Security is National Security. When Secretary Napolitano testified before the House Committee on Homeland Security on March 3, 2011, she stated, "The demands on DHS have never been greater and the threats we face pose new challenges that require an innovative and focused response." According to Attorney General Eric Holder, during 2009 and 2010, 126 people were indicted for terrorist attacks, 50 of which were U.S. citizens. This week, on July 5, 2011, the Justice Department issued an indictment against Ahmed Abdulkadir Warsame who is charged with providing material support to the terrorist group, al Shabaab. Also this week, new threats to aviation security were reported, which should remind all Americans how important airport security truly is.

There are imminent terrorist threats to our Homeland, and this Congress has a primary responsibility to the American people to protect the Homeland and ensure the proper funding to address any possible security threats.

In assessing the most important budgeting priorities, we must first look to Federal grant funding for our local and state law enforcement partners in regions of the highest security risk. In the budget put forth by this Committee, and the subsequent Fiscal Year 2012 Homeland Security Appropriations bill, grants including the Urban Area Security Initiative, the State Homeland Security Grant Program, the Transit Security Grant Program, the Port Security Grant Program, and other grant programs for emergency communications systems and emergency medical response were cut by 50%, from nearly $2 billion to $1 billion. Such cuts jeopardize our security and make our Nation less safe.

As your Committee rightfully gives great importance to funding our Armed Forces fighting terrorism overseas, we must not become complacent at home. As a Representative from New York, my constituents know first-hand the tragedy of a terrorist attack and the heroic work of our first responders. Although we must reduce spending and shrink the deficit, we must avoid cuts to these critical grants that would severely weaken our Nation's ability to defend against future plots.

Budgeting sufficient funding to protect our Homeland will not only protect the lives of Americans, but prevent the devastating economic harm that followed the 9/11 terrorist attacks.

Chairman Ryan, I again commend you for holding this important hearing. I trust that you and our colleagues who serve on the Budget Committee will agree that decreasing funding for Homeland Security, as we prepare to reflect on the 10th Anniversary of the 9/11 terrorist attacks, will put our country at risk and is not in the best interests of the safety and security of the American people. I look forward to working with you to address the challenges ahead.

[Whereupon, at 12:27 p.m. the Committee was adjourned.]

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