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**INITIAL CONCLUSIONS FORMED
BY THE DEFENSE STRATEGIC CHOICES
AND MANAGEMENT REVIEW**

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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INITIAL CONCLUSIONS FORMED BY THE DEFENSE STRATEGIC CHOICES AND MANAGEMENT REVIEW

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Thursday, August 1, 2013.

The committee met, pursuant to call, at 10:07 a.m., in room 2118, Rayburn House Office Building, Hon. Howard P. "Buck" McKeon (chairman of the committee) presiding.

OPENING STATEMENT OF HON. HOWARD P. "BUCK" MCKEON, A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, COM- MITTEE ON ARMED SERVICES

The CHAIRMAN. The committee will come to order.

Good morning, ladies and gentlemen. The committee meets today to receive testimony on the Defense Department Strategic Choices and Management Review.

This committee has frequently encouraged the Pentagon to fully plan for sequestration and to make the consequences of several rounds of budget cuts known. With that in mind, I welcome this review and what it seeks to achieve.

I note that the President has directed the Department to maintain his 2012 defense strategy even though his senior commanders have testified that the strategy would have to be revised in the face of additional budget cuts. Any further consideration of strategy has been deferred to the Quadrennial Defense Review, which will not report out until next February at the earliest, which is actually after the next budget is supposed to be presented.

In the meantime, the report makes clear that the Department will proceed with changes in force structure, compensation, and further efficiencies without a new strategy. The most optimistic scenario has the President requiring DOD [Department of Defense] to find another \$150 billion on top of the \$487 billion that has already been cut.

To make matters worse, even if all of the options in this report were adopted, it would only address 10 percent of the true budget shortfall in the next year or two. The math simply does not add up.

This report also makes clear what I have been warning about for over 2 years: Further cuts will cause catastrophic readiness shortfalls. We will lose our workforce and ability to recruit and retain the All-Volunteer Force, and our influence around the world will continue to diminish.

There is agreement on both sides of the aisle and both sides of the Potomac that these cuts embolden our enemies and jeopardize U.S. national security. We often talk of risk, but I hope that today we will have a frank discussion about how this funding profile for

defense limits the ability of this country to protect our national security interests, not simply that we are accepting more risk, but what that means for the Nation and our men and women in uniform.

I look forward to hearing the testimony, and I thank both of our witnesses for being here today.

Mr. Smith.

[The prepared statement of Mr. McKeon can be found in the Appendix on page 49.]

STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. SMITH. Thank you, Mr. Chairman. I appreciate this hearing; as well, our witnesses being here.

This is an incredibly important topic, and, really, it all comes down to sequestration.

The plan, the strategy that the President and the DOD laid out a couple years ago based on the reductions in the budget was challenging, to be sure, but manageable. And I think the strategy matched the amount of money that was reasonably available and also matched our national security challenges and threats as best as they could.

Now we have sequestration coming down at us, and there is really no, you know, end in sight to that. 2013 has been difficult, 2014 is coming, and there are 8 years after that. And the impact on our defense budget and the impact on what we can do in terms of national security is deep and profound. It has already had an impact on the readiness that is available for this year, and then we are only, what, 3, 4 months into the first year of sequestration. It is going to keep getting worse.

And I really hope our witnesses drive home that point today, that if Congress does not act, if we don't do something to shut off sequestration, we have a very bleak future in terms of our national security.

And that is not to say that the defense budget can't take cuts. It can. I think there are a lot of places where you could find greater efficiencies. There are a lot of places where we could reduce the budget responsibly and meet our national security needs. But saying the defense budget can take cuts and saying that it can take 10-percent, across-the-board cuts every year for 10 straight years are two entirely different things.

And the impacts of those cuts are deep and devastating and would fundamentally alter our commitments to the world and our commitments to our own national security and would also have a devastating impact on the industrial base. And by "industrial base," I mean jobs. I mean manufacturing jobs, good jobs that really help our economy, protect our workforce. And while a lot of that is defense-focused to begin with, we build skills and expertise that then helps us in the commercial sector, as well. We would lose that also. This is caused by sequestration.

Now, our budget deficit for 2013 and 2014, the projections on that have come down significantly in recent months. Personally, if I could do it, I would simply turn off sequestration. It was done as

a threat, and so we never really wanted to implement it; we just figured it would be so bad, it would force broader deficit reduction. Well, it didn't. So why do we keep it on, when we see the impact that it is having on our national security, our defense, and, by the way, on a whole lot of other discretionary programs, as well?

But since there appears to be no appetite for simply, you know, stepping back from the blind threat that we made a couple years ago, it is incumbent upon Congress to come up with some sort of plan to find savings and tax increases that can cover the costs so that we don't have to do sequestration and further devastate the discretionary portion of the budget, of which defense is over half.

And, sadly, it seems like the appetite to do that is lessening instead of growing around here. And I know people say, well, you know, the sky didn't fall, the economy didn't completely collapse when sequestration happened, but the final point I will make is that sequestration is the classic, you know, "boiling the frog in the water." It is a slow process; it doesn't happen overnight. But when you look at the outyears, the charts as we go forward as these cuts get piled on top of each other, you know, the impact is deep and profound.

And it is something that I would urge every member of this body, not just of this committee, to really take seriously when we look at how we deal with sequestration. Whatever the plan is to come up with savings as an alternative, we have to put it on the table. Because the impact of this is really, really going to be deep in all of the ways that I have described and others as well.

I can't say that I look forward to the testimony. I don't. It is not going to be pleasant. But I hope everybody hears it and it motivates people to act.

I yield back. Thank you.

[The prepared statement of Mr. Smith can be found in the Appendix on page 50.]

The CHAIRMAN. Thank you.

Every member of this committee, I am sure, is very frustrated. Our job is to look after the national defense of the Nation. Both of you gentlemen, that is your job also. We work in tandem. At times, we get frustrated because you come from the Pentagon, we come from the Hill. And I know we will have tough questions. I understand Mr. Smith's comment about he doesn't look forward to the testimony, because it is tough and we are going to have to some way get through it.

But I want to say at the outset, we are all on the same team. We are all signed up to look after the defense of this Nation. We just come from different parts of the city. And, some way, we have to come together to get this problem resolved.

Today was the first I learned that we—I guess we had been so involved with the sequestration, I didn't notice the \$150-billion cut in the outyears that the President had already included in his budget on top of the \$487 billion and on top of the \$100 billion that Secretary Gates had had cut through efficiencies and had said that most of it we would be able to get back, and that turned out that we weren't able to.

So we are fortunate to have with us today Dr. Ashton Carter, Deputy Secretary of Defense, and Admiral James Winnefeld, the Vice Chairman of the Joint Chiefs of Staff.

Thank you, both of you, for being here.

And, Dr. Carter, the time is yours.

**STATEMENT OF HON. ASHTON B. CARTER, DEPUTY
SECRETARY OF DEFENSE**

Secretary CARTER. Great. Thank you, Mr. Chairman, Congressman Smith, all the members of the committee. We do appreciate the opportunity to be here with you to discuss the results of the Strategic Choices and Management Review.

And to get to something the chairman just said, you know, we are all Americans, and we very much appreciate the support this committee gives to our people in uniform. It really comes from the heart. It matters a lot to us. And we thank you for taking the time, which you have to devote to so many topics, to devote to us and our Department. So thank you.

And, also, before I get started with a brief recap of what the SCMR [Strategic Choices and Management Review] was about, if I could, I just want to emphasize something the chairman said at the very beginning which is very important, which is the need to act strategically in a time of budget transition.

We face two great transitions which are occurring simultaneously. One, and the most important one, and I think what the chairman's point was, is the strategic transition from the first post-9/11 decade, where we have been so preoccupied, of necessity, with the wars in Iraq and Afghanistan, to a new era and to facing and dealing with the problems and opportunities that are going to define this Nation's security future.

That is a transition we have to make irrespective of budget, but it happens to coincide with a very turbulent time in terms of our budget and our ability to plan; hence, the SCMR, Strategic Choices and Management Review. And it has two parts to it, Mr. Chairman. It has the strategic part and it has the management part, as you said.

Now, the management part is not strategic. That is about IT [information technology] efficiencies, overhead reduction, compensation reform. And none of that is strategic, but if we don't address those issues, which we did in the SCMR, then we would have to take all of any budget cuts out of investment, modernization, and force structure, which we don't want to do. So we wanted to look at both, and in the SCMR we did look at both. I will make some brief remarks about both.

But to your point, Mr. Chairman, you are absolutely right. And we did take a strategic look at those budget reductions, but there is a very important finding, which was that, when you took a strategic view and you tried to build your future strategically, we were unable in that strategic approach to fill the sequestration gap in the early years. I think that is what you meant about the numbers don't add up. They don't add up in the early years, because the things we have to do under sequestration are not strategic; they are dumb. And so you can't make it add up in the early years.

That is an important finding of the SCMR. I will say a little bit more about that later, but I think that that is exactly right.

And, of course, the SCMR is the preparation for the budget, as you mentioned, fiscal year 2015. And we do need to make these plans and these changes now and not wait for the Quadrennial Defense Review, as you said, which will be a help to us and which we do need to conduct, but it does come late in the process, as you said.

Let me begin by saying, you know, we, of course, support the enactment of the President's 2014 defense budget proposal because it does support the goal of deficit reduction while providing, as we will see and as the SCMR indicated, an adequate level of resources to maintain a strong national defense in a rapidly shifting and highly complex global security environment.

But, since March 1st, sequestration has been the law of the land. Secretary Panetta and I began warning about the negative impacts of sequestration on the Defense Department almost 2 years ago. And, in fact, it was 1 year ago today that I testified before this committee that sequestration would have devastating effects on the Department, both because of the size of the sequestration cuts and because of the mindless way that the law requires them to be allocated. And, as predicted, sequestration's impacts on the Department's operations have been very unfortunate and far-reaching.

And in the absence of an overall longer-term budget agreement between Congress and the President, we have concluded that we must prepare and plan for the possibility that sequestration-level budgetary cuts imposed by the Budget Control Act will remain in effect, as Congressman Smith said, for the years ahead and not just for this year.

And, accordingly, in March, Secretary Hagel asked me, working with the Chairman of the Joint Chiefs of Staff, the Vice Chairman of the Joint Chiefs of Staff, and all the Department's civilian and military leadership, to conduct the Strategic Choices and Management Review in order to prepare the Department for a range of budget scenarios.

And, as its title suggests and as I mentioned, the SCMR had two parts, one focused on strategic choices and one focused on managerial ones, and a unified view was necessary.

The scenarios, budget scenarios, we considered in the SCMR reflect today's budget debates. They range from the President's fiscal year 2014 defense budget proposal, which included, as the chairman has noted, an additional \$150-billion reduction in defense spending over fiscal years 2014 through 2023, most of those cuts occurring later in that period, to the Budget Control Act sequestration caps, which would cut \$52 billion from defense in fiscal year 2014 and then 50 again and 50 again and 50 again and 50 again for 10 years.

The formal process of the Strategic Choices and Management Review is now complete, and its findings are sobering. We hope we will never have to make the most difficult choices that would be required if the sequestration-level budgetary caps persist. But the SCMR formulated and framed these kinds of choices for us, and now we are at least prepared if confronted with this scenario.

You can read the details about our findings in the written testimony that the Vice Chairman and I submitted to this committee, which I would request be entered into the record. Let me just share with you the three key findings of the SCMR.

First, in all of the budget scenarios we considered, savings from reducing DOD's overhead, administrative costs, and operating expenses, which we refer to as "efficiencies," as well as serious reforms to compensation for civilian and military employees, both are crucial.

Compensation alone makes up more than half of the defense budget. If overhead and compensation continue to grow as the overall budget shrinks, then all of the impact of the cuts will fall on the other parts of the defense budget—on force structure, on training for readiness, and on investment in new technologies—resulting in reduced combat power and increased national security risk.

These reforms are difficult and painful, but we have to do them. And to do them, we need the partnership of Congress and the lifting of many legislative restrictions under which we now operate.

And we also found, however, that even the most aggressive and ambitious packages of efficiencies and compensation reform that we mapped out in the SCMR are not, by themselves, enough to meet the budget reductions called for in any of the scenarios we analyzed. The SCMR showed that cuts in combat power, force structure, readiness, and investment will be necessary in all three of the budget scenarios.

The second finding regards sequestration. The SCMR found that over time a combination of carefully chosen efficiencies and compensation reforms, combined with various carefully and strategically chosen alternative approaches to cuts in force structure, investment, and readiness, could achieve sequestration-level cuts over time. But there is no strategically and managerially sound approach to budget cuts that can close the gap within the next few years.

I think that is your point, Mr. Chairman, about the numbers not adding up.

We simply cannot downsize the force prudently in a few years. Ten, yes; in a few, no. It takes time to downsize forces, to cut employees, to close bases, to reap savings from reforms. These strategic adjustments take time.

If sequestration-level cuts must be implemented in the meantime, drastic measures that are not strategically or managerially sound are the result. And you see this already in fiscal year 2013, this year, where we had sequestration applied immediately, resulting in such actions as readiness standdowns and furloughs. Flexibility in time is essential.

And the third major finding of the SCMR concerns strategy. The SCMR showed that the President's fiscal year 2014 budget proposal allows the Department to still implement the main tenets of the President's defense strategic guidance. Force reductions in this scenario are necessary but, if accompanied by efficiency and compensation reforms, can be made in a way that incurs only minimal risk in our strategy, cutting parts of the force that are in a sense excess to our strategic needs—in particular, for example, reducing

the size of our ground and tactical air forces as we draw down from more than a decade of stability operations in Iraq and Afghanistan.

But, in contrast, the BCA [Budget Control Act] budget, or sequestration budget, if mandated over the full 10 years, would, in addition to the drastic measures in the early years just noted, force the Department to make such significant changes to the force that we would have to change parts of the Nation's defense strategy—changes that would mark a significant departure from the missions our Nation has been accustomed to being able to accomplish.

The SCMR examined two illustrative strategic options to reach sequestration levels that bracket our choices in each force element and various choices in between: one bracket that seeks to preserve a modernized force by sacrificing capacity and one that preserves a larger force at the expense of modernization. Neither is compatible with the current strategy, as defined in the President's defense strategic guidance. Under sequestration, a large number of critical modernization programs would be at risk, and we would see significant reductions in force structure.

So, to reiterate, the SCMR did not make final choices among these possibilities because we hope never to have to face them, but it did map out various options to reach each budget scenario. The SCMR produced options that would prepare the way for these large cuts, but I have to emphasize that plans alone cannot avoid serious damage to our military capabilities.

Tragically, this prospect of serious damage to national security, detailed in the written testimony we have submitted, is not the result of an economic emergency or a recession that makes a sudden reduction in expenditures necessary. It is not because defense cuts are a mathematical answer to the Nation's overall fiscal challenge or because paths of revenue growth and entitlement spending have been explored and exhausted. It is not, surely, because the world has suddenly become more peaceful. It is not due to a breakthrough in military technology or a new strategic insight of some sort that makes continued defense spending unnecessary. It is purely the collateral damage of political gridlock.

And friends and potential enemies around the world are watching our behavior. To be sure, America will remain the world's strongest military power, but we are accepting unnecessary risk.

Secretary Hagel and I also fully support the President's overall budget plan in his fiscal year 2014 budgetary proposals for other Federal agencies.

DOD depends on a strong education system to provide qualified recruits for our All-Volunteer Force; an unrivaled science and technology base and a strong manufacturing base to maintain our decisive technological edge; infrastructure that surrounds our bases and installations; and other agencies of law enforcement, homeland security, intelligence, and diplomacy to complement the military instrument of power; and, more generally, on a strong economy to buttress our role in the world.

We in the Department of Defense are prepared to make difficult strategic and budgetary choices, but in order to sustain our military's unrivaled strength, we need the cloud of uncertainty dispelled and not just moved to the horizon.

Along with budget stability, we need time to make changes strategically, and we need the support of Congress to make budget cuts in a managerially sensible way. We need to return to normal budgeting and a deal that the Congress can pass and the President can sign. And then, together with Congress and this committee in particular, we can continue the strategic transition upon which we need to be embarked with certainty and stability.

Thank you.

[The joint prepared statement of Secretary Carter and Admiral Winnefeld can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you.
Admiral.

**STATEMENT OF ADM JAMES A. "SANDY" WINNEFELD, JR., USN,
VICE CHAIRMAN, JOINT CHIEFS OF STAFF, U.S. DEPARTMENT OF DEFENSE**

Admiral WINNEFELD. Chairman McKeon, Ranking Member Smith, members of the committee, and I would allude to the chairman's remark, I would say teammates in supporting our national defense, good morning. And thank you for the opportunity to appear today on this important topic.

I was confirmed for this position the same day that the Budget Control Act was passed in 2011. I have had the opportunity to participate in every effort since then within DOD to cope with this unfortunate mechanism for reining in our spending in support of the national security imperative of deficit reduction. This includes the initial BCA cuts that year, and it also includes the carnage of the fiscal year 2013 sequester in its timing, its magnitude, and its mechanism.

As we look toward an uncertain future, I helped Deputy Secretary Carter lead the SCMR as we stared into the chasm of what we call "sequester forever." And so I would make the following points this morning, many of which will underscore what Deputy Secretary Carter said.

First, I want to assure you that the SCMR process was very collaborative, with the Services and combatant commanders and other DOD components participating at every stage. This was a deep and painful internal look at every corner of our institution. All the stakeholders were involved in the process, and the process has made us better.

Second, the SCMR was not an academic exercise. We looked at everything, and we did it from the viewpoint of balancing strategic ends, ways, and means. As you may recall, the defense strategic guidance published a year and a half ago was our first bite at this apple, because all three elements of that equation had changed. The potential for additional cuts now further upsets that balance, and the SCMR offers us choices on how to restore it.

When the means come down drastically, something else in the equation has to give, or we will face a strategic say-do gap. With reduced means, we will work as hard as we can on the ways we use in order to preserve the ends we need to meet at acceptable risk. But, in the end, we could face a serious decline in our ability to protect this Nation and our allies.

Third, the most damaging element of this whole process, as Deputy Secretary Carter has alluded, is the speed at which the reductions hit us. They are sudden and deep rather than backloaded and gradual.

For a variety of reasons—for example, how fast we can or should get people out of the service, and the legislative limits on the ways we can cut—at the BCA level of reductions, they simply happen faster than we can digest them in a balanced and sensible way. On that profile, all we will be able to do in the early years is grab money wherever we can, mostly out of the modernization and readiness accounts, which is particularly disruptive to our ability to defend this Nation.

Fourth, again, as the Deputy said, we need the freedom to find savings in our structural costs and our compensation first, or the structure, modernization, and readiness of the force that defends our Nation will have to be reduced even more.

I can tell you Chairman Dempsey and I are very concerned that most of that could come on the back of readiness. And, indeed, no matter what happens with the fiscal year 2014 budget, we will begin next year trying to dig out of the readiness hole that sequester created for us this year. Imagine trying to be in a swimming race where you have lead weights on your legs and starting that race when you are already out of breath. That is the situation we will be facing in fiscal year 2014. And this is a real problem that is getting worse every day, and we ignore it at our peril.

Fifth, I want to emphasize that this effort was about teeing up choices. No decisions have been made, because they cannot yet be made, because we don't know how much money we are going to have, and we don't know when we are going to know how much money we are going to have, and we don't know what the rules are going to be when we find out. And so it is very hard to produce a strategy when one leg of the ends, ways, and means stool is so uncertain.

Moreover, I am concerned, and Chairman Dempsey shares my concern, that as Members begin to understand what these cuts mean in real terms, we will end up with legislation or amendments that foreclose bit by bit the levers that we need to shape this force strategically, and they will funnel us in to principally taking the only thing that is left, and that is readiness, which really has no constituency other than the young soldier, sailor, airman, or marine putting his or her life on the line for our Nation's security interests. And we are already seeing this.

It will be truly shameful if we allow this force to travel further down the path to becoming hollow than it already has over the course of this year. I believe the members of this committee can help fix this by reaching a compromise that changes the magnitude, the profile, and the mechanism of these cuts and avoids a destructive continuing resolution with the sequester mechanism riding on top of it.

So, to the degree that we must cut, we ask you to support expanded reprogramming flexibility so we can shape the force strategically. Allow us to make needed but fair adjustments to the way we compensate our people, and allow us to shed unnecessary structure and infrastructure.

In short, we have enough uncertainties among the many security risks facing this Nation today. We need your help in removing the risk of the financial uncertainty that faces your Department. It is the least we can do for the magnificent young men and women who stand on the front lines for our Nation and who, no matter what happens, will always strive, supported by our fabulous DOD civilians, to remain the finest fighting force in the world.

So I would like to thank you for your continued support of those wonderful people, and we stand ready to support you with whatever information you need to get this done.

I look forward to your questions, and thank you very much.

The CHAIRMAN. Thank you.

You know, I have been struck by the news reports that have suggested that senior defense leadership saw this review as an effort to, “set clear strategic priorities to implement the President’s defense strategic guidance at a time of huge financial challenges.”

Indeed, our briefings yesterday that some of us were able to attend made it clear that the President directed the DOD to retain the defense strategy and not to use the SCMR to contemplate alternative frameworks.

Yet, last April, General Dempsey testified, “We adjusted our strategy after the lessons of 10 years of war and our projection on what the Nation would need in 2020, and we mapped the 2013 to 2017 budget to it, absorbing the \$487 billion cut, and that if we have to absorb more cuts, we have to go back to the drawing board and adjust our strategy. What I am saying to you today is that the strategy we would have to adjust to would, in my view, not meet the needs of the Nation in 2020.”

This February, he went on to say, “The question I would ask this committee: What do you want your military to do? If you want it to be doing what it is doing today, then we can’t give you another dollar.” That said after the \$487 billion in cuts. Since then, we have had sequestration piled on top of that, which is another \$500 billion, after he said, we can’t do this strategy if we give you another dollar—\$500 billion and \$150 billion. That is \$650 billion on top of it.

Now, I know the President took the \$500 billion out of his budget, he put the \$150 billion, but the \$500 billion is law. And until it is changed, we have to consider that that is the law.

Admiral Winnefeld, do you agree with these statements of General Dempsey?

Admiral WINNEFELD. Chairman McKeon, what I do agree with is that the President never directed us to not depart from the DSG [Defense Strategic Guidance], as far as I can remember. Basically, we used the defense strategic guidance as the baseline, and it was something that we strove to protect as best we could with potential budget cuts.

What we discovered as we went through this is the deeper those budget cuts go, and particularly under the BCA cut levels, the \$52 billion forever, that it is going to be very hard to execute that strategy. There are areas where it will break. And I would say that we can’t write a new strategy until we know what the bottom line is going to be, what level of cut we would have to take.

So we are sort of trapped in this strategic no man's land of—we now understand, based on the SCMR, what choices we might have to make, which would certainly inform a new strategy if we had to write one. But we don't know which choices we are going to have to make until we know what the level of funding is going to be. So we are really sort of trapped there in that regard.

And I would also add that, you know, this was a very deep and painful process. In it, we really, really strived, as Secretary Carter mentioned, to find more efficiencies. It is just something we always try to do; it is where we want to turn first. And when you can do that, and if you look at compensation, those things don't really start to add up until the outyears. And that is why you see a greater willingness to maybe take some of that step but have it backloaded, because that is where we can get it. We can't get that upfront.

The CHAIRMAN. You know, I guess we just look at this strategy a little differently. We had a strategy that has been good for this Nation since World War II, where we would be able to fight two major conflicts at a time, a lesson that we learned in World War II. And that strategy has stood us well up until a little over a year ago, and we were forced to cut \$487 billion out of defense. We cut almost a trillion dollars out of our domestic spending, and half of that came out of defense, even though defense only accounts for about 17, 18 percent of the overall spending. Defense got the big hit. And as a result of that, the strategy changed. And like I say, that was just a little over a year ago.

I have always felt like what we would expect of our military leaders is, you tell us the threats that we have, you set a strategy to meet those threats and then how much it is going to cost to do that, then we have to somehow come up with the money, instead of, this is how much money we have and then how do we devise a strategy to fit the amount of money.

With further sizeable cuts, will a new defense strategy be required because the President's 2012 defense strategy can no longer be supported with acceptable risk? You know, in the discussion yesterday, we didn't talk about any different risk or how much more risk we are going to have to accept.

If not, will we see an updated chairman's risk assessment? You know, the last QDR [Quadrennial Defense Review] really didn't do an adequate job of really telling us what the risk would be out 15, 20 years. I hope the one that we get next year will do a better job of that.

If we are going to see—if we are going to keep the President's current strategy and resource it less, because the last one already described significant risk, where does that leave us? How are we going to find out what additional risk we are asked to assume if we follow through with all of these cuts?

Admiral WINNEFELD. So, a couple of things.

First of all, in the initial part of your question, I share your frustration. We would like nothing more than to be able to state the ends first and then naturally have the means appear. But, in the real world, we really can't do that. It really is a balance of ends, ways, and means. And we have to look at the ways we have, we look at the ends we are trying to achieve in the world, the means

we have, and try to be as innovative as we possibly can to try to achieve balance, achieve an equilibrium among those things. We have to have our strategic work informed by means.

Now, we would love, again, to do that, just set the ends and give us the money, but that doesn't really work very well—

The CHAIRMAN. You know, Admiral, the real world can change on a dime. When Pearl Harbor happened, I am sure everything changed, and we changed our focus, and all of a sudden we found whatever resources we needed to meet the threat, and everybody bought in. The problem is now everybody isn't buying in with everything we have got. But I understand what you are saying about the real world.

Admiral WINNEFELD. If I could, just very briefly on the defense strategic guidance, the chairman, when we submitted that this year, did hold out that if the financial situation gets worse, we might have to provide an update. And we are considering at this moment whether we are going to do that.

And we reframed the chairman's risk assessment this year. Rather than being sort of a regional *tour d'horizon*, we tried to frame it in what we call, you know, national security interests or national defense priorities. And that is the approach we would take if we were to provide an update, sort of a midterm update.

Secretary CARTER. Mr. Chairman—

The CHAIRMAN. You know, I really think that is needed, because we try to go and explain this dilemma to the other Members of Congress, who right now are sitting in other committees, they are studying other issues, they are not focused on this issue. And when we just say, we are really cutting the military too much, they don't understand. But if we were to say, a third of our air force is grounded, we could not right now do another Desert Storm, we could not do—what are the things we cannot do with the \$487 billion cuts we already have and if the sequestration continues? We need to be able to tell the world.

I think the world is watching, but I am not sure all the American people are, and I am not sure all the other Members of Congress are. Because I don't think people are quite grasping the real significance and the real importance of what these cuts are doing, the devastation that they are causing to our ability to defend our Nation.

Secretary CARTER. Mr. Chairman, if I can just add one thing to what the Vice said and just reinforce, the President's strategic guidance—in the testimony we submitted is the letter that Secretary Hagel signed kicking the SCMR off, and the phrase he used in there was that the President's strategic guidance would be the "point of departure."

And so it was recognized from the beginning that if we get big budget cuts relative to the strategy that we designed a year and a half ago, there is an impact on strategy, there is no question about it. I think that is what the Chairman was saying to you previously, and that is what the Vice said, and that is certainly true. I just want to be absolutely clear about that.

Now, when you make those strategic choices, you can make them in different directions. You pointed to the question of capacity for simultaneous conflicts. That is an important ingredient of strategy.

There are others: nuclear deterrence, counterterrorism, and so forth. But as the Vice said, as the budget is disrupted and reduced, there are going to be things we can't do any longer.

And we adumbrated that in the Strategic Choices and Management Review. And we continue to work on how to adjust to that circumstance. We know the world is watching. It is embarrassing and unsafe to be in the situation we are in, which is scrambling in this way.

The CHAIRMAN. Thank you.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Just an observation at the start of mine. I mean, it is a matter of budget choices. I mean, if we want to say to the Defense Department, you know, tell us what you need to do and then we will get you the money, then we need to make choices in other parts of the budget, both on revenue and on spending.

And then the choices we have made in the last decade, you know, have been to, you know, dramatically cut taxes and dramatically increase spending. You know, even on entitlements, we passed a prescription drug benefit and we have cut taxes by some \$6 trillion, \$7 trillion over the course of the last, you know, 10 years. And here we are.

So if you take the isolated portion of the defense budget, you can argue for more money for it, but if you really want to argue for more money for it, then you have to argue for less someplace else or, as I have advocated, for more revenue. And that is what is really missing from the discussion, is that, you know, sort of, grand-bargain approach to better align where our spending is at.

And don't get me wrong. As I have said earlier, I certainly think the defense budget—the chairman and I probably don't see eye to eye on this—can take a portion of that. There could be some cuts there and we could still meet our strategy.

The problem is, what the Budget Control Act did is it put everything on the discretionary budget, you know, and it put all of the cuts, you know, not just on defense but on transportation, infrastructure, research. Some of my colleagues on other committees have been getting, you know, similar briefings to this about NIH [National Institutes of Health] funding or about infrastructure funding that, trust me, are just as devastating in terms of the priorities and in terms of protecting our country.

So that brings me back to the original point, that if we want to stop sequestration, we have to honestly address those other issues.

Dr. Carter, I wanted you to elaborate a little bit on the personnel side of it. Because that is the other problem, is that Congress has restricted you; not just that we said 10 percent across the board, we then also restricted where you can make those cuts in ways that make it even more difficult.

The committee is adamantly opposed to base closure, so you have no flexibility where that is concerned. Personally, I support base closure. I think if we are going to bring down the size of the force, it is completely logical. We have refused to do anything except the modest increase we did on TRICARE [Department of Defense health care program], I think, a couple years ago. And on the personnel side, you know, we continue to exempt that.

Can you walk us through those numbers a little bit and how being able to have some more flexibility in those and perhaps other areas could help you?

Secretary CARTER. I absolutely can.

Let's start with compensation. Compensation, both military and civilian, makes up about half of our budget. Nobody, in my judgment, none of our soldiers, sailors, airmen, marines, or DOD personnel, is overpaid. We value these people. We want them, and, particularly those who are fighting for us, we value what they are doing.

But we cannot continue to have compensation grow in the way it has over the last decade, or it won't be half of the budget, it will be 55 percent, 60 percent, and so forth. So, at some point, the rate of growth in pay needs to slow.

We have made, as you indicated, proposals that would do that that we think both adequately honor our forces, are effective in the labor market in keeping really good people coming into our military—because that is what makes our military great—and are fair. And we have not been able to make those changes.

Likewise with health care. Health care in DOD, like health care in the rest of the economy, is growing in such a way that, once again, it will engulf the rest of the budget. We have made some proposals that we thought were fair, reasonable, we thought about them very hard, and were not able to get them enacted.

In the SCMR, we identified—I am looking at the numbers here—over the 10-year period, \$63 billion over that period in additional efficiencies that we think we can get and \$97 billion in compensation changes that we would recommend. So that is 160 out of the 500; that is about a third of the cuts we are required to take, out of more than half of our budget, so it is still not cutting in proportion.

But we need support for these things. You mentioned BRAC [Base Realignment and Closure]. That is another popularity winner. But I can't tell you anything else but that we need to do that. Otherwise, we will be all "tail" and no "tooth" to our military.

So these aren't strategic questions, as I said at the beginning; these are managerial questions. But they have strategic consequences, because we will end up with these bills overwhelming investment and everything else. So we really do appeal for understanding and support here.

We intend, as part of the fiscal year 2015 budget, as we did in 2014, as we did in 2013, and back when I was with Secretary Gates in 2010 and 2011, then also, appealing to be able to make these changes.

Mr. SMITH. Well, you are kind of—

Secretary CARTER. That is the smart and sensible way to take a bite out of budget cuts if we do face them.

Mr. SMITH. Yeah, you are kind of trapped in the middle here, in that, you know, collectively, Congress is doing nothing about sequestration, but, individually, we all want to imagine that it is not going to happen, so that we look at, you know, cuts that impact our districts or impact programs that are important to us, and we fight them just like it was 8 years ago, you know, when we had a big defense budget.

And it is like Congress has kind of got to choose. I mean, if we don't like sequestration, if we want to, you know, preserve these bases and preserve all these other things, then we had better stop sequestration. But as long as it continues to roll on, we are way behind the curve on adjusting to the new reality and giving you the flexibility that you need if, in fact, sequestration is the way of the world.

And, as I said, I would turn it off tomorrow, but we don't have the votes for that. So if it is what it is, we have to start legislating within that reality.

Thank you. Appreciate the testimony.

I yield back.

The CHAIRMAN. Thank you.

Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Dr. Carter, just to be a little more specific on what you and Mr. Smith were talking about, I am looking at a chart that shows fiscal year 2014 in particular. And it shows the specific recommendations that you all have made on pay and health care and retaining aircraft and ships, and it ends up being about \$5 billion worth of difference in fiscal year 2014. But that leaves about \$47 billion worth of difference that it doesn't touch.

And so, to me, I take your point. It is a little bit like my constituents who argue, I know how to balance the budget, just cut foreign aid.

Well, there are proposals you all have made. We have not agreed with them all, absolutely. But, at the same time, the huge portion that shows on this chart is not touched at all by the recommendations you all make for 2014.

I understand, a lot of this is in the outyears and the savings grow, is part of the answer. But looking at what is right in front of us, under sequestration, there is \$47 billion that you all don't have a plan for, right?

Secretary CARTER. Well, we don't have a strategically and managerially sound way to make those cuts. That was the point I made at the beginning. That whole orange pie has to be filled in with things that you and I would never sit in a room and think about doing as sensible things.

The little red wedge, yes, is the beginnings of some of the efficiencies that we were just discussing with Ranking Member Smith.

What you see there in orange—it is ironic, because orange is the color we have used in our own review for dumb gaps—that is a gap that can't be made up in a strategically and managerially sensible way.

That is what we have been doing this year. That is why you see furloughs. Would you furlough somebody if you thought about it in advance and could take time? Would you stand down readiness so that you didn't have units flying, you didn't have ships sailing? We wouldn't do any of that stuff—

Mr. THORNBERRY. Yeah.

Secretary CARTER [continuing]. If we had our—

Mr. THORNBERRY. The only point I would emphasize is, I think it is important that we all work to put this in context. And so, for the Administration to continue to emphasize the request it makes

that we may disagree with, I think it is a fair point to make it, but put it in context, that it doesn't deal with the overwhelming majority of the problem that we have in front of us.

Similarly, base closing, it costs money for 2014. It would make that problem worse. And, certainly, given the recent track history of 2005 base closing, it would make it much worse. It is going to take 15 years before you ever break even, et cetera, et cetera.

Let me just move to Admiral Winnefeld, because I want to ask one other question.

I understand that the combatant commanders have been instructed to update their operational plans 18 months ahead of schedule. And we probably can't talk about this in great detail here, but I would like to know why.

And it looks to me like we are again getting the cart before the horse, because that basically is the strategy. The demand signal on the people and the stuff that we need to carry out operations in certain theaters, you are telling them ahead of time to go ahead and update that now before any of the rest of this is settled.

Admiral WINNEFELD. There are a lot of really good reasons, Congressman, for taking a look at our OPLANs [Operation Plan]. We don't do it often enough to start with. We don't want to fight the last war. We are always accused of fighting the last war; I don't want to do that.

There are a lot of things that can change that will influence how you fight. One is evolutions in the threat. And almost every threat we face in our major planning scenarios—and you can imagine what they are in the Western Pacific and in Iran and that sort of thing—those threats are changing rapidly. So we need to account for that.

Our own technology is changing. Those plans, in many cases, are written based on old technology that we have. Congress has given us the funds in the last few years for new technology. We need to update those plans. The world is changing very quickly.

And I would also say that if we can find a better, more innovative way to execute those plans, that will take some of the pressure off of the uncertainty in the financial world that we are feeling right now. But that is not the only purpose for asking them to take a look at their plans. In fact—

Mr. THORBERRY. My time is running out. So it is changes in the world, or is budget included in the reason that they are asking for doing it 18 months ahead?

Admiral WINNEFELD. It is everything, Congressman.

Mr. THORBERRY. Including budget.

Admiral WINNEFELD. Ends, ways, and means, including budget. But mostly the fact that our technology has changed, the threat trajectory has changed, the world has changed, and I don't want to fight the last war.

The CHAIRMAN. Thank you.

Ms. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

Thank you, both of you, for being here.

I really appreciate the comments that my colleague just made, but the reality is that, even though the Congress can't maybe change all of that and close the gap, there are things that we can

do. And so I think that we need to look at that within the context, as well. Because some of those changes, with thoughtful discussion, might lead to some differences that might be helpful to you. And I hope that we can do that.

I also wanted to ask about if these furloughs continue. If we don't solve the problem of sequestration, will you be forced to continue to furlough civilian employees?

Secretary CARTER. First, with respect to furloughs for this year, that is, fiscal year 2013—

Mrs. DAVIS. So I am looking at, yeah—

Secretary CARTER. I understand.

Mrs. DAVIS [continuing]. For fiscal year 2014.

Secretary CARTER. As I understood, you had a question both about 2013, the continuation, and whether we need to do it in 2014.

With respect to 2013, we hope that we will be able to adjust the furlough level. We have set it at 11 days. Furloughs are under way. In most organizations, they are going at about 1 day a week. That means 1 day, a payday, per week lost for an individual and their family. This is not a joke. It is very serious and no way to treat people. And, therefore, we are looking in every way, as we reach the end of the fiscal year, can we find money somewhere?

I will give you some examples. Some of our war costs associated with Afghanistan—it is a war, so you don't know exactly how much you are going to spend. If, by the end of the fiscal year, we have money left over, so to speak, we want to be able to see that in advance and apply that to furloughs.

Mrs. DAVIS. Uh-huh.

Secretary CARTER. Fuel prices are a little different, changing in our favor.

So we are looking around as part of our general effort to manage under sequestration in the smartest way possible, given that it is a dumb thing. And if—

Mrs. DAVIS. What about freezes on civilians?

Secretary CARTER. If we do find funds between now and the end of the year, we have two priorities. One is to restore maintenance, and the other is to relax furloughs. So that is what we are doing.

In 2014, if we have sequestration in 2014, and I think the Secretary has indicated this, it goes beyond sequestration to the possibility of RIFs [Reduction in Force]. It goes to the possibility of involuntary separations of service members. Because it just gets worse and worse and worse over time. Obviously, we hate to do that kind of thing, but that is the kind of thing that becomes necessary if sequestration continues.

Mrs. DAVIS. While it is difficult to, I think, see the impacts as yet—and I think you mentioned this earlier—what do we know about those impacts, though, in terms of, you know, have you established some metrics? What do we know about retention, recruitment? What do we know about performance, productivity? What do we know about these that might be helpful to us and instructive?

Secretary CARTER. Well, we know quite a bit, and we are trying to use the experience of operating under sequestration in 2013 to do better if we have to in 2014, even though the problem gets worse.

But I will just give you a few examples of how it is different. Let's take an investment program, an acquisition program. You know, you all, very rightly, and I, especially when I was Under Secretary for Acquisition, Technology, and Logistics, get so frustrated with poorly performing programs, weapons programs. Well, sequester makes well-performing programs into poorly performing programs. It drives up unit costs, it causes schedule delay, all the things we hate, because it is a poor use of taxpayers' money.

I have already said the impact on people. On readiness—and Admiral Winnefeld can chime in on this if he wishes, but our readiness problem will get even worse in 2014 because we have deferred some expenses into 2014 in the hopes that we wouldn't face sequestration.

So we have looked at this very carefully. We are as prepared as it is possible to be for sequestration in 2014. How we are doing it is outlined in a very long letter that Secretary Hagel sent to Senators Levin and Inhofe 2 weeks ago, and I commend that to your attention. It is attached to Admiral Winnefeld's and my testimony. And it gives our plan for fiscal year 2014.

But, you know, again, being prepared and having a plan doesn't mean it is not really unconscionable.

Mrs. DAVIS. Uh-huh.

Admiral WINNEFELD. And just very briefly, you asked about the effect on retention and recruiting. Retention and recruiting are a very complex animal that depend on a lot of factors—the economy out in the rest of the country and so on. But I know that the Chairman and I are both fond of saying that today's readiness crisis is tomorrow's retention crisis. These folks want to be in, and they will not stay if they are not training.

Mrs. DAVIS. Thank you.

The CHAIRMAN. The gentlelady's time has expired.

Mr. Jones.

Mr. JONES. Mr. Chairman, thank you very much.

And, you know, I sit here and listen to you very carefully. Yesterday, we had John Sopko, the Inspector General for Afghanistan Reconstruction, in a hearing in the Oversight Committee. You know, it is almost like we have two different worlds up here. We have the Washington world, and then we have the world of 49, 50 States out here.

Down in Jacksonville this past week, the Jacksonville paper, "Furloughs to Impact Mental Health Treatment," "Marines React to Mental Health Furloughs." I don't have time to read some of the comments to you. I would like to.

You know and you have been talking about the problem. And the chairman made the comment, and he is right, that when we go to the floor and we talk about all the problems that will hit the military and the defenses of our Nation, a lot of Members don't believe it. Well, they can't believe it, because we keep sending money to Afghanistan, billions of dollars. In the two wars of Iraq and Afghanistan, we spent over \$1.7 trillion, and we cannot even adequately take care of the wounded coming back home. Here I gave the example of the mental-health cuts down at Camp Lejeune.

I think that this Administration and the Congress needs to face the facts. The facts are, when you have to borrow money as a gov-

ernment to pay your bills, then you need to reconsider how much of the world do you want to build empires in. And I do not understand why the President feels the obligation, or the State Department, to have a bilateral strategic agreement with Afghanistan. Karzai is going to leave one day; the Taliban will take over Afghanistan. He will be smiling from his castle somewhere that Uncle Sam and the poor taxpayers built for him.

Dr. Carter, I know you don't make policy, I understand, as far as foreign policy. But we need the leadership in this country, both in Congress and outside of Congress, to start speaking clearly and honestly to the American people. And the situation is that if we are going to rebuild our military—which right now we can't do because we don't have the money; we are in sequestration—somewhere along the way, policymakers have got to start speaking out, that we have to change our strategy.

And that is what I hope that Secretary Hagel is doing. I have great respect for him. I think he is a man of integrity. He is a man that I have the greatest respect for. And maybe that is what we are headed to.

We have to get smarter with our policies. Because we are going to be in sequestration a little bit longer, maybe a year or 2, and you are going to continue to have to take these cuts, furloughs. The chairman and ranking member are going to have to hold these hearings. But we are not going to move forward. We are just going to have these discussions and stay in the same status quo that we are in today.

So I hope—and I am going to stop, I want to listen to you and the Admiral—but I hope at some point in time somebody will start saying, listen, America, you no longer can police the world, nor should you police the world. Help us rebuild America first and rebuild the military. And that is where we are.

Do you have any comments?

Secretary CARTER. Thank you. Just two things to note.

One is that, whatever any of the Members think of Afghanistan and the campaign in Afghanistan and the rationale for it and the success of it and so forth, one thing is for sure, which is of great importance to the Department, as you note, which is that we are winding down our involvement in the war in Afghanistan. And people are still debating how fast and how much and so forth, but no question about it.

And that has some real consequences for us. And it gets back to the very first thing I talked about here, which is: We are and must be, as a department, embarked on a major transition from the era we are coming out of, anchored in Iraq and Afghanistan and the first post-9/11 counterterrorism focus, to what we are going to do in the future and what we can do in the future given our level of resources.

That is more important than anything about the budget, to make that strategic transition. And, in that regard, I very much identify with what you were saying.

Mr. JONES. Thank you.

The CHAIRMAN. The gentleman's time has expired.

Ms. Bordallo.

Ms. BORDALLO. Thank you, Mr. Chairman. And thank you for holding this hearing.

And thank you, Dr. Carter and Admiral, for your honest and forthright testimony today.

I continue to find it deeply concerning that Congress has placed the Department of Defense in the position you are in today, to make these tough, tough choices. And I fully support having a robust military to defend our Nation and our interests, but we in Congress must do our part to ensure you have the resources to meet current and emerging challenges.

I support ending sequestration immediately and in its entirety. Finding a comprehensive solution to sequestration will allow DOD to properly plan and prepare for potential conflicts of the future.

And that is the bottom line here. We are not allowing the world's greatest fighting force to effectively and efficiently maintain pace. And it is a message that will see some action in the near future. And we in Congress are the problem.

Dr. Carter, I would like to know if you can discuss the SCMR results with respect to the rebalance to the Asia-Pacific region. I met earlier this week with the Senior Vice Minister of Defense for Japan, and I understand that you met him as well. While we had a good discussion on the Marines' realignment from Okinawa to Guam, I know we both had concerns about the timing of these moves.

So can you elaborate on the impact of the Guam realignment and if you foresee any changes from the previous testimony provided by yourself and others on the commitment to the Pacific region? And how does the results of the SCMR exercise impact the realignment, if at all?

Secretary CARTER. Thank you. And thank you for meeting with Minister Eto during his visit here.

The rebalance to the Asia-Pacific theater is a central tenet of our strategy. I think it is so obviously a part of the world that will be central to America's future that we will always have that high on our priority list. And it remains high on our priority list, and we are doing everything we can under sequestration and in all of these budget scenarios to protect investments in the rebalance in the Asia-Pacific.

Now, at the extreme ends, where you get sequestration for a decade, we are not going to be able to do everything that we have planned to do in the Asia-Pacific. We are just not going to be able to do it. But it will still be a priority, and we will still be able to do much of it.

And it is important that people in the region, both our friends and potential opponents, understand that we have the capacity and will to do that.

And there are two reasons for that. One is that we are now able to shift a lot of the weight that we have had in Iraq and Afghanistan to the Asia-Pacific theater. Some of that equipment and those people are showing up already. And, second, in our budget, whatever our budget level is, and as we went through these various scenarios, we attached priority to the things that are most relevant to keeping the peace in the Asia-Pacific theater.

We have done that for 60 years. It had been good for everybody, including us. If they think about it, it is good for China, it is good for India. It is the environment in which Japan, South Korea, Southeast Asia, all these economies have arisen. There is no NATO [North Atlantic Treaty Organization] over there. There is no law of nature that says that there is going to be peace in the Asia-Pacific. It is the pivotal role of the American military power which has done that for 60 years. We need to keep doing that and do as much of it as we can in any budget scenario.

Ms. BORDALLO. Well, thank you. Thank you very much, Mr. Secretary.

And I have another quick question. I believe the long-range strike capability is of critical importance, not only in the Pacific region but for any future conflict we may be involved in. As a co-chair of the House Long-Range Strike Caucus, I am interested to know how the Air Force next-gen bomber is addressed in the SCMR.

Maybe Admiral?

Admiral WINNEFELD. The Long-Range Strike Bomber is a very important program for us for a number of reasons. Principally, the two of: It is a vital leg of our strategic deterrent, of the triad; and, second, it is a very important element of potential future warfighting concepts that we would need from a standoff capability and also a penetrating capability. So we are certainly committed to that program.

As far as I can tell—and I would have to defer to the Under Secretary of Defense for Acquisition, Technology, and Logistics, but I pay very close attention to this program—it is currently on track.

Now, as far as the SCMR goes, you know, the deeper you go, the tougher some of this gets. And at the BCA levels, you know, it could impact that program in terms of timing or what have you. And it also would depend a little bit on whether you emphasized capacity or capability, in terms of how many you might buy or whether you would do the program.

But, at the moment, we remain committed to that.

Ms. BORDALLO. Thank you, Admiral. My time is up. But thank you very much.

I yield back.

The CHAIRMAN. Thank you.

Mr. Forbes.

Mr. FORBES. Thank you, Mr. Chairman.

And, Mr. Secretary, Admiral, thank you so much for your testimony today on the dire consequences of these cuts.

You know, hindsight is always 20/20. And I would hope that, had the President had the benefit of your testimony, he would not have began the massive defense cuts that he started when he first came into office over 4 years ago. And make no mistake about it: The President began these massive defense cuts.

The second thing I would hope is the President, listening to your testimony and in hindsight, would not have suggested sequestration. And make no mistake about it: It was the White House's suggestion we do sequestration, which, Mr. Secretary, you said was a dumb idea. Many of us told them it was a dumb idea then.

I would hope in hindsight, too, the President, hearing your testimony, would come back and not have signed that into law, which, make no mistake about it, the President signed it into law.

But what concerns me most is not what the President has already done but the fact that we hear over and over it is Congress' problem, but the President has come out even recently and said, unless he gets all the increases in spending, all the increases in taxes he wants across Government, that he will not support any effort Congress makes to fix this for national defense, no matter how reasonable and no matter how sensible.

So I hope that behind the scenes there will be some folks in the Pentagon who are trying to be reasonable voices to suggest to the President that that course of action is wrong and perhaps even dead-wrong.

And, Admiral, you mentioned in answering the chairman's question that budget impacts strategy. Is that a fair statement?

Admiral WINNEFELD. I think any experienced strategist would say that it is a balancing of ends, ways, and means.

Mr. FORBES. So would it be fair to say, if you have a smaller budget, your strategy is going to change, than if you have a larger budget?

Admiral WINNEFELD. You either change the ends of the strategy or you accept more risk in executing it. I would say that every strategy has a band of risk in it. You would like to be in the low-risk band of any strategy. But as the resources drift away, you start getting into a higher and higher risk area of that strategy. And, at some point, you are going to have to change your strategy.

Mr. FORBES. The reason I say that is because, for the last 4 years, this committee, the chairman, many of us have been saying that the budget was really having an impact on the strategy and driving the strategy, but, over and over again, we were hearing people from the Pentagon coming over and dipping their hands in some sort of mythical bowl and saying, no, no, no, this strategy is driving our budget, and the budget is not driving the strategy. So I believe, very clearly, many of these cuts have driven our strategy and will drive us to a dangerous strategy.

But let me come back to that hindsight being 20/20. If I look back over the last 2, 3 decades, one of the things that I can see is that there were some game-changing technologies that took place, some of them—stealth technology, unmanned systems, precision-guided munitions.

I am going to ask you to, kind of, look out to 2040 and take a look back. What do you think some of our game-changing technologies would be that maybe we need to fence off and make sure we are protecting?

And one of those, specifically, talk about the Navy's UCLASS [Unmanned Carrier Launched Airborne Surveillance and Strike] system. Do you see this as a game-changing technology that will define the future of the carrier air wing?

Admiral WINNEFELD. First of all, I would say there are a number of technologies out there that we have to pay attention to, and it is why both Under Secretary Carter and I have worked hard to do the best we can to protect our "seed corn," which is our R&D [research and development] budget, you know, science and technology.

You can't protect all of it, but it is terribly important that we continue this work. Any company would tell you that in a downturn they have to continue their research and development so they can come out at the other end with a product that works. And that is the same thing for us.

There are a number of these things. One would be cyber, making sure that we are continuing to advance on that front technically, as well as training and infrastructure. There are—

Mr. FORBES. Admiral, I have 60 seconds.

Admiral WINNEFELD. Okay.

Mr. FORBES. Can you tell me about UCLASS?

Admiral WINNEFELD. The UCLASS, I have been personally driving the requirement on that because I believe in the program.

In terms of whether it is a game-changer that totally transforms warfare, I wouldn't go so far as to say that, but it is a very important element of what we would put on the flight deck of an aircraft carrier in the future. It has a lot of potential capability for us that we would want to employ in a more dangerous world.

Mr. FORBES. Mr. Chairman, thank you, and I yield back.

The CHAIRMAN. Thank you very much.

Mr. Loeb sack.

Mr. LOEB SACK. Thank you, Mr. Chair and Ranking Member.

I want to thank both of you for your service, of course, and for being here today. This is a critical hearing, I think, to understanding the long-term impacts that allowing sequestration to continue would have on our men and women in uniform, on our readiness, and, indeed, on our national security. So, again, thank you for being here.

I do believe, as I think everyone on this committee does, and I believe very strongly that we have to replace sequestration. And I think the hearing today outlines the long-term consequences of sequestration and the, I guess, height of irresponsibility that really would be the case if we were to allow sequestration to go on.

But I have two particular issues I want to address today with you.

First, Secretary Carter, can you outline the impact the scenarios explored in the strategy would have on the health of the industrial base? And here we are talking about the organic industrial base—arsenals, ammunition plants, depots, shipyards, et cetera.

And, in particular, what would be the impact on the workforce within the industrial base, including the civilian workforce? And we have already talked furloughs a little bit, but specifically our ability to surge capacity when needed to respond to a national security contingency?

Secretary CARTER. Absolutely. It is a very important matter. There will be an impact on the industrial base, organic and the rest of our industrial base. I worry about it a great deal as Deputy Secretary. I worried about it a lot more when I was Under Secretary of Defense for Acquisition, Technology, and Logistics.

We, just to take people, employ, as I am sure you know, about 800,000 civilian employees at the Department of Defense. A lot of people in Washington think they are people who get up in the house next-door and drive to a building that has a four-letter name on it and sit at desks. Not true. Our civilians, for the most part,

don't live anywhere near Washington, as you know. And they fix things. They fix vehicles, they fix airplanes, and so forth.

And, as I said earlier, furloughing them is no way to treat people. The only reason that it was safe from a mission point of view to furlough depot workers was that we couldn't afford to do the work, so we didn't have work for them to do—also a consequence of sequester.

Going forward, we are looking at the backlog at each of our depots. As you well know, I am sure, we manage that backlog to create, as best we can, an even workflow. There is no question about it that if our budget is cut, we are not going to be able to do as much maintenance as we had planned. And those installations will be affected, like everything else is affected. We will try to manage that in the most intelligent and humane way we possibly can, but it is a consequence of lower budgets.

Mr. LOEBSACK. It is the human effect that we talk about. With respect to the furloughs, it is the human effect, when it comes to reduced workload and all the rest, but also it is also a national security issue. If we are not keeping the arsenals, for example, warm and we have a contingency, it is going to take much longer to get those folks back online and make sure that those products are available, those things are available for our troops in the event of another conflict.

Secretary CARTER. It is true. Anywhere I see in the industrial base what I will call irreversible change—that is, something that we are ramping down that we couldn't re-create—I get worried about that. Because things, once you bring them down, once you eliminate a skill set, it is very hard to bring that back.

Mr. LOEBSACK. That is right.

Secretary CARTER. And so it gets back to what Admiral Winnefeld was saying about protecting our future. One of the things we try to do is to make sure that we don't make irreversible changes, wherever that is possible for budgetary reasons, so that we don't destroy something that would be very time-consuming and expensive to re-create.

Mr. LOEBSACK. And, Admiral, I think I will take your answer for the next question for the record, if we could. We will submit that question to you.

But it has to do, of course, with going into more detail in terms of implementation of end-strength reductions as reviewed in the strategy and, in particular, looking at total force and the balance between Active Duty and Reserve Components. I am almost out of time, so I will submit that to you. And if you could get back to us in writing, I would appreciate that very much.

All right, thank you.

Thank you, Mr. Chair.

The CHAIRMAN. Thank you.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

And thank you both for being here today.

I share the concern of Congressman Forbes, and I appreciate that you are raising the issue of sequestration. I am very grateful that, with the leadership of Chairman Buck McKeon, the House

voted twice last year to address this issue. We, in our most recent budget, voted to address the issue.

This has a catastrophic effect. When we hear the word “furlough,” the American people need to know what that means. It is a 20-percent pay cut. We all know, in running our homes, that we have planned mortgage payments, car payments, tuition, and utility costs. And so “furlough” sounds too nice. Twenty-percent pay cut.

This needs to be addressed. And I sincerely hope—I have always been concerned that it was, indeed, Secretary Panetta who said, this will hollow out the military. So I am very concerned, and I hope every effort will be made to address this. Also, reprogramming and to be ever-vigilant in regard to our readiness.

But having that in mind, this committee has supported the statutory 1.8-percent pay increase. The President had recommended 1 percent. By September the 1st, there is the potential of the Secretary making a recommendation to the President to reduce the pay increase to 1 percent. What will be the recommendation by the Secretary?

And I am also concerned that there was a statement that pay increases have been, “40 percent above inflation since 2001.” Where did that figure come from, and how was it calculated?

Secretary CARTER. Thank you.

Let me start with the furlough question. I, too, hope that we are able to change that. You are right, “furlough” is too nice a word. I have talked to too many of our folks who are missing a fifth of their pay in the last quarter of the year. That is what it amounts to, and that is a real impact on people and their families. And it is no way, as I said earlier, no way to treat people who are serving their country, too, even though they are civilians.

And, by the way, I will just mention that more than half of our civilian workforce are veterans on top of that. So they are doing it because they love the work, because they love the country, and they like to be part of defense. It is no way to treat them.

And thank you and everybody on this committee for supporting reprogramming. That is essential for us to try to adjust to this abrupt circumstance.

With respect to military pay and the rest of compensation, you are right, we asked for a slower rate of increase in military pay, and Congress did not—Congress denied that. That is an example of what I said earlier about we need help if we are going to do this.

And we will be making proposals in fiscal year 2015. We haven’t fully formulated them. In fact, we have asked the Joint Chiefs of Staff, in particular, and the senior enlisted leaders of the Department to help us make that decision and make a recommendation to the President. But we will be making a recommendation in that area.

The 40-percent number, I am not sure I am familiar with it, but I think the number that might be the one you are thinking of is the increase, total increase, in real military pay over the period of the last decade. That—

Mr. WILSON. If you could get—

Secretary CARTER. I can certainly get back to you.

Mr. WILSON [continuing]. Some documentation, I would appreciate it.

Secretary CARTER. You bet.

[The information referred to can be found in the Appendix on page 105.]

Mr. WILSON. And then do you anticipate—again, we are here, it is August. Will we be—when will we learn about the President’s decision relative to the pay increase?

Secretary CARTER. With respect to the fiscal year 2015 and beyond?

Mr. WILSON. Yes.

Secretary CARTER. That will be when he submits his budget, which will be in February.

Mr. WILSON. But, yet, this year, there could be a determination of 1.8 to 1 percent. And so what do you anticipate for our service members this month?

Admiral WINNEFELD. If I can weigh in, the President’s budget as submitted for the fiscal year 2014 was at 1.0 percent. So that is where the position stands. I know that in various committee action and the like that that has not been approved; it has been taken at 1.8. So I think there will be a conferencing at some point where that would be determined.

I would just say that you would think the Joint Chiefs would be the last group that would want to slow the rate of compensation, but we have taken a very, very hard and close look at this, and we are going to have to slow the rate of increase. It is not decreasing anybody’s pay; it is slowing the rate of increase.

But we are going to just run out of money to provide the tools that these troopers need to do their job.

Mr. WILSON. Okay.

Admiral WINNEFELD. The most important thing for them, the most important compensation for them is to come home alive. The best way to bring them home alive is to get them the stuff they need.

Mr. WILSON. Well, thank you both. But I truly am concerned that we need to show how much we appreciate the young people making a difference for our country.

Thank you.

The CHAIRMAN. Thank you.

Ms. Hanabusa.

Ms. HANABUSA. Thank you, Mr. Chair.

Secretary Carter, the Secretary of Defense made a public statement yesterday, and I just want to have your confirmation. He said that the \$487 billion reduction over the next decade is to satisfy the initial caps of the BCA. And I have been always asking, what is the 487? So it is to satisfy the caps that are contained in the BCA; is that correct?

Secretary CARTER. Correct.

Ms. HANABUSA. So what we are now talking about, since we know that that is taken care of, is the impact of sequestration.

One of the things that you stated, both of you stated in the SCMR is that it is not intended to define the exact compensation of, basically, the future forces or what we are going to do. It is sort of, I think you used the word, a “decision space” faced by the De-

partment, and it is going to guide you. One of the areas that it is also going to guide is in the QDR. And that, of course, is what many of us are looking at to see what the view is into the future.

Now, how does the QDR and what you intend to do with the—as you state in the SCMR, because the QDR, of course, comes from the Department originally—how is that going to interface with that which we have done in terms of the NDAA [National Defense Authorization Act]?

For example, we have said no BRAC, and one of the proposals is a potential BRAC. We have said no civilian furloughs, assuming that goes through, and one of the things that is very obvious from all of this is that we may be faced with that.

So can you tell me how we are going to play and what we do with the NDAA into not only how you view the SCMR working forward but also the QDR?

Secretary CARTER. Absolutely. The same people who did the SCMR, the senior leadership of the Department, will do the QDR, so it will be informed by the SCMR. And, of course, we are required by law to do a Quadrennial Defense Review. A lot of the work for that is, in a sense, already done. And the QDR, on its schedule, comes late. We will probably be pretty close to finalizing the next budget by that time.

With respect to pieces of legislation contained in the NDAA, obviously we will abide by the law. Where we think that change is required, we will ask for it. And when we do, we will try to give you the whole picture.

Because I think this was mentioned by Ranking Member Smith earlier; when people look at individual pieces of the budget, of course you don't want to cut any of these things. There are real people involved. They are doing real work. They wouldn't be here in the first place if they were doing something that was not essential. So it is really hard. But you can't—we can't, at least, look at things that way. We have to look at the whole picture. And so we may indeed come back to you and say, when we have looked at the whole picture, we need to take this step.

I think BRAC is an example of that. We need to do that. We need to do it even more when our budget is being reduced more, because the excess overhead is even more excess in that circumstance. So we need that authority. Otherwise, we are going to end up taking only “tooth” and not “tail.”

Ms. HANABUSA. I understand that, but, of course, you will also face from us, on this side, the fact that the BRACs don't pencil out for maybe 16 years down the road, and the joint basing hasn't exactly worked the way it has.

But, in addition to that, on page 13 of your testimony, both of you say, “To meet these severe caps in the long term, the SCMR examined two illustrative strategic options.” One is basically to seek to preserve a modernized force by sacrificing capacity, and one to preserve the larger force capacity at the expense of modernization programs.

So it seems like with both—these are the two options you have come down with, but both have an upside and a downside. Are we reading this correctly?

Secretary CARTER. Exactly, yes.

Ms. HANABUSA. And the last one, I am running out of time, but I will submit it and ask you to respond for the record.

On the follow page, you talk about reducing end strength. And it is severe for Army, from 490,000 to between 380,000 and 450,000; and Marine Corps, from 182,000 to between 150,000 and 175,000.

So you seem to be focusing on those two Services; is that correct?

Secretary CARTER. No, that is not correct.

Ms. HANABUSA. Okay, so could you respond to me in writing? I am out of time.

Secretary CARTER. Absolutely. Similar changes in every force element were considered—

[The information referred to can be found in the Appendix on page 105.]

Ms. HANABUSA. Thank you.

Secretary CARTER [continuing]. Not just the Army and the Marine Corps.

Ms. HANABUSA. Thank you.

Thank you, Mr. Chair. I yield back.

Mr. WITTMAN. [Presiding.] Thank you, Ms. Hanabusa.

Dr. Carter, Admiral Winnefeld, thank you so much for joining us. We appreciate all that you do.

I wanted to talk a little bit about the figures that you bring up, especially for 2014. I think we have a slide to put up here that puts it in perspective about what we are talking about.

If you look at the slide here, you see that the actions required by Congress to make reductions of about \$5 billion get us down to \$47 billion in 2014. You spoke of about an additional \$12 billion in the SCMR recommendations that get us down to about \$35 billion. That is still a long way short in 2014 to the full \$52 billion in reductions.

Can you tell me how we would get to make up the remaining portion of that balance? I understand that the step in that first year is the most precipitous one. Can you tell me how we would get to \$52 billion? And would that affect readiness, and, specifically, which readiness accounts it would affect?

Secretary CARTER. Absolutely, I can. And it will affect readiness.

What you have to do in these early years under sequestration is go where money can be had quickly. And there are some places where money can't be had quickly—for example, military compensation. Even if you wanted to cut that, you can't do that quickly. If you wanted to reduce the size of the force quickly, you don't save money, because even if you involuntarily separate a service member, there is a process for doing that under the law, and you end up paying as much as they are leaving to them as you would if they had stayed. So you don't save money that way.

So how can you save money? You save money by curbing readiness, because you can do it quickly. So you will see readiness changes, more severe than in 2013. And I am going to ask Admiral Winnefeld in a minute to detail some of that. You will see us taking money out of investment programs, which means we won't be issuing contracts that we had planned to issue to people who are building things for us, people who are accomplishing services for us. You will see bases that aren't maintained the way that they

should be and are planned to be. All of that stuff, which is not good government, is not good management, you just have to go where the money is.

And some of this is detailed in our written statement and, in particular, in the letter that we wrote to Senators Levin and Inhofe, which is kind of a very—I think it is eight or nine single-spaced pages of what we have to do in fiscal year 2014.

Admiral WINNEFELD. So there are three areas that, the Deputy Secretary said, you have to grab the cash wherever you can. And we can't, as he said, easily get people out of the Services, so if you want to take it out of the personnel accounts, the only other things you can do—and this is what the Services will have to do under those numbers. They will stop bringing people into the military. They will stop their promotions. And they will stop moving them on PCS [Permanent Change of Station] moves.

So that is one slice of this thing. And you can imagine that bump going through the snake over 20 years of a year when you just don't take anybody in. It is very, very harmful to the force.

Mr. WITTMAN. Right.

Admiral WINNEFELD. Another one is the modernization programs. You can grab cash there. But, as the Deputy Secretary mentioned earlier, that starts to break programs. We find unit costs of JSFs [Joint Strike Fighter] going up. We find, you know, things like Nunn-McCurdy violations when that occurs.

And then, finally, the most important thing to us, of course, is readiness. And readiness is the elephant in the room. If you have an F-15 [Eagle fighter jet] squadron in your district, a lot of people don't care if it is flying or not, they just want it to be there. And that is why they call it a hollow force. It looks good on the outside, an F-15 is sitting on the ramp, but they are not flying.

Mr. WITTMAN. Right.

Admiral WINNEFELD. And so we will definitely see that very harmful effect next year if we have to meet those numbers.

Mr. WITTMAN. Gotcha.

Let me ask this. When you talk about those effects on readiness, can you qualify for us what that means as far as the risk this Nation assumes, both currently and then potentially if we face another conflict or another instance where we have to deploy somewhere around the world?

Admiral WINNEFELD. I have a very good classified slide that demonstrates that. I have shown it to Chairman McKeon. I would be happy to show it to any Member.

But it outlines basically the supply side. It shows you how many forces you have and the readiness state of those forces. And on the right side, it shows the demand side. And that demand side, it is what we are actually using day-to-day today—forward presence, you know, what we are doing in the Arabian Gulf and Korea, that sort of thing. And then it shows what the demand signal could be for various contingencies. And it is not a pretty story, but I can't go into it in an unclassified environment.

Mr. WITTMAN. Can you just give us a very brief, one-sentence assessment about what that increased risk means to the men and women that serve this Nation and put themselves in harm's way?

Admiral WINNEFELD. Well, one thing it means is that if you did have to do a contingency and you ended up deploying forces that are not ready, you know, that is something we don't like to do. One of, we believe, the most important ways to not break faith with our people is to make sure that when we send them into harm's way that they are fully ready to fight.

Mr. WITTMAN. Gotcha.

Admiral WINNEFELD. And we would not want to be in a position where we had to violate that.

Mr. WITTMAN. And if perchance they were not ready to fight, does that mean more men and women die on the battlefield?

Admiral WINNEFELD. Either that or we don't go into the contingency.

Mr. WITTMAN. Gotcha. Very good.

Thank you, gentlemen. We appreciate it.

Mr. Barber.

Mr. BARBER. Thank you, Mr. Chairman.

In regard to your last question and the response, I just took a meeting a few minutes ago with the upcoming commander of the 12th Air Force at Davis-Monthan Air Force Base. And he was talking about having to stand down pilot training for 3 months. And I asked him what the ratio of standing down to lack of readiness looked like. He said it is at least two to one. You know, 3 months down, you got to have 6 months to get back up to speed. So we are already doing irreparable harm, I believe, to our readiness by having to take these actions.

I want to talk about something a little bit different in regard to how sequestration is affecting our current and future force. I think Chairman McKeon stated it quite well when he said that, within this committee, there is an acute awareness of what this is doing to us, but with our colleagues who are also facing their challenges in other committees, not so much; in fact, in many cases, not at all. And across the country, the American people really don't get this yet. But our regional commanders know, as do our local commanders. And they cite all the time the adverse consequences that sequestration is having on morale and is having an effect, morale effect, also on military spouses and families.

You know, I grew up in an Air Force family. We never saw anything like this, indiscriminate cuts that just absolutely make no sense. And so I have no personal experience with it. But over the last several weeks and months, I have met with a lot of families and military men and women at Fort Huachuca in Arizona, at Davis-Monthan at the 162nd Air National Guard. And almost to a person, they reflect that morale is really declining. And then I talk to businesses in those communities, and they are affected, obviously, by the lower buying power. People don't want to buy things when there is uncertainty.

So I just want to ask this question, Mr. Secretary. Given the current fiscal constraints and the negative impact that sequestration is having on morale of both service members and their families, how will the military—and I think we also know that our service members are often some of our best assets when it comes to recruitment.

How is the Department ensuring that recruitment to meet our future needs is being sustained in a time like this? I mean, surely, it has to have had an effect or an anticipated effect.

Secretary CARTER. Well, we are monitoring that very carefully. We count on having the best people of any military in the world. And since it is an All-Volunteer Force, we have to look at the labor markets and see, are we going to be able to recruit and retain the kind of people we need?

We are doing okay so far. I think the morale change might have an effect on us, and we are watching that. So, also, does the overall economic situation, the labor markets in general.

And so, also, as far as retention is concerned, is the quality of service life. If you joined because you want to be tip-top in your military profession and you are not allowed to train this year, you are just allowed to sit around, because we don't have the money to let you train, that is very dispiriting for people, and that is the kind of thing that will make them leave. So I am very concerned about that.

This is something that is so concerning to us that we watch it very closely. It is very concerning to me. But I want to ask Admiral Winnefeld if he has anything to add to that, because this is something that really cuts to the heart for us.

Admiral WINNEFELD. Sir, I think you are asking a very good question, because, as the Deputy says, at the moment, perhaps because of the job market, what have you, we are doing okay in recruiting and retentionwise.

But it is a complex animal, and there is no question in our mind that, as the readiness of the force declines, that these people aren't going to be doing what they came in to do, and they are going to be less inclined to stay. Some of them will stay anyway, but there will be less inclination to stick around.

And the real morale piece—I wouldn't say the morale of the force is terrible right now. Our young men and women are doing great. But this has introduced a level of uncertainty in their lives as to whether they are going to have a future.

And sometimes I will talk to audiences, and I look at them and I will say, look to your left and look to your right. If we can't agree that we can absorb a slower rate of increase of compensation, then one of you guys is going to be gone in a couple years, assuming we are allowed to do that. So there is some uncertainty out there in their lives.

Mr. BARBER. Well, let me just comment, in my remaining time, in regard to my earlier conversation with the General. He has told me that re-upping is also becoming a problem. Men and women who are trained to fly potentially an F-22 [Raptor fighter jet] are saying they don't want to continue. That is a tremendous impact, negative impact, on our future readiness.

And I appreciate all you are doing to try to make us manage this through. I hope Congress will come to its senses and find a better way. Thank you.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. [Presiding.] Thank you.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Admiral, thank you for your service. Most of my questions will be for Dr. Carter, simply because of the two bases that I represent, but I certainly appreciate your service.

And, Dr. Carter, I represent Robins Air Force Base, and I also represent Moody Air Force Base in Valdosta. And, obviously, the furloughs are of great concern to us. And I appreciate your comments in that—I believe I have your quote right—that you wouldn't furlough anybody if you had your choice and that you are hoping to adjust from 11 days down.

Secretary CARTER. Correct.

Mr. SCOTT. And I hope that we will know soon what that is. Because I will tell you, a 20-percent pay cut for the men and women that are out there working to make sure that our warfighters have the equipment that they need when they go into battle is doing a lot of damage to the morale and, quite honestly, I think, is extremely inefficient.

And I want to ask you a couple of questions about the organic depots, if I could, and the impact of the furloughs and the efficiencies and the competitiveness of our depots as we go forward and we start to compete for new business as that backlog is created.

Furloughs were mandated across the board. I didn't support the sequester, didn't support the furloughs. I offered alternatives that had flexibility in it, as you suggested. There is no business case analysis that suggests that the furloughs help in any way, shape, or form long-term. But they are creating inefficiencies and they are creating deferred maintenance, and that makes our depots less efficient and increases the cost per unit.

And my question is, what adjustments will be made to compensate for things that are being done because of Washington, not because of the men and women at the depot, as we go forward to compete for that business, to try to get it into the organic depots?

Secretary CARTER. Your analysis is absolutely right, both as regards the effect on the efficiency of those installations and, most importantly, as regards the people.

And in this, as in everything else that we have had to do in fiscal year 2013, it has effects. Even if sequestration goes away, we are going to be living with the residue of what happened in fiscal year 2013 for a while, in readiness, in depots, in all kind of ways.

For the depots, as we go into 2014, we are looking at the backlog at each of the depots and trying to manage that to a reasonable level. If the backlog falls too low, then if there is a further budget reduction, it risks layoffs, which we don't want. So we want the workload to be managed above a level where it risks that. On the other hand, we don't want it too high either. So, at each of those, the relevant service is trying to manage the backlog in a smart way in view of what is happening in sequestration.

We will have to see what happens in 2014 and manage the workload accordingly. We won't be able to afford to do all of the maintenance that we had planned to do before the Budget Control Act, no question about it. And that will have a long-term effect on each of our facilities, as it has on all of the extramural maintenance companies also.

Mr. SCOTT. But just to recap, you do agree that the furloughs that are occurring at the depots are creating artificial inefficiencies, that when we go to compete for the business in the future, we simply want to make sure that that playing field is leveled so that we are judged based on our capacity without the damaging things that Washington has done.

Secretary CARTER. I understand exactly what you are saying, yes.

Mr. SCOTT. One last question I have with regard to the furloughs and maintenance. Has there been consideration into more joint depot work, where Air Force depots would be able to compete for Navy business, for example?

Secretary CARTER. Yes, there is. And that is an important source of efficiency. There has been some opposition to that, but it is more efficient.

Let's take helicopter engines. A lot of helicopter-type model series are multiservice; different Services maintain those helicopters. Why not have one place where a certain model of helicopter is maintained?

We are looking at that. That is a move we should make and I hope we get the flexibility to make.

Mr. SCOTT. One final question real quick, just as to the choices. One concern that I hear from some of our people with regard to readiness is that the choices—I mean, we are going to continue to fly the Thunderbirds, it appears. And just from the standpoint of putting that as a priority above combat readiness, could you speak to that very quickly?

I know I am out of time, Mr. Chairman.

Secretary CARTER. Yes. And let me ask Admiral Winnefeld to speak to that also.

The particular matter of the Thunderbirds flying is they are not flying in order to make shows. They are flying in order to keep the proficiency of those pilots, who are also pilots who are part of forces that would participate in operations plans if there was a crisis around the world. So it is incidental that they are members of the Thunderbirds.

Sandy, do you want to say any more about that?

Admiral WINNEFELD. Just very briefly, because I know the chairman wants to get moving.

They are flying at a low, very low, restorable proficiency that, if we are able to get money next year, would cause their on-ramp to actual readiness to be more shallow. And as the Deputy points out correctly, they are deployable as a warfighting contribution if they need to be.

Mr. SCOTT. Thank you, sir. Thank you for your service.

The CHAIRMAN. Thank you.

Ms. Duckworth.

Ms. DUCKWORTH. Thank you, Mr. Chairman.

Mr. Secretary, it is good to have you here.

And, certainly, we have the power to end sequestration. We should end it. That would take away a lot of the problems that we are facing right now, although it does not solve a lot of the long-term problems.

I want to go back to the discussion on the reductions to end strength and specifically with the Reserve forces, both the Reserves and the National Guard. Could you address where this is going to go underneath some of the proposals that you have in terms of end strength for the National Guard, the proficiency, the training?

You know, I don't want that hollow force. I don't have any bases in my district, but I certainly want the National Guard to not just be sitting there with pretty aircraft on the tarmac and nobody proficient to fly them.

So could you speak a little bit to maintenance of the operational force and the Guard?

Secretary CARTER. I will. And then, again, I will ask Admiral Winnefeld if he wants to add to it.

I mean, first of all, the whole Reserve Component, Guard and Reserves, have made an enormous contribution over the last 10 years. They have been necessary because of the length of the Iraq war and the Afghanistan war. So we have had to call upon them, and they have answered the call.

But the Reserve Component, like all the rest of everything we do in defense, is going to have to accept some of the reductions. And I think what is important is that each and every Guard or Reserve unit have a mission that is clear to them and clearly needed either by us or for the Guard for defense support to civil authorities, in particular the States, in an emergency.

And, in that connection, we are beginning just this year—in fact, I have a meeting on it this afternoon—to have a way of defining the requirements for the Guard, defense support to civil authorities. We have never done that in 250 years of having a National Guard, defined requirements for what they need to do for the States, the way we have requirements defined for the Pacific Command, the Northern Command, the Central Command, and so forth. We are just beginning that now. That will give a lot more clarity to the future need for and size of and composition of our Guard and Reserve force.

We took a first look at that in the SCMR. I would say it was a good, solid look, but we are trying to refine that through the process I just described.

And let me ask Admiral Winnefeld if he wants to add anything about the Reserve Component.

Admiral WINNEFELD. I would simply reiterate what the Deputy Secretary said about the value of the Guard and Reserve. They have been tremendously important as a component of the entire DOD and we very much value them.

As the sequester cuts occur, depending upon the depth, if it is the full sequester, what have you, the entire business is going to have to come down, to include the Guard and Reserve along with the Active.

I don't want to speak for the service chiefs, but I know that General Welsh and General Odierno are very concerned about this. They are paying very close attention to it. Having spoken to General Odierno—and I don't want to put words in his mouth—I know he would likely—and probably Secretary McHugh, I think, is along with him, but I haven't spoken to him—bring the Active Component down at a larger rate than the Guard. But that remains to

be seen, depending on what the Services come in with their budget submissions.

But make no mistake that we value the contributions of the Guard and Reserve.

Ms. DUCKWORTH. Mr. Secretary, so in your meeting later today talking about what the requirements are for defense support of civil authorities, are the Governors going to have any say in this meeting?

Secretary CARTER. That is what is really novel about this process. For the first time, we will have the TAGs [The Adjutants General] representing the Governors. And I will then meet with the Governors, as I have done now several times over the last few years on this very subject, because I know it is a difficult thing. This is an area where we, at the Federal level, provide and pay for something that the Governors then use. That has an issue of federalism in it, and we need to resolve it in a thoughtful way.

And having seen the chaos of 2 years ago when we began making budget changes in the Air National Guard, I think we need to do better than that. We need to have a clear sense of what the Governors need and what the role of the Guard is in that capacity. And then the Guard and Reserve also play a role, if mobilized, in foreign conflict, as well. And we need to define all that.

Ms. DUCKWORTH. Thank you. I am out of time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Franks.

Mr. FRANKS. Well, thank you, Mr. Chairman.

And thank both of you for being here. There is certainly a great deal of respect on this side of the room for both of you.

And, Admiral Winnefeld, if it is all right, I will start with you, sir. You know, in the debate in this House, sometimes there are things that are—the function of the debate is a political one-upmanship, and then sometimes there is really the sincere commitment to try to do the right thing, and sometimes there is an amalgamation of both. And so I am going to ask you a question that has a political dimension to it, and I don't ask to you address that at all. Just an honest, professional military point of view, even though the question will become obvious.

In your best professional military judgment, would there be greater risk to this country's ability to meet our current national security commitments under sequestration or under the funding approved by the House in its budget deliberations, which would restore the \$52 billion cut in national defense in fiscal year 2014?

Admiral WINNEFELD. Well, sir, if you are asking me whether I think we would be able to meet our commitments under a \$52-billion cut or no \$52-billion cut, I would have to answer that we would be a lot more likely to meet them under the "no \$52 billion cut." So I would—

Mr. FRANKS. I hated to put you through that exercise, but I appreciate you answering honestly. And that is—I am not shocked at it, but oftentimes—I know sometimes civilian command structure makes it difficult to do that. So I appreciate that, Admiral, and appreciate your commitment to the cause of defending this country.

Dr. Carter, I have had the privilege of spending the last 11 years in Congress on the Strategic Forces Subcommittee, focusing on our strategic nuclear deterrence and our homeland missile defense apparatus. And you may recall saying in a recent speech at the Aspen Security Forum—I will just quote it. It says, “You may all be surprised to know that nuclear weapons don’t actually cost that much. Our annual spending for nuclear delivery systems is about \$12 billion per year. This is out of around \$525 billion, and so it is not a big swinger of the budget. You don’t save a lot of money by having arms control and so forth.”

And just for the record, I couldn’t possibly agree with you more. But tell me, if you would, your conclusions related to the SCMR, what conclusions it came to in regard to our nuclear deterrence as well as our missile defense capabilities.

Secretary CARTER. Absolutely. And for the record, I want to associate myself with the Vice Chairman. I will take the \$52 billion, too.

Mr. FRANKS. You think the \$52 billion would help.

Secretary CARTER. Yes.

Mr. FRANKS. Okay, we have established that. Yes, sir.

Secretary CARTER. With respect to the cost of nuclear forces, what I said in Aspen was that we, this year, protected the operations of the nuclear forces under sequester. We did not want to not send nuclear submarines to sea, not have our missiles on alert. We didn’t want to do that, so we protected that. Obviously, that pushed sequester off onto other accounts. But it, like the war in Afghanistan and a few other things, we protected because it is so important to our security.

The point about cost is this: The SCMR looked at nuclear forces, but the point I was making was and the way I said it in Aspen was nuclear weapons deserve our deepest respect and constant attention because of the awesome, destructive power that they have. However, they are not a big swinger in our budget. That is just a fact.

Mr. FRANKS. Yep.

Secretary CARTER. And so, as we go forward, we will make decisions about nuclear forces on the basis of a lot of factors, but budget will not seriously drive the composition of the nuclear forces. They are just not a huge part of the budget.

Many of you, of course, understand that, but many people don’t realize. They think that they are a large part of our budget. In fact, they are not. But they are, obviously, very important.

Mr. FRANKS. Yeah. Well, and I appreciate you making that clear, because, as you know, as you say, most folks, it is just one of those things that we don’t have in the forefront of our consciousness, that while they represent the pivot of most of our capability in the foundational sense, they are not the cost factor that some think they are.

So let me try to get one last question in. In the overall conclusions of the SCMR, let me ask you if you can articulate—and I will ask both of you, because my time is just about gone here—what are the things that you think are most significant that we can’t do under the conclusions that you have come to, those things that you

think that are most important that we can't do that we should be able to do and we should focus on as a committee and a country?

The CHAIRMAN. The gentleman's time has expired. Can you please take those responses for the record?

Secretary CARTER. Absolutely.

[The information referred to can be found in the Appendix on page 106.]

The CHAIRMAN. Thank you.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman. I had almost given up hope here.

I appreciate the witnesses.

I just wanted to make an announcement that, in an effort to be constructive, Congressman Paul Ryan and I have introduced today a bill that would give the Pentagon complete flexibility in making spending decisions. Now, we would not reduce the extreme diet that you are on. And I personally would like to, you know, eliminate sequestration entirely. But at least we want to give you flexibility.

Now, this has been an unduly controversial issue on the committee, as the chairman knows. I introduced such an amendment during the markup. It passed by a voice vote. But then when a recorded vote was called, people put on their team jerseys again, and it turned out that both parties were against flexibility.

So I don't know how far this bill will go, but I hope that more Members of Congress and even more members of this committee—because this has not been the best attended of our hearings—will pay attention to the extraordinary upheaval that is going on in the Department of Defense right now as a result of our own actions. This is not a foreign threat; this is a self-inflicted wound. And Congress needs to behave much, much better when it comes to funding our military priorities.

So I am not asking our witnesses to comment and get in trouble, because you are always reluctant to bite the hand that feeds you. Now you are even reluctant to bite the hand that is not feeding you. It is a crazy situation that you have been put in. But we on this side need to be doing a much better job.

So I thank the chairman. Yield back the balance of my time.

The CHAIRMAN. Thank you.

Mr. Nugent.

Mr. NUGENT. Thank you, Mr. Chairman.

And I certainly do appreciate your service, both of you, to this country.

And I guess one of the—and this is not directed to you, just a comment. As our Commander in Chief, you would think, as we move forward, particularly when we talk about at least turning off the sequester as it relates to our Department of Defense—which, without it, we have no freedom or security.

And so, you know, as we move forward, you heard it already, about the \$52 billion, the President has come out and, you know, issued a veto threat in regards to that, which is unfortunate because that takes away the dialogue that you could have in regards to the rest of sequestration and what it is doing to the country but, more importantly, what it is doing to our national security.

You know, having three sons that currently serve, I hear firsthand the effects of sequestration in regards to training and readiness, but they are good troopers. You know, they stand ready to serve. They stand ready to protect this country. But it is disheartening, as a dad, to hear them because their mom and I worry. When we have had them deployed to Afghanistan and Iraq, we knew that they were the best-trained, best-equipped force and they had a good opportunity to come home. By the grace of God, they did. But now I am worried about the effects of sequestration and a Commander in Chief that says the right things but doesn't necessarily do the right things, particularly as it relates to our military.

You have talked about retention. I think that should be a huge issue for you in the armed services. Because we have one of the best-trained groups right now. They have experience in combat, which is not something you can teach.

How do you see a way forward to retain those that have served their country? I mean, how do we do that in sequestration without just, you know, RIF'ing just rafts of folks?

Secretary CARTER. Well, I think one of the tragedies of sequestration is that there will be people who, if sequestration continues, who joined to serve, who have served honorably, and whom we won't be able to afford to retain. That is a reality and a tragedy.

And to get back to something that—

Mr. NUGENT. But, I mean, did we not learn from the Vietnam era, when we went through the same issues of RIF'ing people, that it is so difficult to train that? I mean, it is almost impossible to train that experience.

And are there other areas that we could look to instead of always looking at personnel? And I know it is a huge part. I ran an agency. It is the largest, typically, the largest part of your budget. But, you know, you talk about modernization and making—it is either modernization or a larger force. Is there an in-between that we can reach if we can't get the President to work with us on sequestration as it relates to the military in particular?

Secretary CARTER. Well, we are going to try to make the most balanced approach we can to those cuts if we have sequestration in fiscal year 2014.

But the reality is—and this gets back to what Congressman Cooper was saying about flexibility. Flexibility doesn't help us that much, because we have to go where we can go and get money in the near term. And there is much of the defense budget that we cannot access in the near term. That is why we end up doing ruinous things to readiness, for example, because those are accounts we can get our hands on. So flexibility in that sense doesn't help us much.

The kind of flexibility we need is the kind, as we indicated earlier and the SCMR shows, we need flexibility in time and we need the—

Mr. NUGENT. Not—

Secretary CARTER [continuing]. Latitude to do things like BRAC—

Mr. NUGENT. Not to cut you off, but I have—

Secretary CARTER [continuing]. And so forth that—

Mr. NUGENT [continuing]. 19 seconds.

One last question. When we are talking about CENTCOM [Central Command] and SOCOM [Special Operations Command], the Secretary talked about reductions in force there. CENTCOM already had talked about reducing that force by 1,500 in 2014. The additional reductions that the Secretary talks about, is that on top of that number?

The CHAIRMAN. The gentleman's time has expired. Can you please take that one for the record?

[The information referred to can be found in the Appendix on page 106.]

Mr. NUGENT. Thank you. I appreciate it.

The CHAIRMAN. Thank you.

Mr. Cook.

Mr. COOK. Thank you, Mr. Chair.

I know some of this has been addressed, but I quickly want to go over this again. And this is about readiness and training and everything like that.

And it seems as though we dance around this over and over again, but the—and correct me if I am wrong in the way I am getting this, but the bottom line is that, basically, what we are ending up with is all the units are C-4, not combat-ready, not deployable.

And it is like, I don't know, maybe it is just my impression that we are almost afraid to come out and say that. And, yes, it is because of the sequester and other things, but the bottom line is, you know, somebody who has been an infantryman and everything—and that is, like, the worst thing that can happen to a unit, is to be a C-4 or not combat-ready.

And that is what we are. And you have just added to that argument by talking—and it is not your fault; it is our fault. Because of the depots, about all the gear we still have in Afghanistan that we still have to get back, that they are going to probably have to drag it out of there; it is not going to be running. And yet we are supposed to meet all these contingencies.

And if you can comment on that. If you already have, I ask for your patience in addressing this. Thank you.

Admiral WINNEFELD. No, it is a very, very important and good question.

One of the frustrations we have in articulating this precisely is that, if you articulate it precisely, it is classified. So you would be telling an adversary, you know, where you are. So we have been speaking out, though. We have been saying, hey, we are getting hollow, we are losing readiness, we have grounded nine fighter squadrons. Fortunately, thanks to the reprogramming action by Congress, they are back flying at a very low level again. But, you know, if we get into specifics, we are telling the bad guys where we are.

So I share your frustration. And believe me, that is part of the contribution to hollowness, is not being able to talk about it precisely in public.

Mr. COOK. No, I agree with you. But, yet, you know, everybody who watches this hearing here has got to hear the same things that everyone, when we hear these doom and gloom reports. And, of course, the old unit rep FORSTAT [Force Status and Identity

Report] reports, some of them were classified, some of them weren't.

But in terms of all the contingencies, you know, all the op plans and everything else, it is like, God, you got to just wrap them up and put them—because we can't basically carry out any of them. And I don't know whether I am speaking in a classified mode or not, but I think it is something that everybody in the world knows right now, and it is sending a bad signal.

You talked about, yeah, maybe we got the nukes, but in terms of conventional warfare right now, God, if the Members of the Congress and the public don't get it, this is the most serious threat that I think we face.

But I have one more question before we run out of time, and this is about one of the comments made about the Secretary has asked Secretary Carter to identify an individual from outside the Department who is deeply knowledgeable about the defense enterprise and eminently qualified to direct implementation of the OSD [Office of the Secretary of Defense] reductions and report directly to the Deputy Secretary.

This kind of scares me, about this person who, he or she, right after they solve world peace, they are going to solve this mess and be the guru on how we are going to—so can you comment on where we are going to find this messiah that is going to straighten us out?

Thank you.

Secretary CARTER. I don't think it will be a messiah, but we do need to reduce the size of the Office of the Secretary of Defense. The Secretary feels strongly about that; I feel strongly about that. We can't ask people all over the country and our military people and civilian employees all over the world to make sacrifices if we are not willing to make sacrifices ourselves. So what this is about is showing the way.

And Sandy has a great expression that he always tells me, which is, "the pig won't slaughter itself." And applied to OSD, not that they are bad people or anything, but I can't staff out the reduction of that organization. And so I am going to have someone to come in to advise me and the Secretary—we will make the final decisions—on how we can streamline the Office of the Secretary of Defense.

It is just a reasonable thing that I can't go to my staff, which is the Office of the Secretary of Defense, and say, how would you streamline the Office of the Secretary of Defense? I won't get a good answer. I will put them in a bad position. So I am going to get somebody who knows enough about the Department and management—

Mr. COOK. Yeah—

Secretary CARTER [continuing]. To advise us, and that is how we will make those decisions.

Mr. COOK. Yeah, I am running out of time. I just want to thank you very much for—it has been a long day. And I wasn't trying to put you on the spot about whether it is classified. But we do dance around that, and I think everybody knows the answer already.

Thank you.

The CHAIRMAN. Thank you.

Mr. Smith.

Mr. SMITH. I just have a couple of comments based on some of the questions that transpired.

I mean, first of all, on the flexibility point, if sequestration happens, I really want to underscore what Dr. Carter said, flexibility has very, very limited benefit. And I worry a little bit that this has sort of taken on a life of its own, as if this would be a solution to the problem. And I really thank you for pointing out the limitations on what you can cut where.

If you have to take these \$52-billion cuts every year going outward, no flexibility in the world is really going to fundamentally change the dire scenarios that you laid out. We need to end sequestration.

Secretary CARTER. Right.

Mr. SMITH. The second thing I would like to point out, regrettably, Admiral Winnefeld, you don't have the \$52 billion that Representative Franks made you think you had, because the defense appropriations bill that was passed does have \$52 billion more in it than sequestration would allow, but it does not change sequestration law.

So, yes, if we can imagine a world where this appropriation bill exists independent of sequestration, then it is all good. We passed our DOD authorization bill based on that same premise.

The trouble is, as you have heard today and as you have witnessed, nothing is on the table to stop sequestration. So you pass this lovely appropriations bill, and then you come in, you cut \$52 billion out of it. It doesn't really change the equation much.

And, lastly—and this is the most political point I will make, so I apologize a little bit in advance. But it is really just in response to Mr. Forbes' comment that somehow sequestration was all the President's idea and why on earth did he have such a dumb idea and why has he put us in this place. It is an interesting selective amnesia. But the reason for sequestration was because of the House Republicans' refusal to raise the debt ceiling.

So, basically, if the President had vetoed that bill—and I voted against it, but I have enormous sympathy for the people who voted for it—if the President had vetoed that bill, we would have breached the debt ceiling and been unable to pay a good many of our bills and probably collapsed our economy. Sequestration was only forced upon us because of the refusal to raise the debt ceiling.

And this is not just sort of a historical point, as we drift toward another option of raising the debt ceiling. I hope people will remember that outcome as we get close to the debt-ceiling issue and simply raise it. Once we have incurred the debt, once we have passed the spending bills, once we have passed the tax cuts, to then come along and say, oh, gosh, really, we don't want to pay those bills, is just wrong.

If you want to do something about the debt, you know, increase taxes, cut spending, put something on the table. But don't once again take our country to the brink of not raising the debt ceiling so that we can pay our bills.

What we see before us, what we have heard for the last 2-plus hours is directly as a result of the brinkmanship over the debt

ceiling that happened in the summer of 2011. And I just don't want people to forget that as we go into another series of budget fights.

I thank the chairman for his indulgence. I yield back.

The CHAIRMAN. I will expound a little bit upon what the ranking member just said.

I think many times when we go out and respond to our constituents, we can talk about a vote, and they don't always understand that a vote may be containing several different items. It is not one item and a "yes" or "no" vote.

That particular vote on the Budget Control Act, the very first thing it did was raise the debt-ceiling limit. Then it also cut about a trillion dollars, half of which came out of defense and half came out of other domestic spending.

Then it set up a "super committee" [Joint Select Committee on Deficit Reduction] that was supposed to find an additional trillion dollars in savings out of mandatory programs. We all know now the history of that. They were unable to do that, so sequestration did kick in. And that trillion dollars, instead of being taken out of mandatory programs, which are the real driver in all of this—because if we eliminated all domestic spending, we would still be running a deficit of over a half-trillion dollars. And that comes out of the mandatory side that we have no vote on and really needs to be addressed.

So the sequestration kicked in, and that took another half-trillion dollars, \$500 billion, out of defense on top of the \$487 billion and the part of the \$100 billion that was done earlier under Secretary Gates that came out of defense also. So it has been a culminating effect.

And the gentleman is absolutely correct; we will face on September 30th a very important decision about moving forward. Probably half of the Congress now does not know what regular order is like. They have never had it.

You have never had in your—like you said, you were sworn in on the day we voted for that fateful bill. So none of the members of the Joint Chiefs have ever served under a regular budget.

I don't think the Senate has passed an appropriation bill since 2009. They did pass a budget this year, although it is so far different from the House budget that there is no way to reconcile the numbers. And we have become pretty dysfunctional as a Congress. It is unfortunate, but some way, at some point, we need to get our act together and get something done.

I do have one final question. Title 10 of U.S. Code codifies the permanent requirement for an independent panel to review the QDR process—and we have talked earlier about the QDR—and also provide alternative assessments. The law provides that the panel may request whatever information they require from the Department, DOD, to conduct their work.

Given that last year's QDR is expected to be heavily informed by the SCMR, to what extent do you intend to make available to the NDP [National Defense Plan] the proceedings or conclusions of the SCMR? You will give them the same support that you give to the QDR?

Secretary CARTER. Yes, absolutely. We were very pleased and fortunate that former Secretary Perry and General John Abizaid have

agreed to chair that panel. They will get all the information they want for their deliberations, including the SCMR.

The CHAIRMAN. Great. They did an outstanding job last time.

The members of the NDP were required by law to be appointed by February 1st. We have appointed ours. The remaining members have been appointed. The Secretary has yet to appoint his co-chairs. Do you know the reason for that delay?

Secretary CARTER. I will get back to you on that.

[The information referred to can be found in the Appendix on page 105.]

The CHAIRMAN. Okay.

And now that the SCMR is over—and maybe that was taking the time—I would like to ask that the Secretary comply with the law and get the NDP operational as soon as possible. So if you could carry that message back.

Secretary CARTER. Will do.

The CHAIRMAN. Thank you very much.

Anything else?

Mr. SMITH. No.

The CHAIRMAN. No further questions.

Thank you very much for your time, your patience, and your willingness to answer our questions.

This hearing is adjourned.

[Whereupon, at 12:25 p.m., the committee was adjourned.]

A P P E N D I X

AUGUST 1, 2013

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

AUGUST 1, 2013

Statement of Hon. Howard P. “Buck” McKeon
Chairman, House Committee on Armed Services
Hearing on
Initial Conclusions Formed by the Defense Strategic
Choices and Management Review
August 1, 2013

This committee has frequently encouraged the Pentagon to fully plan for sequestration, and to make the consequences of several rounds of budget cuts known. With that in mind, I welcome this review and what it seeks to achieve.

I note that the President has directed the Department to maintain his 2012 defense strategy, even though his senior commanders have testified that the strategy would have to be revised in the face of additional budget cuts. Any further consideration of strategy has been deferred to the Quadrennial Defense Review, which will not report out until next February at the earliest. In the meantime, the review makes clear that the Department will proceed with changes in force structure, compensation, and further efficiencies without a new strategy. The most optimistic scenario has the President requiring DOD to find another \$150 billion on top of the \$487 billion that has already been cut. To make matters worse, even if all of the options in this report were adopted, it would only address 10% of the true budget shortfall in the next year or two. The math simply does not add up.

This review also makes clear what I have been warning about for over 2 years. Further cuts will cause catastrophic readiness shortfalls, we will lose our workforce and ability to recruit and retain the All-Volunteer Force, and our influence around the world will continue to diminish.

There is agreement on both sides of the aisle and both sides of the Potomac that these cuts embolden our enemies and jeopardize U.S. national security. We often talk of risk, but I hope that today we will have a frank discussion about how this funding profile for defense limits the ability of this country to protect our national security interests—not simply that we are accepting more risk, but what that means for the Nation and our men and women in uniform. I look forward to hearing the testimony and thank both of our witnesses for being here.

Statement of Hon. Adam Smith
Ranking Member, House Committee on Armed Services
Hearing on
Initial Conclusions Formed by the Defense Strategic
Choices and Management Review

August 1, 2013

I would like to thank our witnesses for appearing before us today. You have extremely hard jobs, and I am afraid that we in Congress have not made them any easier by allowing sequestration to take effect.

The single biggest takeaway from Strategic Choices Management Review is that Congress, by allowing sequestration to continue, is abdicating its constitutional responsibility to responsibly fund the military and to provide for the common defense. Through sequestration, Congress is forcing the Department of Defense to make some extremely difficult decisions that will undermine military readiness and put more unneeded stress on our troops, civilian employees, and military retirees.

I hope our witnesses today can help us understand the pain that sequestration will cause next year and into the future. I would ask them to walk us through those choices that will have to be made and those risks that will be imposed. And we should be clear—when we talk about risk in the context of the Department of Defense, we mean that military conflicts will go on longer or our response will be slower and smaller and those translate to greater loss of life.

Without a doubt, the Department of Defense must become more efficient, and Congress will have to help them do that. But sequestration will continue to force the Department to make unacceptable cuts to force structure, modernization, and benefits for our military personnel and retirees, creating significant readiness shortfalls. The SCMR drives home the point that continued budget policies of fiscal austerity and intentionally starving the Federal Government of revenue put our national security at risk.

We are already on a path to significant deficit reductions. I am in favor of simply lifting sequestration and ceasing to impose these dramatic costs on our military. Those who refuse to end sequestration have the responsibility of proposing a balanced package of revenue increases and spending cuts that do not harm our national security. Those who refuse are allowing sequestration, and the significant harm it causes, to persist. In particular, those who continue to insist on tax cuts above all else have a responsibility to answer the question: How much military risk are you willing to take to preserve your tax cut?

Thank you Mr. Chairman, and again, I very much appreciate the witnesses appearing here today.

**DEPUTY SECRETARY OF DEFENSE ASHTON B. CARTER AND
VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF JAMES A. WINNEFELD JR.
PREPARED TESTIMONY
HOUSE ARMED SERVICES COMMITTEE
AUGUST 1, 2013**

Mr. Chairman, Congressman Smith, Members of the Committee, we appreciate the opportunity to appear before you to discuss the findings of the Strategic Choices and Management Review (SCMR). Let us begin by first thanking the members of the Committee for your continued support of our men and women in uniform, as well as our civilian workforce, especially while our nation is still at war.

The Department remains fully committed to the enactment of the President's FY 2014 defense budget proposal because it supports the goal of deficit reduction while providing the adequate level of resources to maintain a strong national defense in a rapidly shifting and highly complex global security environment.

However, since March 1, sequestration has been the law of the land. Exactly one year ago today, Deputy Secretary of Defense Carter testified before this Committee that "sequestration would have devastating effects on the Department and its personnel both because of the size of the sequester cuts and because of the mindless way the law requires that they be allocated... It introduces senseless chaos into the management of more than 2,500 defense investment programs, waste into defense spending at the very time we need to be careful with the taxpayer's dollar, inefficiency into the defense industry that supports us, and causes lasting disruptions even if it only extends for one year."¹

As predicted, sequestration's impacts on the Department's operations have thus far been damaging and far-reaching. And in the absence of an overall longer-term budget agreement between the President and Congress, we have concluded that we must plan for the possibility that sequestration-level budgetary cuts imposed by the Budget Control Act (BCA) will remain in effect.

Accordingly, Secretary Hagel directed the Deputy Secretary of Defense, working with the Chairman of the Joint Chiefs of Staff and the Department's civilian and military leadership, this past March to conduct a Strategic Choices and Management Review in order to prepare the Department for a range of budget scenarios.

¹ See Attachment 1: Deputy Secretary of Defense Ashton B. Carter, Prepared Testimony, House Armed Services Committee, August 1, 2012.

As its title suggests, the SCMR had two parts, one focused on strategic choices and one focused on managerial ones. This is an important moment strategically, as the United States makes the enormous transition from the post-9/11 decade defined by Iraq and Afghanistan to challenges and opportunities, like the Asia-Pacific rebalance and cyber, which will define our future. Changes in our strategy and changes in our budget are in alignment. Managerial matters like IT consolidation and compensation reforms are not strategic, but if we do not make these changes or Congress does not permit them, then we have less money for strategic change. A unified Review was therefore necessary.

The scenarios considered in the SCMR reflect today's budget debates: They range from the President's FY 2014 defense budget proposal, which includes an additional \$150 billion reduction in defense spending over FY 2014-23 (mostly cuts occurring later in that period), to the BCA "sequestration" caps, which would cut another \$52 billion from defense in FY 2014, with similar cuts each year thereafter. Fundamentally, the SCMR was about preparing options for the Secretary in anticipation of an environment of uncertainty.

The formal SCMR process is now complete, and its findings are sobering. We hope we will never have to make the most difficult choices that would be required if the sequestration-level budgetary caps persist. But the SCMR has formulated and framed these kinds of choices for us, and now we are ready if confronted with this scenario.

STRATEGIC TRANSITION

Before addressing the SCMR findings in greater detail, it is important to understand the strategic environment in which we are operating.

As President Obama made clear in the new Defense Strategic Guidance the Department released in January 2012, we are turning a strategic corner, from a post-9/11 era dominated by the two wars in Iraq and Afghanistan to the challenges and opportunities that will define our future security. Those challenges include: continued turmoil in the Middle East, the persistent and evolving threat of terrorism, proliferation of weapons of mass destruction, a range of new threats such as cyber, and rising powers whose future course is uncertain.

We also see great opportunities, among them: shifting the center of gravity of both our intellectual and physical efforts toward the Asia-Pacific region in order to continue our seven-decade old stabilizing role; developing innovative capabilities from a vibrant defense technology effort; capitalizing on the lessons of the last decade regarding the innovative use of force, including special forces and the integration of intelligence and operations; managing presence in new ways; leveraging the Reserve and Guard components that have performed so superbly over

the past decade; and building the capacity of partners and allies so they may shoulder more of the burden of ensuring a peaceful world.

This great strategic transition coincides with the need to absorb some reductions in defense spending in the interest of the nation's overall fiscal security.

In terms of our responsibility to the American taxpayer, we know that in making this strategic transition, we only deserve the amount of money we need and not the amount of money we have gotten used to.

As a down-payment on these reductions, we successfully trimmed the Department's budget by \$487 billion over 10 years. This half-trillion-dollar adjustment came on top of significant adjustments that Secretary Gates made to eliminate unneeded or underperforming acquisition programs and the numerous efficiency initiatives he implemented. At the same time, our Overseas Contingency Operations (OCO) funding – which is not included in the base budget and which is largely for Iraq and Afghanistan – is also decreasing, now that we have exited Iraq and are drawing down our forces in Afghanistan. These reductions, taken together, compare in pace and magnitude to historical cycles in defense spending the nation has experienced in the past when major conflicts have ended, such as after Vietnam, and after the Cold War.

FY 2013 IMPACT OF SEQUESTRATION

On top of all these reductions, we are now confronted with the harmful effects of sequestration. The blunt, arbitrary, across-the-board spending cuts we experienced in Fiscal Year 2013 have been extremely disruptive to every Defense Department program and have had a devastating impact on readiness.

Sequestration reduced our total FY 2013 budget by \$37 billion, including cuts of \$20 billion in our day-to-day operating accounts. We realized last January, before sequestration kicked in, that we had potentially large budget problems, and we began taking action. We imposed hiring freezes, cuts in travel and conferences, reductions in facilities maintenance, and much more.² But these savings were not nearly enough. The need to provide full wartime funding to our troops, and some unexpected growth in OCO costs, led to a total operating shortfall of more than \$30 billion with just six months left in the fiscal year.

Once sequestration was triggered, we did everything we could under this deliberately restrictive law to mitigate its harmful effects on national security. For example, the President

² See Attachment 2: Memorandum from Deputy Secretary of Defense Ashton B. Carter, "Handling Budgetary Uncertainty in Fiscal Year 2013," January 10, 2013.

used his authority under the law to exempt military compensation from sequestration. We also, of necessity, fully protected funding for Afghanistan and other ongoing operations as well as wounded warrior programs. We are fully protecting our core nuclear deterrent, critical elements of homeland defense, some Special Operations Forces, and other critical capabilities. And we are fully protecting other key expenditures such as those, for example, that allowed school children in our military schools to finish the school year in a way that can be fully accredited.

There are accounts we are preferentially protecting to the extent feasible: First, key features of the new defense strategy that we have described. Second, forces forward-deployed to the Asia-Pacific and the Persian Gulf for possible near-term contingencies, though we have had to trim several deployments to these regions. Third, military family programs. And fourth, certain acquisition efficiencies like multi-year contracts.

But we cannot exempt or protect most of our budget, and so we have been seeing the serious repercussions of sequestration as the months go by. Needing immediately accessible savings, we have been forced to make numerous changes to close this huge gap, ranging from civilian hiring freezes to cuts in facilities maintenance to layoffs of temporary workers. We have also been forced to make major cuts in training and maintenance, seriously damaging military readiness, and we were forced to impose furloughs on our valued civilian employees.

For those who continue to believe that the impact of sequestration, the need to fully fund wartime costs, and growth in OCO costs is overstated, let us share some examples of how it is already having an effect:

- Fewer than half of the Air Force's front line fighter squadrons are combat-ready. The Air Force has until recently grounded 12 combat-coded squadrons – over 10 percent of its active duty squadrons – and many support squadrons. If a crisis erupted, these squadrons would either have to respond at a lower readiness level or take additional time to prepare. The Air Force has recently resumed flying operations at some of these squadrons, but it will take months to restore pilot proficiency fully.
- The Army has cancelled all Combat Training Center rotations for those brigade combat teams not slated to deploy to Afghanistan or to be part of the global response force. That is seven units that will only be partially trained to confront any crisis. This means that if we are called upon to defend South Korea, or to secure chemical weapons in Syria, the young men and women the Commander in Chief will need to send in harm's way will never have had to opportunity to work together as a part of large Army formation.
- The Navy has cancelled multiple ship deployments, including for the USS Truman Carrier Strike Group, which was supposed to deploy to the Middle East earlier this year.

Due to cuts in training and maintenance, we are having to reduce deterrent presence in order to retain the ability to surge the ships needed for a crisis.

- We are now in the fourth week of furloughs for approximately 650,000 DoD civilian employees. These furloughs are harming our maintenance and medical capability, slowing contracting, and having negative effects at most support activities in the Department. The furloughs are also seriously damaging workforce morale. By reducing their pay by 20 percent during every furlough week, we have forced many of our dedicated civilian team members into difficult financial situations – all on top of over two years of frozen pay and minimal performance-based bonuses.

These are just a few significant examples of the many cutbacks that have been caused by sequestration and growth in OCO costs.

THE SCMR PROCESS

It is against this background that Secretary Hagel asked Deputy Secretary Carter and Chairman Dempsey, to conduct the SCMR.³ The Secretary directed that all past assumptions and systems be examined in order to help define the major choices and institutional challenges affecting the Department in the decade ahead.

The SCMR was never intended to define the exact composition of the future force as we undergo the titanic transition we must make from the military of the post-9/11, Iraq, and Afghanistan era to the new strategic era. That is simply not possible because of the uncertainty we face as a result of Washington's budget gridlock.

Rather, the SCMR defined the decision-space faced by the Department's senior leadership, and, in turn, will guide the services and defense agencies in developing their Fiscal Year 2015-2019 budgets later this year, as well as ultimately inform the Department's next Quadrennial Defense Review early next year. The services and defense agencies are now in the midst of determining exactly the shape, size, and readiness of a military operating with severely reduced long-term funding – and what it would be capable of doing. So it is important not to think of the SCMR as rendering a final verdict on how the Department will look in the event sequestration-level cuts persist, but it did formulate the hard choices the leadership will face.

With respect to process and methodology, the SCMR's analytical approach was inclusive, collaborative, and thorough. The group included the service secretaries, the Joint

³ See Attachment 3: Memorandum from Secretary of Defense Chuck Hagel, "Strategic Choices and Management Review," March 15, 2013.

Chiefs of Staff, the combatant commanders, and the undersecretaries of defense, because our preparation for future contingencies has to be shaped by those who are going to execute it. They gathered their staffs into 11 working groups and dozens of subgroups to scrutinize every nickel of defense spending – from bombers to cyber, pay and healthcare, to the size of the Office of the Secretary of Defense, and other defense agencies. We looked at every aspect of the defense establishment – business and acquisition practices, contingency planning, force structure, compensation, and modernization investments. We also reexamined how the military operates, evaluates risk, measures readiness, and determines requirements.

The Department’s senior leadership convened 18 times over a period of three months to review emerging insights and refine options surfaced by the SCMR working groups.

To complement this top-down analysis, as part of the SCMR process we also initiated a bottom-up review conducted by each of the services. The services were asked to propose their own solutions for how to bring down costs and reach the various budget targets—particularly in regards to restructuring their forces. These views were synthesized with the results of the working groups and then discussed by the Department’s entire senior leadership team. The Secretary was briefed throughout this effort and on July 9 he briefed the President on the SCMR’s findings.

Two overarching priorities guided the SCMR’s deliberations:

First, we said we would preserve—to the greatest degree possible—the key tenets of the President’s 2012 Defense Strategic Guidance. The reasoning for this was simple: priorities like rebalancing to the Asia-Pacific and cyber security are essential to the strategic transition we must make to ensure the United States is prepared to confront the challenges and capitalize on the opportunities of the 21st century.

Second, we would look first to savings gained from reducing overhead and structural costs (“tail”) in order to minimize the impact on the capability and readiness of the force (“tooth”).

As noted earlier, in undertaking the SCMR, we scrutinized Department spending under three budget scenarios⁴:

- The President’s FY 2014 budget, which we believe is the right level to meet today’s complex national security threats and achieve savings totaling \$150 billion over 10 years on top of the \$487 billion in cuts mandated by the BCA and begun by us in

⁴ See Attachment 4: Memorandum from Deputy Secretary of Defense Ashton B. Carter, “Strategic Choices and Management Review – End State,” May 29, 2013.

FY 2013. This budget, which includes many difficult cuts, is a responsible way to trim the defense budget because the cuts are carefully calibrated and would ramp up over those 10 years, giving us time to plan and adjust.

- The BCA sequestration-level caps – which would cut DoD funding by \$52 billion next year compared to the President’s budget; if the caps remain in place, the cuts would commence immediately rather than building over time, and would total roughly \$500 billion over 10 years.
- An “in-between” level, which would reduce defense spending by about \$250 billion over FY 2014-23, largely in the latter years of this period.

SCMR FINDINGS

With these guidelines and scenarios as our starting point, the SCMR revealed three key findings:

- 1) In all of the budget scenarios we considered, savings from reducing DoD’s overhead, administrative costs, and operating expenses (which we refer to as “efficiencies”), as well as serious reforms to compensation for civilian and military employees, are both crucial. Compensation alone makes up more than half of the defense budget. If overhead and compensation continue to grow as the budget shrinks, then all of the impact of cuts will fall on the other parts of the defense budget – force structure, training for readiness, and investment in new technologies – resulting in reduced combat power and increased national security risk. These reforms are difficult and painful, but we have to do them, and to do them we need the partnership of Congress and the lifting of many legislative restrictions under which we now operate.

Yet we also found that even the most aggressive and ambitious packages of efficiencies and compensation reform mapped out in the SCMR are not by themselves enough to meet the budget reductions called for in any of the scenarios we analyzed. The SCMR showed that cuts in combat power – force structure, readiness, and investment – will be necessary in all three budget scenarios.

- 2) The SCMR found that over time, a combination of carefully chosen efficiencies and compensation reforms, combined with various carefully and strategically chosen alternative approaches to cuts in force structure, investment, and readiness, could achieve sequestration-level cuts over time. But there is no strategically and managerially sound approach to budget cuts that can close that gap within the next few years. We simply

cannot downsize the force prudently in a few years – it takes time to downsize forces, to cut employees, to close bases, and to reap savings from reforms. Strategic adjustments take time. If sequestration-level cuts must be implemented in the meantime, drastic measures that are not strategically or managerially sound are the result. You see this already in FY 2013, where we had sequestration applied immediately, resulting in such actions as readiness stand-downs and furloughs.

These serious adverse effects occur even if Congress provides flexibility in administering budget cuts and sequestration. Flexibility in this instance would mean that Congress approves program cuts denied in the past and allows reallocation of funding, without regard to existing budget structures or limitations on transfer authority. However, the cuts are too steep and abrupt to be mitigated by flexibility, no matter how broadly defined. Flexibility in time is critical.

- 3) The SCMR showed that the President’s FY 2014 budget proposal allows the Department to still implement the main tenets of the President’s Defense Strategic Guidance. Force reductions in this scenario are necessary, but if accompanied by efficiency and compensation reforms, can be made in a way that incurs only minimal risk to our strategy, cutting parts of the force that are, in a sense, excess to our strategic needs—such as reducing the size of our ground and tactical air forces as we draw down from more than a decade of stability operations in Iraq and Afghanistan.

EFFICIENCY SAVINGS

The SCMR sought to streamline the Department’s overhead by shedding less productive activities and consolidating resources, maximizing what we call “efficiencies” that help us save money by reducing staff and costs.

The SCMR looked to build on the efficiencies initiated by Secretary Gates, who found \$150 billion in savings over a five-year period, and Secretary Panetta, who found \$60 billion of cuts that are reflected in the President’s budget request, as well as the \$34 billion that Secretary Hagel submitted in our latest budget. These efficiencies included the overhaul of our acquisition practices that Secretary Gates and Deputy Secretary Carter began in 2009 when he was the Undersecretary of Defense for Acquisition, Technology, and Logistics and that have begun to show much-needed improvements in the buying power of the defense dollar. The Department is continuing to implement these efficiency campaigns, and we have mechanisms in place for tracking progress. Despite good efforts and intentions, not every proposal has generated the savings we expected, or gained the support of Congress – most notably, BRAC.

The SCMR faced the difficult but necessary task of finding additional efficiencies that would help trim the budget while preserving – and in some cases improving – operational effectiveness. We looked at the whole spectrum of how we do business, and came up with proposals for information technology consolidations, resource sharing and optimization of service medical infrastructure, potential combatant command streamlining, and targeted reductions at defense agencies.

Some of these efficiencies are “best practices” that should be implemented regardless of our budget scenario. One of the SCMR findings in this category that we are already initiating is the phased 20-percent budget reduction for OSD, Joint Staff, and Service headquarters announced last month by Secretary Hagel. Although the 20 percent cut applies to budget dollars, organizations will strive for a goal of 20 percent reductions in government civilians and military personnel billets on headquarters staffs.

We will also be reducing the number of direct reports to the Secretary of Defense by further consolidating functions within OSD, as well as eliminating some positions. Additionally, we will be reducing intelligence analysis and production at combatant command intelligence and operations centers in order to foster closer integration and reduce duplication across the defense enterprise. We calculated that these efficiencies could save more than \$10 billion over FY 2015-19 and almost \$40 billion over FY 2014-23 – over and above the savings from initiatives already underway.

Past efficiency campaigns have shown that implementation can be very challenging, so effective follow-through is critical if savings targets are to be realized. This is especially true of OSD reductions. Therefore, Secretary Hagel asked Deputy Secretary Carter to identify an individual from outside the Department, who is deeply knowledgeable about the defense enterprise and eminently qualified, to direct implementation of the OSD reductions and report directly to the Deputy Secretary.

We also identified a number of efficiencies that would cut a bit deeper and have significant and noticeable impacts that need to be weighed against other priorities. Adding the most aggressive of these proposals to the efficiencies mentioned above could save us as much as \$30 billion over FY 2015-19 and up to \$60 billion over FY 2014-23. We are formulating specific plans now and we will present approved proposals as part of the President’s FY 2015 budget.

It is important to emphasize that these savings from efficiencies, though substantial, will only get us a small fraction of the way to sequestration-level cuts of \$450 billion over the next nine years. One of the numerous myths debunked by the SCMR process is that simply trimming the Department’s civilian bureaucracy will somehow solve our fiscal problems. The numbers simply do not support this fallacy. So while we are committed to implementing efficiencies

wherever they can be found, implementing even the most aggressive ones will constitute only a portion of the cuts required by the BCA sequestration caps.

COMPENSATION SAVINGS

The SCMR also focused on personnel costs. The pay and benefits we provide for our military and civilian employees account for nearly half of the Department's budget. While, to be very clear, the SCMR did not consider actual reductions in pay, it did look at options to slow the rate of growth of pay and benefits. Overall personnel costs have risen dramatically – some 40 percent above inflation since 2001. Studies have shown that if personnel costs continued growing at that rate and the overall defense budget remained flat with inflation, these costs would eventually consume the entire defense budget.

Any discussion of military compensation must acknowledge that no one in uniform is “overpaid” for what they do for this country. The significant military pay and benefit increases over the last decade reflected the gratitude of a nation and the need to sustain a force under considerable stress – especially the Army and Marines – during the height of the Iraq and Afghanistan campaigns. People are DoD's most important asset – and we must sustain compensation packages that recruit and retain the finest military in the world. But the post-9/11 wars are drawing down and in recent years the military services have all comfortably exceeded their recruiting and retention goals.

Likewise, our civilian personnel – 48 percent of whom are veterans themselves – are critical to enabling our war fighting mission, as well as supporting our military families, retirees, and veterans. Civilians fix our tanks, ships, and planes. They staff our hospitals and teach military children. They perform engineering, contracting, financial management, and many other key tasks which allow the Department to develop, acquire, and field our weapons systems and war fighting platforms. They play a vital role in almost everything that we do. And they have already experienced substantial real pay cuts because of pay freezes and furloughs.

But serious reforms to compensation are essential to avoid deeper reductions in combat forces. The SCMR developed a range of possible reforms. Examples include changing military health care for retirees to increase the use of private-sector insurance when available; changing how the basic allowance for housing is calculated so that individuals are asked to pay a little more of their housing costs; reducing the overseas cost of living adjustment; and continuing to limit military and civilian pay raises.

Beyond these proposals, we explored deeper reforms in compensation, such as eliminating civilian pensions for retired military personnel serving in civilian government

service, ending subsidies for defense commissaries, and restricting the availability of unemployment benefits. This package would yield savings of almost \$100 billion over the next decade, but would have a significant impact on our service members and our workforce. But a sequestration-level scenario would compel us to consider these changes because there would be no realistic alternative that did not pose unacceptable risk to national security.

The Department and the Administration have not made any decisions about specific compensation proposals. Instead, the Secretary has asked the Chairman to develop a set of proposals to achieve savings in military compensation that meets savings targets identified in the review – almost \$50 billion over the next decade. He has his OSD staff doing the same for civilian compensation. Both efforts are building on the compensation options considered by the SCMR, looking for the right scale and mix of compensation savings packages that present the least negative impact to the military and civilian force.

In addition, the Military Compensation and Retirement Modernization Commission, established by the FY 2013 National Defense Authorization Act, has appointed nine members and will be meeting regularly over the next few months to examine military compensation issues.

It is important to emphasize that these savings are on top of, and assume that Congress enacts, the President's FY 2014 budget proposals, including compensation reforms such as a one percent military pay raise and TRICARE co-pays.

Many of the additional measures identified by the SCMR have previously been opposed by some members of Congress. We cannot achieve the savings associated with the implementation of these reforms without congressional support. In the absence of these needed authorizations, we will have to find savings elsewhere, which will degrade force readiness, capacity, and capability. The simple fact is that if we maintain the current trajectory of compensation and other benefits, we will have to send many more of our precious people home because we will not be able to pay them all.

The Department is working to identify the congressional requirements and restrictions that make it harder for us to operate more efficiently – ones that must be re-examined in light of our fiscal situation. We need Congress to partner with us in tackling the growing threat to the financial viability of the Department. If we don't act together, the cost of manning the U.S. military and the civilians who support it will continue to grow at a rate that squeezes out budgets for training and modernization, resulting in a "hollowing out" of the force.

STRATEGIC CHOICES FOR FORCES AND MODERNIZATION

The SCMR showed that even the most aggressive efficiencies and compensation adjustments do not create enough savings to meet topline reductions for any of the budget scenarios – and don't come close to meeting sequestration-level cuts. Consequently, we will have to reduce our force structure well beyond those reductions already planned as a result of the \$487 billion budget cuts built into the FY 2014 budget.

The SCMR explored different options for how to accomplish this. At the President's FY 2014 budget level, force reductions can be modest and incur only minimal strategic risk. There are parts of the current force that are excess to our strategic needs, and it is these parts where we would make reductions.

For example, in drawing down from more than a decade of war in Iraq and Afghanistan, we can reduce the size of our ground and tactical air forces—even beyond the current draw down articulated in the FY 2014 President's Budget. Our approach was not to take reductions proportionally across the military services. While we want to preserve flexibility for each military service to develop the best force possible given reduced resources, the Review found that we could still fulfill required missions while reducing Army end strength to between 420,000 and 450,000 in the active component from today's plan for 490,000, and between 490,000 and 530,000 in the Army reserves, from 555,000 today. Similarly, the Air Force can reduce tactical aircraft squadrons – potentially as many as five – and the size of the C-130 fleet with minimal risk. In doing so, our goal is to ensure that, by the end of the Future Years Defense Program (FYDP), we have the minimum force needed to meet operational requirements and surge for contingencies.

The SCMR showed clearly that the deep cuts mandated by the BCA's sequestration caps will not allow the Department to achieve all the features of the President's strategic guidance even if those cuts were imposed slowly over the ten-year period covered by the BCA.

But, as we stressed earlier, the abrupt timeline of the law as currently enacted provides no avenue to make strategic cuts, since under the BCA the defense budget must be reduced immediately, not phased in gradually. Most cost-cutting measures take time to yield savings. An example is savings from cutting our naval fleet – it takes time to recoup savings from bringing down the number of ships, especially for nuclear-powered vessels where our shipyards have limited capacity to safely and securely decommission ships. Similarly, as we reduce the force, it makes good management sense to close bases, but that takes up-front money to begin the process, time to do it properly and effectively, and a few years to begin recouping savings. Even involuntary separations of military personnel, in an effort to reduce force structure quickly, save little in the year they occur because, for most, there would be added costs associated with separation, travel, unused leave, and unemployment insurance.

This is where the SCMR's findings are particularly alarming. Under sequestration, even the most ambitious efficiencies and most draconian cuts to compensation and force structure would yield less than a third of what we would need to comply with the BCA sequestration caps in the next several years – and thus would not shield the Department from making further deep cuts to readiness and training accounts of the kinds we are experiencing this year, as well as requiring disproportionately large cuts to investment accounts – acquisition and R&D contracts – that risk reducing our long-term technological superiority.

As a result, in order to comply with the law in the near-term, the Department would have no choice but to draw down from accounts that are able to produce the largest savings the fastest – readiness and modernization. This would mean disrupting many carefully-conceived acquisition programs and eating deeply into our seed corn – the very investments that give our military a competitive advantage over others. Services would have to defer equipment maintenance, cancel training, halt construction, slow procurement, and stand down on developing and testing new technologies.

To meet these severe caps in the long-term, the SCMR examined two illustrative strategic options that bracket our choices in each force element – one that seeks to preserve a modernized force by sacrificing capacity, and one that preserves larger force capacity at the expense of modernization programs.

The former approach would compel us to make difficult choices about how we provide military forces to deter adversaries, assure allies, and respond to emerging crises. We would further shrink the Army, reduce the number of carrier strike groups and big-deck amphibious ships, and retire older Air Force bombers. We would protect investments to counter anti-access and area-denial threats, such as the long range strike family of systems, submarine cruise-missile upgrades, and the Joint Strike Fighter. And we would continue to make cyber capabilities and special operations forces a high priority. This strategic choice would result in a force that would be technologically dominant, but would be much smaller and therefore able to go fewer places and do fewer things, especially if crises occurred at the same time in different regions of the world.

The second approach would trade away high-end capability for size. We would look to sustain our capacity for regional power projection and presence by making more limited cuts to ground forces, ships and aircraft. But we would cancel or curtail many modernization programs, slow the growth of cyber enhancements, and reduce special operations forces. This would result in a modernization holiday, and a military with dramatically reduced modernization funding may find its ageing equipment and weapons systems less effective against more technologically advanced adversaries.

Whichever way we leaned, we would be forced to adopt a more modest defense strategy. Neither illustrative option we examined in the SCMR is compatible with current strategy as defined in the President's Defense Strategic Guidance.

Under sequestration, a large number of critical modernization programs would be at risk. With respect to force structure, we could see much larger reductions in ground forces: We could see our active Army force shrink from 490,000 soldiers to between 380,000 and 450,000. The US Marine Corps would have to shrink from its current size of 182,000 to between 150,000 and 175,000. Additional choices could also entail significant cuts to the naval fleet, including capital ships, and cuts to Air Force fighter and bomber squadrons. We could see carrier strike groups fall from the current number of 11 to 8 or 9. These reductions would also result in even more veterans – many who have recently served in combat – entering the domestic labor market in a weakened economic environment.

To reiterate, the SCMR did not make final choices among these possibilities, but it did map out various options to reach each budget scenario. The President and Secretary of Defense would obviously make decisions on particular investment or force changes depending on the budget scenario.

What the SCMR does show clearly is that the President's FY 2014 Budget allows us to preserve the Defense Strategic Guidance, the "in-between" budget scenario we evaluated would "bend" the strategy in important ways, and sequestration-level cuts would "break" some parts of the strategy no matter how the cuts were made.

FY 2014 IMPACTS

The SCMR focused on options for the 10-year budget period covered by the BCA, and more immediately for the FYDP covering FY 2015 through FY 2019, but we must also plan for possible sudden cuts in FY 2014 below the President's budget. In FY 2014, the Department would not be able to meet sequestration-level budget reductions by making only the strategic cuts identified in the SCMR; on the contrary, even if we embarked on these profound strategic changes in FY 2014, we would still be \$30-35 billion per year short of the topline target in FY 2014 and FY 2015 – *nearly the whole size of the sequestration cut we took in FY 2013*.

If Congress does not permit us to make rapid cuts in areas like compensation, we would be short even more. We would have no choice but to continue some of the damaging, non-strategic cuts we incurred in FY 2013, compounding an already-serious readiness deficit.⁵

⁵ See Attachment 5: Letter from Secretary of Defense Chuck Hagel to Sens. Levin and Inhofe, "Contingency Plan for \$52 Billion Cut in FY 2014 Defense Budget," July 10, 2013.

We are looking for ways to make these immediate cuts in the least damaging way, but there are few ways to limit their impact. Given the reality that up to half of our budget is essentially placed off limits for savings and that we cannot turn to much of our budget for immediate savings – for example, we cannot generate quick savings from cutting personnel and infrastructure – the only way to implement an abrupt 10 percent reduction in the defense budget is to impose disproportionate reductions in training, maintenance, and investment. Readiness would not improve much from its current degraded level and in some cases would continue to decline. We would also be forced to make disproportionately large cuts in funding for modernization programs, eroding our technological superiority and damaging our Better Buying Power initiatives.

The SCMR analysis showed in the starkest terms how a 10 percent defense spending reduction in reality causes a much higher reduction in military readiness and capability – particularly as we protect necessary spending like funding for Afghanistan, our core nuclear deterrent, and other programs we mentioned earlier. Unlike the private sector, the federal government – and the Defense Department in particular – simply does not have the option of quickly shutting down excess facilities, eliminating entire organizations and operations, and shedding massive numbers of employees – at least not in a responsible, moral and legal way.

The bold management reforms, compensation changes and force structure reductions identified by the SCMR can help reduce this damage, but they will not come close to avoiding it altogether.

CONCLUSION

The abrupt, deep cuts caused by the BCA caps in FY 2014 will force DoD to continue to make the kind of harmful, yet unavoidable, decisions we have had to make during the present fiscal year. If these caps continue in future years, the Department will have to make sharp cuts with far-reaching consequences that will limit combat power, reduce readiness, and irrevocably alter the way the military supports the national security interests of the United States. The SCMR produced options that would prepare the way for these large cuts, but plans alone cannot avoid serious damage to our military capabilities.

The Review demonstrated that strategic cuts are only possible if they are “back-loaded.” While no agency welcomes additional budget cuts, a scenario where we have additional time to implement reductions – such as in the President’s budget – would be far preferable to the deep cuts of sequestration.

Tragically, the prospect of serious damage to national security detailed in this testimony is not a result of an economic emergency or recession that makes a sudden reduction in expenditures necessary. It is not because defense cuts are a mathematical answer to the nation's overall fiscal challenge, or because paths of revenue growth and entitlement spending have been explored and exhausted. It is not because the world has suddenly become more peaceful. It is not due to a breakthrough in military technology or a new strategic insight of some sort that makes continued defense spending unnecessary. It is purely the collateral damage of political gridlock. And friends and potential enemies around the world are watching our behavior.

To be sure, America will remain the world's strongest military power. But we are accepting unnecessary risk. As Secretary Hagel said yesterday, it is unworthy of the service and sacrifice of our nation's men and women in uniform and their families. And even as we confront tough fiscal realities, our decisions must always be worthy of the sacrifices we ask America's sons and daughters to make for the country.

We in the Department of Defense are prepared to make difficult strategic and budgetary choices. We are also committed to finding new ways to improve the way we do business and obtain greater efficiency and productivity in defense spending. But in order to sustain our military's unrivaled strength, we need the cloud of uncertainty dispelled, and not just moved to the horizon, kicking the budget can down the road year by year. Along with budgetary stability, we need time to make changes strategically. And we need the support of Congress to make budget cuts in a managerially sensible way. We need a return to normal budgeting and a deal that the President can sign. Then, together with Congress, we can continue the strategic transition upon which we have embarked, with certainty and stability.

**DEPUTY SECRETARY OF DEFENSE ASHTON B. CARTER AND
VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF JAMES A. WINNEFELD JR.
PREPARED TESTIMONY
HOUSE ARMED SERVICES COMMITTEE
AUGUST 1, 2013**

ATTACHMENTS

Attachment 1: Deputy Secretary of Defense Ashton B. Carter, Prepared Testimony, House Armed Services Committee, August 1, 2012.

Attachment 2: Memorandum from Deputy Secretary of Defense Ashton B. Carter, "Handling Budgetary Uncertainty in Fiscal Year 2013," January 10, 2013.

Attachment 3: Memorandum from Secretary of Defense Chuck Hagel, "Strategic Choices and Management Review," March 15, 2013.

Attachment 4: Memorandum from Deputy Secretary of Defense Ashton B. Carter, "Strategic Choices and Management Review – End State," May 29, 2013.

Attachment 5: Letter from Secretary of Defense Chuck Hagel to Sens. Levin and Inhofe, "Contingency Plan for \$52 Billion Cut in FY 2014 Defense Budget," July 10, 2013.

**DEPUTY SECRETARY OF DEFENSE ASHTON B. CARTER
PREPARED TESTIMONY
HOUSE ARMED SERVICES COMMITTEE
WEDNESDAY AUGUST 1, 2012**

**EMBARGOED UNTIL RELEASED BY THE
COMMITTEE**

**DEPUTY SECRETARY OF DEFENSE ASHTON B. CARTER
PREPARED TESTIMONY
HOUSE ARMED SERVICES COMMITTEE
WEDNESDAY AUGUST 1, 2012**

I appreciate the opportunity to join with the Acting Director of the Office of Management and Budget (OMB) in testifying today regarding the effects of sequestration.

Secretary Panetta and I have been emphasizing for many months that sequester would have devastating effects. While I will focus on the impact on the Department of Defense (DoD), Acting Director Zients' testimony makes clear that the effects on non-defense agencies would be equally devastating. We urge Congress to avoid sequestration by devising a comprehensive and balanced deficit reduction package that both the House and Senate can pass, and that the President can sign. Back in February, the President's Budget for FY 2013 in fact contained a proposal for such a balanced reduction. Secretary Panetta and I strongly urge that the Congress enact a balanced deficit reduction plan to avoid sequestration.

Acting Director Zients already described the mechanism by which sequester would work. In my statement today, I describe some impacts specific to DoD. But much of what I say would be echoed by managers in other federal agencies and by industry leaders who furnish critical goods and services to the federal government. And, while I can describe many of sequester's impacts on DoD, I cannot describe a "plan" that somehow eliminates these consequences, or even mitigates them substantially. The reason for this is that sequester was designed to be an inflexible and mindless policy. It was never designed to be implemented. Instead, it was enacted as a prod to Congress to devise a comprehensive package to reduce the federal deficit.

As I illustrate some of the impacts of sequester, it will be clear that it is a policy that should never be implemented. It introduces senseless chaos into the management of more than 2,500 defense investment programs, waste into defense spending at the very time we need to be careful with the taxpayer's dollar, inefficiency into the defense industry that supports us, and causes lasting disruptions even if it only extends for one year. Sequester in FY 2013 would seriously disrupt our forces and programs. Over the longer term, the lower caps in FY 2014 through FY 2021 would require that we substantially modify and scale back the new defense strategy that the DoD leadership, working under the guidance of the President, so carefully developed just a few months ago.

How Sequester Would Work in DoD

If sequestration occurs, it would be governed by the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985, as amended by the Budget Control Act (BCA) of 2011. Congressional report language also specifies some of the detailed procedures for DoD.

Sequestration requires that national defense programs be reduced by almost \$55 billion in FY 2013, and the lowering of the discretionary caps would result in reductions of the same amount in each year from FY 2014 through FY 2021. The DoD budget would bear more than 95 percent of this reduction.

While sequestration and lowering of the discretionary caps could have important effects for each of the next nine years, I will focus today mostly on the effects in FY 2013. In FY 2013 special rules govern the sequester and require an across-the-board application of the cuts that is designed to be inflexible. To determine the size of the sequester by project and account, a percentage will be calculated based on the prescribed dollar cut (almost \$55 billion) and the total of the FY 2013 appropriation and unobligated balances from prior years. Obviously, that percentage cut cannot be estimated precisely until we know the level of FY 2013 appropriated funds and the level of prior-year unobligated funds.

Sequester would apply to all of the DoD budget, including the wartime or Overseas Contingency Operations (OCO) portions of the budget – with only one potential exception that is significant. Under the 1985 Act, the President has the authority to exempt all or parts of military personnel funding from sequestration. If the President chooses to utilize this authority for FY 2013, he must notify the Congress by August 10, 2012, about the manner in which he will exercise the authority. If the President exempts military personnel funding from sequester in FY 2013, then other DoD budget accounts must be cut by larger amounts to offset the military personnel exemption. DoD estimates that the percentage reductions under sequester could range from 8 percent for all DoD accounts (if military personnel funding is fully sequestered) to 10 percent for accounts other than military personnel (if “milpers” funding is fully exempt from sequestration). These estimates assume that Congress provides funds for FY 2013 equal to the President’s request and reflects DoD’s best estimate of unobligated balances from prior years.

OMB will eventually calculate the sequester percentage and will use the percentage to calculate reductions in dollar terms for each budget account. How these reductions are applied in DoD varies between the operating and investment portions of the budget, as specified in law and applicable Congressional report language. Cuts to the operating portions of the DoD budget must be equal in percentage terms at the level of budget accounts. (Examples of budget accounts in the operating budget include Army active operation and maintenance, Navy reserve operation and maintenance, and Air Force Guard operation and maintenance.) Within each budget account in the operating portion of the budget, DoD can determine how best to allocate the reductions based on management judgments. For the investment portions of the budget, the dollar cuts must be allocated proportionally at a lower level of detail identified as “program, project, and activity (PPA)”. More than 2,500 programs or projects are separately identified and must be reduced by the same percentage. Absent a reprogramming action, the inflexible nature of the sequester law

means that DoD would have no authority to vary the amount of the reduction. Within a PPA, however, managers can decide how best to allocate the reductions.

It is important to note that reprogramming – a method used by DoD to shift funding from lower to higher-priority projects during the year when funds are being executed – would at most offer a limited ability to modify the effects of sequester. Under current law, the amount of funds that can be transferred is limited. Moreover, any reprogramming that adds funds to a program or project must be offset by a cut to another program or project, which may be difficult because, as a matter of policy, we seek Congressional approval of reprogramming actions. Reprogramming might be used to offset some effects of sequester but, realistically, it would not offer a means for making wholesale revisions.

To close this description of sequestration, let me say what sequestration would NOT do. Sequestration would generally not affect funds already obligated as of the date the sequester cuts are calculated.

Impacts of Sequester

Acting Director Zients discussed some of the potential effects of the sequester on non-defense programs. Just as in non-defense agencies, sequestration would have devastating effects on DoD and its personnel both because of the size of the sequester cuts and because of the mindless way the law requires that they be allocated. Although we strongly believe that Congress should enact a balanced deficit reduction package and avoid sequestration, we have reviewed the law and identified some of the key impacts sequestration would have on the Department.

As noted earlier, OCO funding – which pays for the added costs of wartime activities – is subject to sequester. Supporting our warfighters in combat is DoD's highest priority. We would therefore endeavor to protect wartime operating budgets as much as possible, including the key operation and maintenance (O&M) accounts. The O&M accounts contain OCO as well as base-budget funding, and these two categories of O&M funding merge together during execution of DoD budgets. We could reduce the base-budget portions of O&M disproportionately and spare the OCO portions. We could take similar steps as needed in other accounts that include OCO funding.

However, especially in the Army and the Marine Corps, this action would lead to large cuts in base-budget O&M. We would seek to minimize effects on training and readiness of units deploying, but we could probably not do so fully. As a result, some later-deploying units (including some deploying to Afghanistan) could receive less training, especially in the Army and Marine Corps. Under some circumstances, this reduced training could impact their ability to respond to a new contingency, should one occur.

Sequestration could also affect training in the other military services. We will seek to minimize effects on readiness. However, Air Force flying hours for pilots could be reduced by several hours a month and Navy steaming days could decline by several days a quarter. The result will be reduced training and lower readiness.

The sequester would force us to reduce funding for civilian personnel, and I would join other senior federal managers in making difficult personnel decisions that will harm all of our departments. Although it is premature to describe in detail how sequester would impact the DoD civilian workforce, it might be necessary to impose a partial hiring freeze or unpaid furloughs. These actions would reduce our capability in important ways: fewer people to fix our weapons including those damaged in war, less expert time and attention available to enter into well-crafted contracts and handle financial transactions, and less support for other critical day-to-day operations.

Military families and retirees would be adversely affected by sequestration. For example, we could be forced to cut back on base support services, facility maintenance, and maintenance of government owned family housing. Commissary hours might have to be reduced. Funds for the Defense Health Program, which provides health care for retirees and military dependents, would be sequestered, resulting in delays in payments to service providers and, potentially, some denial of service.

These various sequestration actions, taken together, would represent a major step toward creation of an unready, "hollow" military force. Military readiness would be added to the list of programs in other departments harmed by sequestration including nutrition assistance for low-income women, education for young students, and research projects designed to improve American lives.

Sequestration would also inevitably lead to universal disruption of DoD's investment programs. Under current rules that govern the sequester process, every one of our more than 2,500 procurement programs, research projects, and military construction projects would each be indiscriminately reduced. Those who manage these programs would be forced to join many other acquisition managers in non-defense agencies as they seek to accommodate the reduced funding for FY 2013, three months after the fiscal year starts.

Some military managers would be forced to buy fewer weapons. For example, assuming proportional cuts and DoD's current estimate of the size of the sequester, we would buy four fewer F-35 aircraft, one less P-8 aircraft, 12 fewer Stryker vehicles, and 300 fewer Army medium and heavy tactical vehicles compared with the requests in the President's Budget for FY 2013. Reductions in buy sizes will cause unit costs of weapons to rise, which will in turn

demand further cuts in buy sizes. In cases where we cannot feasibly reduce the quantity of items bought – ships come immediately to mind – we would have to delay projects. There could be a delay of several months in the new CVN-78 carrier along with delays in the Littoral Combat Ship program and DDG-51 destroyer procurement. Some military construction projects could be rendered unexecutable by sequester. We could be forced to delay fixing schools, defer construction of new medical facilities, and delay environmental cleanup.

I have focused on the effects of sequestration on DoD. But much of the Intelligence Community's funding is within the DoD budget and is also subject to sequestration. As it would in DoD, sequestration would have devastating effects on the Intelligence Community. If sequestration occurs, senior managers in the Intelligence Community would join me and leaders in all affected non-defense agencies as we strive to meet the needs of American citizens while operating under a law that was purposely designed to be inflexible.

While I have focused on effects in FY 2013, sequestration and lowering of the discretionary caps reduces DoD budgets by \$50 to \$55 billion in each year from FY 2013 through FY 2021. The cuts beyond FY 2013 would not have to be implemented in the across-the-board manner that I have just described. But the cuts are still large. Even if the President elects to exempt military personnel funding in FY 2013, the outyear cuts would force the Department to make substantial reductions in military personnel and units in the years beyond FY 2013. Otherwise we will end up with too many units and not enough funds to train and equip them. Significant cuts in military units would, in turn, require that we revisit the national security strategy that the President put in place last January. While it is premature to outline specifics, sequestration would force DoD to revise a strategy that was carefully crafted and designed to meet current national security needs.

Next Steps on Sequester

While we can foresee the harmful impacts of sequester, as I have described, we cannot devise a "plan" that eliminates, or even substantially mitigates them. Sequester defies rational "planning." It was designed to be irrational. We are working with OMB to understand this complex legislation, and we are assessing impacts. Because we are still five months from implementation, Congress has the time to enact a balanced deficit reduction plan and halt implementation of this inflexible law. In the unfortunate event that sequestration is actually triggered, we will work with OMB and – like all the federal agencies affected by this law – we will be ready to implement.

But we are equally worried about a different type of error. This would occur if sequestration does not happen but we end up triggering some of its bad effects anyway. For example, we do not want to unnecessarily alarm our employees by announcing adverse personnel actions or by suggesting that such actions are likely. We do not want to hold back on the

obligation of funds – either for weapon projects or operating programs – that would have been obligated in the absence of a possible sequester, since this would introduce inefficiency and waste. Nor do we want to cut back on training, which would harm military readiness in a period when we face a complex array of national security challenges. In the charged budgetary environment in which we are operating, this type of error is very real.

Finally, we understand that private companies that serve the Department of Defense and constitute important members of our national security team will be making decisions on issues related to sequester. They face many of the same dilemmas we do, and a number of them have expressed to me their alarm at such a wasteful and disruptive way of managing the taxpayers' money and the talents of their employees. The best thing that can happen for private companies is for Congress to enact a balanced deficit reduction plan that halts implementation of this inflexible law.

Summary

I believe that my testimony today makes clear that sequester would be devastating to DoD, just as it would to every other affected federal agency. It is important to remember that sequester was not a policy designed to be implemented. It was enacted as a prod to Congress to act on the federal deficit.

Congress needs to deal with the debt and deficit problems in a balanced way and avoid sequestration. The men and women of this Department and their families need to know with certainty that we will meet our commitments to them. Our partners in the defense industry, and their employees, need to know that we are going to have the resources to procure the world class capabilities they can provide, and that we can do so efficiently. Allies, partners, friends, and potential foes the world over need to know that we have the political will to implement the defense strategy we have put forward.



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

JAN 10 2013

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DEPUTY CHIEF MANAGEMENT OFFICER
DIRECTOR, COST ASSESSMENT AND PROGRAM EVALUATION
DIRECTOR, OPERATIONAL TEST AND EVALUATION
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
DEPARTMENT OF DEFENSE CHIEF INFORMATION OFFICER
ASSISTANTS TO THE SECRETARY OF DEFENSE
DIRECTOR, ADMINISTRATION AND MANAGEMENT
DIRECTOR, NET ASSESSMENT
DIRECTORS OF THE DEFENSE AGENCIES
DIRECTORS OF THE DOD FIELD ACTIVITIES

SUBJECT: Handling Budgetary Uncertainty in Fiscal Year 2013

Two sources of uncertainty are creating budgetary challenges for the Department of Defense (DoD) in 2013. The first is the fact that the Department is operating under a Continuing Resolution (CR) through at least March 27, 2013. Because most operating funding was planned to increase from Fiscal Year (FY) 2012 to FY 2013, but is instead being held at FY 2012 levels under the CR, funds will run short at current rates of expenditure if the CR continues through the end of the fiscal year in its current form. The Secretary will continue to urge the Congress to enact appropriations bills for FY 2013. But if the CR were to be extended through the end of the fiscal year, it would hinder our ability to maintain a ready force.

The second source of uncertainty is the potential sequestration recently deferred from January 2, 2013 to March 1, 2013 by the American Taxpayer Relief Act of 2012. The possibility of sequestration occurring as late as the beginning of the sixth month of the fiscal year creates significant additional uncertainty for the management of the Department.

Either of these problems, in isolation, would present serious budget execution challenges to the Department, negatively impacting readiness and resulting in other undesirable outcomes. This situation would be made even more challenging by the need to protect funds for wartime operations.

Near-Term Actions

Given the overall budgetary uncertainty faced by the Department, and in particular the immediate operational issues presented by the CR, it is prudent to take certain steps now in order to help avoid serious future problems. I therefore authorize all Defense Components to begin implementing measures that will help mitigate our budget execution risks. For now, and to the extent possible, any actions taken must be reversible at a later date in the event that Congress acts to remove the risks I have described. The actions should be structured to minimize harmful effects on our people and on operations and unit readiness.

Categories of approved actions are identified in Table 1. The authority to implement these actions shall remain in effect until they are revoked in a subsequent memorandum from my office. If Components believe they must take actions that go beyond the categories listed in Table 1, they should present the options for my review and approval prior to their implementation.

Intensified Planning for Longer-Term Budgetary Uncertainty

Given the added challenge of a potential sequestration in March, we must also intensify efforts to plan future actions that might be required should that happen. This planning does not assume these unfortunate events will occur, only that we must be ready.

As they formulate draft plans, Components should follow the guidance that directs the Department to take all possible steps to mitigate harmful effects associated with this budgetary uncertainty and to maintain a strong defense. The details of the guidance are summarized below:

- For the operating portions of the DoD budget:
 - Exempt all military personnel funding from sequestration reductions, in accordance with the decision made by the President in July 2012.
 - Fully protect funding for wartime operations.
 - Fully protect Wounded Warrior programs.
 - To the extent feasible, protect programs most closely associated with the new defense strategy.
 - Reduce civilian workforce costs using the following actions (all subject to mission-critical exemptions, and appropriate consultation with union representatives consistent with Executive Order 13522):
 - Release temporary employees and do not renew term hires.
 - Impose hiring freezes.
 - Authorize voluntary separation incentives and voluntary early retirements to the extent feasible.
 - Consider the possibility of furloughs of up to 30 calendar days or 22 discontinuous workdays.
 - To the extent feasible, protect family programs.

- To the extent feasible, protect funding most directly associated with readiness; focus the necessary cuts on later deploying units.
- For the investment portions of the DoD budget (procurement, RDT&E, construction):
 - Protect investments funded in Overseas Contingency Operations if associated with urgent operational needs.
 - To the extent feasible, protect programs mostly closely associated with the new defense strategy.
 - Take prudent steps to minimize disruption and added costs (e.g., avoid penalties associated with potential contract cancellations where feasible; prudently manage construction projects funded with prior-year monies).

While we are hopeful of avoiding budgetary problems, draft Component plans should reflect the possibility that we may have to operate under a year-long CR and that sequestration takes place. Table 2 shows the types of information that should be included in the plans. Components should submit these draft plans to the Under Secretary of Defense (Comptroller) by February 1, 2013. The Under Secretary of Defense (Comptroller) will work with the Components to adjust this schedule if changes are required due to the deadlines for the preparation of the FY 2014 President's Budget submission.

I appreciate your patience as we work through these difficult budgetary times. The Department will continue to do its best to resolve these budgetary uncertainties in a manner that permits us to support our current defense strategy and maintain a strong defense.

If addressees have questions about this memorandum, they should direct them to the Under Secretary of Defense (Comptroller).



Attachments:
As stated

Table 1. Categories of Approved Near-Term Actions

- Freeze civilian hiring (with exceptions for mission-critical activities*).
- Provide authority to terminate employment of temporary hires and to notify term employees that their contracts will not be renewed (with exceptions for mission-critical activities and when appropriate in terms of personnel timing*).
- Reduce base operating funding.
- Curtail travel, training, and conferences (all with exceptions for mission-critical activities* including those required to maintain professional licensure or equivalent certifications).
- Curtail facilities maintenance or Facilities Sustainment, Restoration, and Modernization (FSRM) (with exceptions for mission-critical activities*).
 - If necessary, services/agencies are authorized to fund FSRM at levels below current guidance.
- Curtail administrative expenses such as supply purchases, business IT, ceremonies, etc. (with exceptions for mission-critical activities*).
- Review contracts and studies for possible cost-savings.
- Cancel 3rd and 4th quarter ship maintenance availabilities and aviation and ground depot-level maintenance activities. Take this action no earlier than February 15, 2013.
- Clear all R&D and production contracts and contract modifications that obligate more than \$500 million with the USD(AT&L) prior to award.
- For Science and Technology accounts, provide the USD(AT&L) and the Assistant Secretary of Defense (Research & Engineering) with an assessment of the impact that budgetary uncertainty may have on meeting Departmental research priorities.

*Approvals will be granted by Component heads or by senior officials designated by the Component head.

Components with personnel serving Combatant Commanders (COCOMs) must consult with the COCOMs before implementing actions that affect them. Disputes will be brought to the attention of the Chairman of the Joint Chiefs of Staff for further resolution.

Components receiving reimbursements should coordinate with customer before taking actions that would affect the customer's mission.

Table 2. Information to Be Included in Draft Implementation Plans

The following information should be provided at the Component level. Information by commands and bases/installations is not required.

- For operating accounts, identify major actions to include, at a minimum:
 - Extent of civilian hiring freezes; expected number of temps/terms released; expected number, duration, and nature of furloughs.
 - Reductions in flying hours, steaming days, vehicle miles, and other operations/training/support activities that affect force readiness.
 - Areas of budgets experiencing disproportionate cuts.
- For investment accounts:
 - Plans for large programs (ACAT 1D and 1C, and MAIS programs).
 - Include major changes in unit buys, delays, etc.
 - Significant changes in all joint programs.
- Identify and prioritize any essential reprogramming actions with offsets.



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

MAR 15 2013

MEMORANDUM FOR DEPUTY SECRETARY OF DEFENSE
SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
CHIEFS OF THE MILITARY SERVICES
COMMANDERS OF THE COMBATANT COMMANDS
DIRECTOR, COST ASSESSMENT AND PROGRAM EVALUATION
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE

SUBJECT: Strategic Choices and Management Review

The Department of Defense must constantly examine the choices that underlie our defense strategy, posture, and investments, including all past assumptions and systems. This will be especially important in the period ahead, as both budgetary and strategic uncertainty affect our planning. We must think and act ahead of this uncertainty, and not in reaction to it.

Accordingly, I am directing the Deputy Secretary of Defense, working with the Chairman of the Joint Chiefs of Staff, to conduct a Strategic Choices and Management Review. This review will:

- Define, for my consideration, the major strategic choices and institutional challenges affecting the defense posture in the decade ahead that must be made to preserve and adapt defense strategy and management under a range of future circumstances.
- Consider the 2012 Defense Strategic Guidance as the point of departure and be informed by the Chairman's Risk Assessment. The results will frame my Fiscal Guidance for the FY 2015 budget and ultimately be the foundation for the statutorily required Quadrennial Defense Review due in February 2014.
- Be inclusive but confidential to allow for the free exchange of ideas. Service Secretaries and Chiefs, Office of Secretary of Defense Principals, and Combatant Commanders will serve as essential participants.

This will be an iterative process, reporting to me at regular intervals with the aim to conclude the process by May 31, 2013. I appreciate your efforts and support in this process. Thank you.



Clark Hager



OSD003024-13



DEPUTY SECRETARY OF DEFENSE
1010 DEFENSE PENTAGON
WASHINGTON, DC 20301-1010

MAY 29 2013

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
UNDER SECRETARIES OF DEFENSE
CHIEFS OF THE MILITARY SERVICES
COMMANDER, U.S. SPECIAL OPERATIONS COMMAND

SUBJECT: Strategic Choices and Management Review – End State

I appreciate the thorough discussions we have had at the Strategic Choices and Management Review (SCMR) meetings, and am sending out this additional guidance to clarify our end states and discuss the near term due outs. Let me begin by emphasizing that the Secretary and I remain fully committed to the President's defense budget proposal for FY 2014 and the out-year budgetary levels that accompany that proposal. This budget provides the appropriate level of defense resources needed to meet today's complex national security threats. Moreover, the President has proposed a balanced package of deficit reductions, including some further cuts in defense funding, which exceeds the targets in the Budget Control Act. It is our hope that Congress will work to enact this proposed package of deficit reductions, or another package that the President can sign, and then replace sequestration.

We will also continue to defend aggressively the specifics of the President's FY 2014 defense budget proposal at the right level for the Department. However, we do need to develop options in the event that fiscal realities differ from the funding level in the President's budget.

Therefore, a critical output of the SCMR will be internal fiscal guidance for POM 15-19 at the President's Budget level. This guidance will be informed by the SCMR and take into account adjustments needed to bring the DoD topline into compliance with the President's budget. Because we do need to develop options in the event that fiscal realities differ from the funding level in the President's budget, a second output of the review will be separate guidance for Alternative POMs (ALT POMs) at overall Departmental resource levels five percent and ten percent below the resources provided in the President's current budget. Each Service will be provided topline guidance informed by the SCMR work which takes into account the full sequestration cuts.

You should also develop options for a FY 2014 budget that is executed at levels other than the level in the President's budget. Specifically, you should consider two assumptions: (1) a cut of 10 percent from each appropriation level proposed in the President's FY 2014 budget and (2) a cut of 10 percent for the total dollars proposed in the President's FY 2014 but with authority to move money among appropriations. Finally, we need to know the adjustments to the President's budget submission for FY 2014 that would be necessary to take into account the currently experienced impacts of the FY 2013 sequestration. These results are due by July 1. At a later date we may need to ask for an alternative at a level 5 percent below the President's budget.



OSD006303-13

We will also be working on additional strategic guidance that will be incorporated into our SCMR products. First, the outcome of our ranking of the refined DSG military missions will indicate potential break points for capacity, capability, and readiness that will be important as you shape your forces to support strategic ends. Second, USPACOM is producing a rapid turnaround adjustment to plans in the Pacific theater.

Finally, we will produce a White Paper that documents the options we considered and their implications for both management and strategy.



cc:
Chairman of the Joint Chiefs of Staff
Commanders of the Combatant Commands
Chief of the National Guard Bureau



SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

JUL 10 2013

The Honorable Carl Levin
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

The Honorable James M. Inhofe
Ranking Member
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Chairman Levin and Ranking Member Inhofe:

I remain fully committed to enactment of the President's defense budget for Fiscal Year (FY) 2014 because I believe this budget provides the right level of resources to maintain a strong national defense. I also fully support the President's overall budget plan and his FY 2014 budgetary proposals for other federal agencies, which are necessary to support a strong economy and also contribute to a strong national defense by providing support to our troops, veterans, and their families.

I realize, however, that the Department of Defense (DoD) needs a contingency plan in the event that the sequester-level budgetary caps currently imposed by the Budget Control Act (BCA) of 2011 remain in effect. These caps would lead to an approximately \$52 billion cut to the DoD budget compared to the President's FY 2014 funding request, as well as deep cuts to non-defense priorities including education, infrastructure, innovation and more. The attachment to this letter provides a high-level summary of an early version of DoD's contingency plan for FY 2014 with a \$52 billion cut.

I strongly oppose cuts of that magnitude because, if they remain in place for FY 2014 and beyond, the size, readiness and technological superiority of our military will be reduced, placing at much greater risk the country's ability to meet our current national security commitments. This outcome is unacceptable as it would limit the country's options in the event of a major new national security contingency.

These serious adverse effects occur even if Congress provides flexibility in administering budget cuts and sequestration. Flexibility in this instance would mean that Congress approves program cuts denied in the past and allows reallocation of funding, without regard to existing budget structures or limitations on transfer authority. However, the cuts are too steep and abrupt to be mitigated by flexibility, no matter how broadly defined. These points are well illustrated by looking at the effects of a \$52 billion cut in FY 2014:



- With or without additional flexibility, the Department would not be able to substantially reduce military personnel costs in FY 2014 without draconian actions – a constraint that significantly worsens the pressure on other budgetary accounts and saves very little money upfront.
- Sequestration in FY 2013 is severely damaging military readiness. In FY 2014 the Department would seek to minimize cuts in the day-to-day operating costs most closely related to training and readiness. Instead DoD would, for the second year in a row, impose hiring freezes and sharply reduce facilities maintenance – sometimes leaving the Department with too few people to perform needed work or with employees working in substandard conditions. The Department hopes to avoid a second year of furloughs of civilian personnel, but DoD will have to consider involuntary reductions-in-force to reduce civilian personnel costs. However, these actions alone would not be sufficient. Given a cut of \$52 billion, even with flexibility in administration, training and overall readiness would at best remain constant at current low levels and, in some cases, would continue to decline.
- The difficulty of substantially reducing military personnel funding in FY 2014 would likely require disproportionately large cuts in the Department's investment accounts – assuming flexibility in implementing changes, cuts of 15 to 20 percent would be common. The resulting marked slowdown in modernization would reduce our long-term, critically important and historic technological superiority and undermine our better buying power initiatives.
- The bottom line: with or without flexibility, administering a \$52 billion cut would have severe and unacceptable effects. In particular, if such a cut and the sequester mechanism were applied to military personnel funding, DoD could accommodate the required reductions only by putting into place an extremely severe package of military personnel actions including halting all accessions, ending all permanent-change-of-station moves, stopping discretionary bonuses, and freezing all promotions.

Part of the solution to the current budgetary impasse will require that Congress become a full partner in ending business-as-usual practices – in areas such as infrastructure, benefits and procurement – that would otherwise require further cuts to readiness, modernization and combat power. We urgently need Congressional support in enacting difficult but necessary measures proposed by the President in his FY 2014 and prior budgets. These include slowing growth in military pay raises in a manner that still supports the all-volunteer force and raising fees for health care programs for retirees while still maintaining the generous benefits they deserve. Other key initiatives include the retirement of some lower-priority weapons, including Navy ships and Air Force aircraft. The Congress also needs to eliminate restrictions on the rate of the drawdown in military end strength for the Army and Marine Corps, permit the Department to end programs such as the C-27 aircraft, and enact other cost-saving proposals, such as a new BRAC round. If Congress does not approve these proposals, even more cuts in combat

power, readiness and modernization would be needed to accommodate cuts of \$52 billion in FY 2014 and similar cuts in later years.

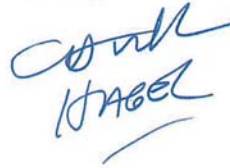
In sum, the abrupt, deep cuts caused by the BCA caps in FY 2014 will force DoD to make non-strategic changes. If the cuts continue, the Department will have to make sharp cuts with far reaching consequences, including limiting combat power, reducing readiness and undermining the national security interests of the United States. I directed a Strategic Choices and Management Review to develop options that would accommodate these large cuts, but these options cannot avoid serious damage to our military capabilities.

Because of my great concern regarding the effects of reduced discretionary caps in FY 2014 and beyond, I urge Congress to pass a balanced deficit reduction package that the President can sign that would replace these deep and arbitrary budget cuts in FY 2014 and in future years. A comprehensive solution of this nature would do much to support the mission of the DoD and the mission of other federal agencies, including agencies that provide important support to the Department and to our troops and veterans.

In coming months, my senior team will provide briefings and updated information on the FY 2014 budget to the Committee. I look forward to working on this critical issue with both of you, the Senate Armed Services Committee, and members of Congress.

Thank you for your continued support of our men and women in uniform and our entire civilian workforce.

Sincerely,

A handwritten signature in blue ink, appearing to read "Carl Habel". The signature is written in a cursive style with a horizontal line underneath the name.

Attachment: As stated.

ATTACHMENT

Contingency Plan for \$52 Billion Cut in FY 2014 Defense Budget

Secretary Hagel remains fully committed to enactment of the President's budget plan for Fiscal Year 2014, including his budget proposal for non-defense agencies and his defense budget proposal. The President's defense budget provides the resources that the President and Secretary of Defense believe are appropriate to maintain a strong national defense in the face of complex national security challenges. The President's budget proposal is consistent with the caps originally imposed by the Budget Control Act (BCA) of 2011, which led to a ten-year reduction of \$487 billion in Department of Defense (DoD) budgets, and the American Taxpayer Relief Act of 2012. However, provisions of the BCA, when coupled with the failure of Congress to enact a deficit reduction package in 2011, have led to additional reductions in the BCA caps (referred to as "sequester-level" caps).

The sequester-level BCA cap reduction for FY 2014 would result in a cut of \$52 billion in funding in FY 2014 compared with the President's budget. If, contrary to the administration's intent, these sequester-level BCA caps remain in effect, DoD would be required to make major changes to its current plans. The plan described in this attachment provides a high-level summary of an early version of DoD's approach to operating at those lower budget levels. All funding cuts in the plan refer to changes in DoD's base budget. The Department assumes that funding for Overseas Contingency Operations (OCO) remains at the level requested by the President.

In formulating this contingency plan, DoD is being guided by inputs from the military services and defense agencies and by the preliminary results of the Strategic Choices and Management Review (SCMR). The SCMR was directed by Secretary Hagel and sought, in the limited time available, to scrutinize every aspect of the U.S. defense establishment to enable the most sensible adjustments assuming various levels of resource reductions. At the same time, the SCMR seeks to adhere, wherever possible, to the tenets of the Defense Strategic Guidance (DSG) such as the rebalance to the Asia Pacific.

While the SCMR was principally oriented towards the FY 2015-2019 budget submission, its principles and findings are applicable to FY 2014 contingency plans. Accordingly, wherever possible DoD would seek management efficiencies and controls on compensation growth before making cuts to force structure, modernization, and readiness. Nonetheless, under any version of sequester-level BCA cuts, reductions to the latter categories will be required. Moreover, the depth and abruptness of the reductions required to fit under the post-sequestration cap would, even with flexibility, substantially limit our ability to implement those cuts in a way that fully protects the tenants of the DSG.

Of note, one of the biggest challenges in formulating our plan for FY 2014 involves uncertainty regarding post-FY 2014 budgetary cuts, especially large cuts such as

those that could occur under the current version of the BCA. What is assumed can determine key decisions such as the timing of personnel reductions.

As requested, DoD's contingency plan addresses the effects of sequester-level cuts of \$52 billion assuming Congress grants DoD flexibility in implementing the reductions. Flexibility would mean that Congress approves program cuts denied in the past and allows reallocation of funding, without regard to existing budget structures or limitations on transfer authority. However, even with such flexibility, DoD would not be able to mitigate the significant and detrimental impacts associated with sequester-level cuts.

DoD's contingency plan addresses the effects on each of the Department's major categories of funding.

Military Personnel Effects

Even if faced with the large and steep cut of \$52 billion in FY 2014, DoD would likely be able to impose only relatively modest cuts in currently planned funding for military personnel, assuming it had the flexibility to limit the size of those cuts. Military personnel funding cuts would be disproportionately small (probably only a few percent of total military personnel funding) because reducing the size of the military yields relatively small savings in FY 2014. Even involuntary separations of military personnel save little in the year they occur because of added costs associated with separation payments for those with more than six years of service along with added travel costs, costs for payments of unused leave, and in some cases unemployment insurance costs. Achieving a proportional, 10 percent cut in military personnel funding in FY 2014 would require that DoD put in place an extremely severe package of military personnel actions including halting all accessions, ending all permanent-change-of-station moves, stopping discretionary bonuses, and freezing all promotions.

The inability to reduce military personnel costs quickly would put additional downward pressure on other portions of the FY 2014 budget. To avoid a repeat of this situation in future years, DoD could draw down the size of the military more quickly beginning in FY 2014 in order to free up resources in later years. To permit a more rapid drawdown, Congress would need to repeal laws restricting the military end strength reductions in the Army and Marine Corps. A substantially faster drawdown would probably require significant numbers of involuntary separations in FY 2014, a decision that raises the unfortunate prospect of forced separations of personnel who have recently served in Afghanistan.

Implementing sequester-level cuts would be made even more difficult if Congress fails to support the military pay raise of 1.0 percent proposed in the President's FY 2014 budget. If that raise grows to 1.8 percent, as some in Congress have proposed, it would add about \$0.5 billion in FY 2014 funding requirements – which would force even larger cuts in other spending categories.

Effects on Operation and Maintenance and Readiness

Reductions in day-to-day operating costs, which are financed out of the operation and maintenance (O&M) appropriation, would pose particularly difficult problems in the event of a \$52 billion cut -- even with flexibility. O&M finances much of the cost of training and readiness, both of which have already been severely affected by the FY 2013 sequester. DoD needs additional FY 2014 funds, not further cuts, in order to recover. The O&M appropriation also pays for most of the Department's civilian personnel, who have already been hit with a series of pay freezes along with furloughs. For all these reasons there is strong pressure to increase O&M funding.

Despite this pressure, O&M funding could not be protected if DoD had to accommodate a reduction of \$52 billion in FY 2014 because this appropriation makes up almost 40 percent of the budget in FY 2014. Indeed, most services and agencies would likely cut O&M by roughly 10 percent -- the same size as the cut in the total budget -- and some would cut O&M by even more. Wherever possible, O&M cuts would be achieved through reductions in funding for activities such as facilities maintenance, base operating funding, and support to community events. While less directly related to readiness than training and maintenance, these funding cuts cause significant harm. Cutbacks in community support hurt recruiting efforts and disrupt or halt community activities that help build bonds between the military and local citizens. Limits on FY 2014 facilities maintenance, especially in the wake of sharp cuts in FY 2013, would add to the list of facilities that need work. A military that prides itself on technical superiority would increasingly have to ask its workforce to labor in substandard facilities. Overall these various actions would reduce jobs in local communities, including many jobs in small businesses, and so contribute to disrupting community life in areas near military bases.

Cuts in O&M funding would also affect DoD's civilian workforce because many civilians are paid with O&M dollars. DoD is hoping to avoid furloughs of civilian personnel in FY 2014, but the Department might have to consider mandatory reductions-in-force (RIFs). As with involuntary separations of military personnel, RIFs don't save much in FY 2014 but would help accommodate funding caps in later years. While painful, RIFs would permit DoD to make targeted cuts in civilian personnel levels rather than the more across-the-board cuts associated with furloughs.

While DoD would attempt to protect the O&M funding most closely related to training and readiness, full protection would be impossible. Therefore most services conclude that military training and readiness would remain at currently degraded levels or, in some cases, would even continue to decline if a sequester-level cut of \$52 billion occurred in FY 2014. For example, faced with a \$52 billion cut in FY 2014, two Navy air wings might not be able to achieve full flight hours and special operations units, which are key to counter terrorism activities, would experience declining readiness. The Army, which this year has cancelled many of the culminating training events at its combat training centers, would have difficulty avoiding similar cutbacks in FY 2014. The Air Force, which this year has had to stop all flying at about one third of its combat-coded active squadrons, would significantly reduce training at more than half of its active

flying units. Maintenance cutbacks would continue or worsen, threatening future readiness levels.

These major cutbacks in military training and readiness are of great concern primarily because they would reduce deployable U.S. combat power. In the event of a major military contingency, they might leave the country without the ready forces needed to fight effectively. A lack of training also contributes to accidents. For example, data for pilots show that those who fly for fewer hours experience a greater mishap rate caused by pilot error. Simply put, training cutbacks put our military's pilots at greater risk. Finally, training cutbacks hinder morale and our ability to retain our best people. Military personnel join to train hard and, if necessary, to fight the nation's wars – not to remain idle because of funding problems. As Chairman of the Joint Chiefs of Staff, General Martin Dempsey, aptly stated: "Today's readiness problem is tomorrow's recruiting and retention problem."

Congress should avoid exacerbating these serious training and readiness problems by accepting changes already proposed in the President's budget that hold down O&M spending. Specifically, Congress should accept the TRICARE fee changes proposed in the President's budget. Otherwise the Department will be faced with finding almost \$1 billion in additional O&M cuts, which inevitably will further hurt training and readiness. Congress should also permit DoD to immediately retire the seven cruisers and two LSDs proposed for retirement – an action that would eliminate lower-priority ships and save about \$0.6 billion in FY 2014 operating costs – and support the retirement of all Air Force aircraft proposed in last year's budget. DoD also urges the Congress to enact other cost-saving proposals made by DoD such as ending the C-27 aircraft program. As it works to reduce numbers of civilian personnel, DoD would benefit from changes in the law in order to carry out reductions by targeting lower-performing individuals. Finally, the Department hopes that Congress will support DoD's request for another round of Base Closure and Realignment (BRAC) in 2015. While BRAC will not save near-term dollars, the past five BRAC rounds are now saving more than \$12 billion a year, and another round will eventually add to these substantial savings.

Effects on Modernization

Given the difficulty of cutting FY 2014 military personnel funding, to accommodate a \$52 billion cut in its topline, DoD would be forced to sharply reduce funding for procurement, RDT&E, and military construction. Indeed, cuts of 15 percent to 20 percent might well be necessary, even though the total budget is reduced by only 10 percent. The services would seek to protect most or all funding for a few programs that are most critical to the President's DSG. However, funding for hundreds of program line items, large and small, would have to be cut significantly. We would be forced to buy fewer ships, planes, ground vehicles, satellites, and other weapons. Modification programs would be cut sharply, even though these programs maintain the effectiveness of older weapons. Nor would cuts be limited to buys of weapons. Research funding represents more than 10 percent of the defense budget, and many research projects –

including those performed by universities and small companies – would inevitably have to be scaled back.

Marked cuts in investment funding, especially if they continue for several years, would slow future technology improvements and may erode the technological superiority enjoyed by U.S. forces. In some future conflict, less capable weapons could mean a less desirable military outcome and more casualties. Investment cutbacks are of particular concern because they would occur during a period when many categories of U.S. weapons are aging sharply.

Slowing investment would also adversely affect DoD's efforts to improve its acquisition practices and become a better buyer. Hundreds of weapon and support program line items, which are now being bought based on stable and efficient acquisition plans, would be disrupted. Unit costs would rise, reversing successful efforts in recent years to hold down unit cost growth or even reverse it. The disruption would spill over to defense industry. Defense industry jobs would be lost and, as prime contractors pull back work to protect their internal work forces, small businesses may experience disproportionately large job losses.



Ashton B. Carter

Deputy Secretary of Defense



Ashton B. Carter is the Deputy Secretary of Defense.

Previously, Dr. Carter served as Under Secretary of Defense for Acquisition, Technology and Logistics from April 2009 until October 2011. As Under Secretary, Dr. Carter led the Department's efforts to accelerate the fulfillment of urgent operational needs; increase the Department's buying power; and strengthen the nation's defenses against emerging threats.

Over the course of his career in public service, Dr. Carter has four times been awarded the Department of Defense Distinguished Service Medal. For his contributions to intelligence, Dr. Carter was awarded the Defense Intelligence Medal.

Dr. Carter earned bachelor's degrees in physics and in medieval history from Yale University, summa cum laude, Phi Beta Kappa, and received his doctorate in theoretical physics from Oxford University, where he was a Rhodes Scholar.



Prior to his most recent government service, Dr. Carter was chair of the International and Global Affairs faculty at Harvard University's John F. Kennedy School of Government and Co-Director of the Preventive Defense Project. Dr. Carter was also Senior Partner at Global Technology Partners, a member of the Aspen Strategy Group, a member of the Board of Trustees of the MITRE Corporation and the Advisory Boards of MIT's Lincoln Laboratories and the Draper Laboratory, and an advisor to Goldman Sachs.

During the Clinton Administration, Dr. Carter was Assistant Secretary of Defense for International Security Policy. From 1990 until 1993, Dr. Carter was Director of the Center for Science and International Affairs at Harvard University's John F. Kennedy School of Government, and Chairman of the Editorial Board of International Security. Previously, he held positions at the Massachusetts Institute of Technology, the Congressional Office of Technology Assessment, and Rockefeller University.

Dr. Carter is a member of the President's Management Council and the National Council on Federal-Labor-Management Relations. He has previously served on the White House Government Accountability and Transparency Board, the Defense Science Board, the Defense Policy Board, the Secretary of State's International Security Advisory Board, and the Congressional Commission on the Strategic Posture of the United States.

Dr. Carter is a Fellow of the American Academy of Arts and Sciences and the American Academy of Diplomacy and is a member of the Council on Foreign Relations and the American Physical Society.

In addition to authoring articles, scientific publications, government studies, and Congressional testimonies, Dr. Carter has co-edited and co-authored eleven books.

Dr. Carter is married to Stephanie Carter and has two grown children.



United States Navy
Biography

Admiral James A. "Sandy" Winnefeld, Jr.
Vice Chairman of the Joint Chiefs of Staff

Adm. Winnefeld serves as the ninth Vice Chairman of the Joint Chiefs of Staff. In this capacity, he is a member of the Joint Chiefs of Staff and the nation's second highest-ranking military officer.

Winnefeld graduated from the Georgia Institute of Technology and received his commission through the Naval Reserve Officers Training Corps program. He subsequently served with three fighter squadrons flying the F-14 Tomcat, and as an instructor at the Navy Fighter Weapons School.

Winnefeld's unit commands at sea include Fighter Squadron 211, USS *Cleveland* (LPD 7), and USS *Enterprise* (CVN 65). He led "Big E" through her 18th deployment, which included combat operations in Afghanistan in support of Operation *Enduring Freedom* immediately after the terrorist acts of Sept. 11, 2001. As Commander, Carrier Strike Group Two/*Theodore Roosevelt* Carrier Strike Group, he led Task Forces 50, 152, and 58 in support of Operation *Iraqi Freedom* and maritime interception operations in the Arabian Gulf. He also served as commander, United States 6th Fleet; commander NATO Allied Joint Command, Lisbon; and, commander, Striking and Support Forces NATO.



His shore tours include service in the Joint Staff Operations Directorate (J-3), as senior aide to the Chairman of the Joint Chiefs of Staff, and as executive assistant to the Vice Chief of Naval Operations. As a flag officer, he served ashore as director, Warfare Programs and Transformational Concepts, United States Fleet Forces Command; as director of Joint Innovation and Experimentation at United States Joint Forces Command; and, as the director for Strategic Plans and Policy (J-5) on the Joint Staff. He most recently served as the commander of North American Aerospace Defense Command (NORAD) and U.S. Northern Command (USNORTHCOM).

Winnefeld's awards include the Defense Distinguished Service Medal, Distinguished Service Medal, Defense Superior Service Medal, the Legion of Merit, the Bronze Star, the Defense Meritorious Service Medal, the Meritorious Service Medal, the Air Medal, and five Battle Efficiency awards.

Updated: 14 August 2011

DOCUMENTS SUBMITTED FOR THE RECORD

AUGUST 1, 2013

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**SECRETARY OF DEFENSE CHUCK HAGEL
STATEMENT ON STRATEGIC CHOICES AND MANAGEMENT REVIEW
PENTAGON PRESS BRIEFING ROOM
WEDNESDAY, JULY 31, 2013**

Good afternoon.

Earlier today, I briefed key congressional committee leaders on the findings of DoD's Strategic Choices and Management Review. This afternoon, I want to discuss these findings and clarify the major options and difficult choices ahead.

I directed the Strategic Choices and Management Review four months ago to help ensure the Department of Defense is prepared in the face of unprecedented budget uncertainty. Although DoD strongly supports the President's fiscal year 2014 request and long-term budget plan for the entire federal government, the deep and abrupt spending cuts under sequestration that began on March 1st this year are the law of the land. Sequestration will continue in the absence of an agreement that replaces the Budget Control Act.

The purpose of the Strategic Choices and Management Review – which was led by Deputy Secretary Ash Carter with the full participation of General Dempsey, Admiral Winnefeld, the Service Secretaries and Service Chiefs – was to understand the impact of further budget reductions on the Department, and develop options to deal with these additional cuts. It had three specific objectives:

- Help DoD prepare for how to deal with sequestration if it continues in FY 2014;
- Inform the fiscal guidance given to the military services for their FY 2015 through 2019 budget plans;
- Anchor the upcoming Quadrennial Defense Review, which will assess our defense strategy in light of new fiscal realities and the many threats, complexities and uncertainties of this new century.

The Strategic Choices and Management Review did not produce a detailed budget blueprint. That was not the purpose of this review. It generated a menu of options, not a set of decisions, built around three potential budget scenarios:

- The President's FY 2014 budget, which incorporates a carefully calibrated and largely back-loaded \$150 billion reduction in defense spending over the next ten years;
- The Budget Control Act's sequester-level caps, which would cut another \$52 billion from defense in fiscal year 2014, with \$500 billion in reductions for the DoD over the next ten years;
- An "in-between" scenario that would reduce defense spending by about \$250 billion over the next ten years, but would be largely back-loaded.

It is important to remember that all these cuts are in addition to the \$487 billion reduction in defense spending over the next decade required by the initial caps in the Budget Control Act of 2011 which DoD has been implementing. If sequester-level cuts persist, DoD would experience nearly a trillion dollars in defense spending reductions over the next ten years.

To help DoD balance strategic ends, ways and means under these budget scenarios, the Strategic Choices and Management Review scrutinized every aspect of DoD's budget, including: contingency planning, business practices, force structure, pay and benefits, acquisition practices, and modernization portfolios. Everything was on the table.

As I discussed last week at the VFW Convention in Louisville, four principles helped guide this review:

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- Prioritizing DoD's missions and capabilities around our core responsibility of defending our country;
- Maximizing the military's combat power by looking to reduce every other category of spending first;
- Preserving and strengthening military readiness, and;
- Honoring the service and sacrifice of DoD's people.

Those principles, and a rigorous review process, resulted in packages of options that included management efficiencies and overhead reductions, compensation reforms, and changes to force structure and modernization plans.

Allow me to share with you some of the options the review identified in each area I just mentioned.

MANAGEMENT EFFICIENCIES AND OVERHEAD REDUCTIONS

A tenet of the review was that we need to maximize savings from reducing DoD's overhead, administrative costs, and other institutional expenses.

For several years, DoD has been paring back overhead. About \$150 billion in five-year efficiency reductions were proposed by Secretary Gates, an additional \$60 billion in savings were identified by Secretary Panetta, and I submitted a \$34 billion savings package in our latest budget. DoD is continuing to implement these efficiency campaigns. Despite much progress, as well as good efforts and intentions, not every proposal has generated the savings we expected, or gained the support of Congress – most notably, our request for a base realignment and closure round.

The review showed that DoD will have to do more in this area, even though it is getting more difficult to find these cuts and it can take years for significant savings to be realized. After considering the results of the review, I determined that it is possible and prudent to begin implementing a new package of efficiency reforms now – ones that should be pursued regardless of fiscal circumstances.

Some of these management efficiencies and overhead reductions include:

- Reducing the department's major headquarters budgets by 20 percent, beginning with the Office of the Secretary of Defense, the Joint Staff, Service Headquarters and Secretariats, Combatant Commands, and defense agencies and field activities. Although the 20 percent cut applies to budget dollars, organizations will strive for a goal of 20 percent reductions in government civilians and military personnel billets on headquarters staffs;
- Reducing the number of direct reports to the Secretary of Defense by further consolidating functions within OSD, as well as eliminating positions, and;
- Reducing intelligence analysis and production at Combatant Command intelligence and operations centers, which will also foster closer integration and reduce duplication across the defense enterprise.

These management reforms, consolidations, personnel cuts, and spending reductions will reduce the department's overhead and operating costs by some \$10 billion over the next five years and almost \$40 billion over the next decade. They will make the Department more agile and versatile.

Past efficiency campaigns have shown that implementation can be very challenging, so effective follow-through is critical if savings targets are to be realized. This is especially true of OSD reductions. I have asked Deputy Secretary Carter to identify someone from outside DoD

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who is deeply knowledgeable about the defense enterprise and eminently qualified to direct implementation of the OSD reductions and report to the Deputy Secretary.

In addition to the measures I've described, the review identified additional consolidations and mission reductions that could be required if sequester-level caps are imposed over the long-term. These measures include consolidations of regional combatant commands, defense agency mission cuts, and further IT consolidation.

These changes would be far-reaching and require further analysis and consideration. Though defense bureaucracies are often derided, the fact is that these offices perform functions needed to manage, administer, and support a military of our size, complexity and global reach.

Even over the course of a decade, the cumulative savings of the most aggressive efficiency options identified by the review are \$60 billion. That is a very small fraction of what is needed under sequester-level cuts. We will have to look elsewhere for savings.

COMPENSATION

The review confirmed that no serious attempt to achieve significant savings can avoid compensation costs, which consume roughly half of the DoD budget. If left unchecked, pay and benefits will continue to eat into readiness and modernization. That could result in a far less capable force that is well-compensated but poorly trained and poorly equipped.

Any discussion of compensation should acknowledge the following:

- No one in uniform is "overpaid" for what they do for this country;
- People are DoD's most important asset – and we must sustain compensation packages that recruit and retain the finest military in the world;
- The significant military pay and benefit increases over the last decade reflected the need to sustain a force under considerable stress – especially the Army and Marines – during the height of the Iraq and Afghanistan campaigns;
- One post-9/11 war is over, and the second – our nation's longest war – is coming to an end;
- Overall personnel costs have risen dramatically – some 40 percent above inflation since 2001. The Department cannot afford to sustain this growth.

Reflecting these realities, the President's Fiscal Year 2014 budget included a package of modest compensation-related reforms that have the strong support of our uniformed leadership. Congress has signaled its opposition to some of these proposals, including modest increases in TRICARE fees for working age retirees. But given our current fiscal situation, DoD has no choice but to consider compensation changes of greater magnitude for military and civilian personnel.

The review developed compensation savings options that we believe would continue to allow the military to recruit and retain the high quality personnel we need. If we were to pursue these options, we would need Congress' partnership to implement many of them. Examples include:

- Changing military health care for retirees to increase use of private-sector insurance when available;
- Changing how the basic allowance for housing is calculated so that individuals are asked to pay a little more of their housing costs;
- Reducing the overseas cost of living adjustment;
- Continuing to limit military and civilian pay raises.

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Many will object to these ideas – and I want to be clear that we are not announcing any compensation changes today. Instead, I've asked Chairman Dempsey to lead an effort with the Service Chiefs and Senior Enlisted Advisors to develop a package of compensation proposals that meets savings targets identified in the review – almost \$50 billion over the next decade – and still enable us to recruit and retain a high-quality force. We would begin implementing this package in the FY 2015 budget. Senior OSD staff will lead a similar review for civilian pay and benefits.

The review also identified more sweeping changes to meet sequester-level targets – such as eliminating civilian pensions for retired military personnel serving in civilian government service, ending subsidies for defense commissaries, and restricting the availability of unemployment benefits. This package would yield savings of almost \$100 billion over the next decade, but would have a significant impact on our service members and our workforce. But a sequester-level scenario would compel us to consider these changes because there would be no realistic alternative that did not pose unacceptable risk to national security.

STRATEGIC CHOICES – FORCE STRUCTURE AND MODERNIZATION

The efficiencies and compensation reforms identified in the review – even the most aggressive changes – still leave DoD some \$350 to \$400 billion short of the \$500 billion in cuts required by sequestration over the next ten years. The review had to take a hard look at changes to our force structure and modernization plans.

The President's Defense Strategic Guidance anchored this effort. The goal was to find savings that best preserved the tenets of the President's strategy, such as strategic deterrence, homeland defense, and the rebalance to the Asia-Pacific. The review concluded we should not take reductions proportionally across the military services. Instead, the options we examined were informed by strategy, and they will guide the services as they build two sets of budgets for FY 2015 through 2019 – one at the President's budget level and one at sequester-level caps.

While we want to preserve flexibility for each military service to develop the best force possible given reduced resources, the review identified areas where we have excess capacity to meet current and anticipated future needs. In particular, the analysis concluded that we can strategically reduce the size of our ground and tactical air forces – even beyond the current draw down.

I have not made any program or force structure decisions, and more analysis will be required before these decisions are made. But with the end of the war in Iraq, the drawdown in Afghanistan, and a changing requirement to conduct protracted, large-scale counterinsurgency operations, it makes sense to take another look at the Army's force structure – which is currently planned to reach 490,000 in the active component and 555,000 in the reserves.

One option the review examined found that we could still execute the priority missions determined by our defense strategy while reducing Army end-strength to between 420,000 and 450,000 in the active component and between 490,000 and 530,000 in the Army reserves. Similarly, the Air Force could reduce tactical aircraft squadrons – potentially as many as five – and cut the size of the C-130 fleet with minimal risk.

In the months ahead I will work closely with Chairman Dempsey and each of the Service Chiefs to reach agreement on the proper size of our armed forces, taking into account real-world needs and requirements.

A modest reduction in force structure, when combined with management efficiencies and compensation reforms, would enable us to meet the \$150 billion in savings required by the

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President's budget proposal while still defending the country and fulfilling our global responsibilities. We can sustain our current defense strategy under the President's budget request.

Significant reductions beyond the President's plan would require many more dramatic cuts to force structure. The review showed that the "in-between" budget scenario we evaluated would "bend" our defense strategy in important ways, and sequester-level cuts would "break" some parts of the strategy no matter how the cuts were made. Under sequester-level cuts, our military options and flexibility will be severely constrained.

Given that reality, the review examined two strategic approaches to reducing force structure and modernization that will inform planning for sequester-level cuts. The basic trade-off is between capacity – measured in the number of Army brigades, Navy ships, Air Force squadrons and Marine battalions – and capability – our ability to modernize weapons systems to maintain our military's technological edge.

In the first approach, we would trade away size for high-end capability. This would further shrink the active Army to between 380,000 and 450,000 troops, reduce the number of carrier strike groups from 11 to eight or nine, draw down the Marine Corps from 182,000 to between 150,000 and 175,000, and retire older Air Force bombers. We would protect investments to counter anti-access and area-denial threats, such as the long range strike family of systems, submarine cruise-missile upgrades, and the Joint Strike Fighter. And we would continue to make cyber capabilities and special operations forces a high priority.

This strategic choice would result in a force that would be technologically dominant, but would be much smaller and able to go fewer places and do fewer things, especially if crises occurred at the same time in different regions of the world.

The second approach would trade away high-end capability for size. We would look to sustain our capacity for regional power projection and presence by making more limited cuts to ground forces, ships and aircraft. But we would cancel or curtail many modernization programs, slow the growth of cyber enhancements, and reduce special operations forces.

Cuts on this scale would, in effect, be a decade-long modernization holiday. The military could find its equipment and weapons systems – many of which are already near the end of their service lives – less effective against more technologically advanced adversaries. We also have to consider how massive cuts to procurement, and research and development funding would impact the viability of America's private sector industrial base.

These two approaches illustrate the difficult trade-offs and strategic choices that would face the department in a scenario where sequester-level cuts continue. Going forward, in the months ahead, DoD – and ultimately the President – will decide on a strategic course that best preserves our ability to defend our national security interests under this very daunting budget scenario.

The balance we strike between capability, capacity and readiness will determine the composition and size of the force for years to come. We could, in the end, make decisions that result in a very different force from the options I've described today. Our goal is to be able to give the President informed recommendations, not to pre-judge outcomes. Regardless, the decision-making process will benefit from the insights this review provided.

In closing, one of the most striking conclusions of the Strategic Choices and Management Review is that if DoD combines all the reduction options I've described – including significant cuts to the military's size and capability – the savings fall well short of meeting sequester-level cuts, particularly during the first five years of these steep, decade-long reductions.

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The reality is that cuts to overhead, compensation, and forces generate savings slowly. With dramatic reductions in each area, we do reach sequester-level savings – but only towards the end of a 10-year timeframe. Every scenario the review examined showed shortfalls in the early years of \$30-35 billion.

These shortfalls will be even larger if Congress is unwilling to enact changes to compensation or adopt other management reforms and infrastructure cuts we proposed in our fiscal year 2014 budget. Opposition to these proposals must be engaged and overcome, or we will be forced to take even more draconian steps in the future.

A lot has been said about the impact of sequestration. Before this review, like many Americans, I wondered why a 10 percent budget cut was in fact so destructive. Families and businesses trim their costs by similar proportions. But this analysis showed in the starkest terms how a 10 percent defense spending reduction causes in reality a much higher reduction in military readiness and capability. Unlike the private sector, the federal government – and the Defense Department in particular – simply does not have the option of quickly shutting down excess facilities, eliminating entire organizations and operations, or shedding massive numbers of employees – at least not in a responsible, moral and legal way.

The fact is that half of our budget – including areas like compensation where we need to achieve savings – are essentially off limits for quick reductions. Given that reality, the only way to implement an additional, abrupt 10 percent reduction in the defense budget is to make senseless, non-strategic cuts that damage military readiness, disrupt operations, and erode our technological edge. We have already seen some of the significant effects of the \$37 billion reduction occurring in this fiscal year – including halting all flying for some Air Force squadrons, cancelling ship deployments, ending Army Combat Training Center rotations for brigades not deploying to Afghanistan, and imposing furloughs for 650,000 DoD civilians.

In Fiscal Year 2014, this damage will continue if sequestration persists. DoD is now developing a contingency plan to accommodate the \$52 billion sequester-level reduction in fiscal year 2014, which I outlined in a letter this month to Senate Armed Services Committee Chairman Levin and Ranking Member Inhofe. Congress will need to help us manage these deep and abrupt reductions responsibly and efficiently.

The bold management reforms, compensation changes and force structure reductions identified by the Strategic Choices and Management Review can help reduce the damage that would be caused by the persistence of sequestration in Fiscal Year 2014, but they won't come close to avoiding it altogether.

The review demonstrated that making cuts strategically is only possible if they are “backloaded.” While no agency welcomes additional budget cuts, a scenario where we have additional time to implement reductions – such as in the President’s budget – would be far preferable to the deep cuts of sequestration. If these abrupt cuts remain, we risk fielding a force that over the next few years is unprepared due to a lack of training, maintenance, and the latest equipment.

As I mentioned last week at the VFW Convention, a top priority in future year budget plans is to build a ready force, even if that requires further reductions in force structure. No matter the size of our budget, we have a responsibility to defend the country and America’s vital interests around the world. That means crafting the strongest military possible under whatever level of resources we are provided.

DoD has a responsibility to give America’s elected leaders, and the American people, a clear-eyed assessment of what our military can and cannot do in the event of a major

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confrontation or crisis after several years of sequester-level cuts. In the months ahead, we will continue to provide our most honest and best assessment. And the inescapable conclusion is that letting sequester-level cuts persist would be a huge strategic miscalculation that would not be in our country's best interests. While I've focused today on the impact to DoD, sequester-level cuts would equally harm other missions across government that support a strong economy and a strong national defense by providing support to our service members, veterans, and their families. DoD depends on a strong education system to maintain a pool of qualified recruits, we rely on domestic infrastructure that surrounds our bases and installations, and we count on scientific breakthroughs funded by research and development grants and a strong manufacturing base to maintain our decisive technological edge. All of these areas are threatened by sequestration.

It is the responsibility of our nation's leadership to work together to replace the mindless and irresponsible policy of sequestration. It is unworthy of the service and sacrifice of our nation's men and women in uniform and their families. And even as we confront tough fiscal realities, our decisions must always be worthy of the sacrifices we ask America's sons and daughters to make for our country.

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**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

AUGUST 1, 2013

RESPONSE TO QUESTION SUBMITTED BY MR. MCKEON

Secretary CARTER. There were extraordinary circumstances this year that delayed the appointment of the National Defense Panel (NDP) co-chairs. First, Secretary Hagel did not take office until February 27, 2013. In addition, the Department was facing significant budget cuts whose long-term impact urgently needed to be understood. Secretary Hagel therefore directed the Strategic Choices and Management Review (SCMR) to develop potential options for managing these cuts. The defense strategy must be appropriately informed by the resources available to implement it; thus, Quadrennial Defense Review (QDR)-related work, including NDP appointments, was deferred until the SCMR was complete.

Upon completing the SCMR, Secretary Hagel appointed former Secretary of Defense William Perry and retired General John Abizaid as the co-chairs of the NDP. Congressional staff was informed of these appointments on June 27th and 28th. The Department also hosted the NDP's inaugural, day-long meeting at the Pentagon on August 20th.

The QDR will review the Department's strategic priorities and define its missions, capabilities, and programs over the long term, taking into account the future security environment and priority missions for which U.S. forces must prepare. The work undertaken for the SCMR will facilitate and inform the QDR. [See page 43.]

RESPONSE TO QUESTION SUBMITTED BY MR. WILSON

Secretary CARTER. When Secretary Hagel said, "[o]verall, personnel costs have risen dramatically, some 40 percent above inflation since 2001," he was referring to the increase in Military Personnel funding from 2001 to 2013. In 2001, the Department spent \$112B (in FY14\$) from the Military Personnel account, while in 2013, DOD spent \$156B (in FY14\$) from that account. This is an increase of 40% above inflation. Not all of this increase is due to pay increases. There are more active duty personnel and more activated reserves serving today than there were in 2001, increasing the cost to the Department. There are also other items in the account beyond pay for current military personnel, such as retired military pay accrual and Medicare-eligible Health Care accrual, which experienced cost growth. Additionally, there was growth in the costs of some of the benefits provided to Service members (e.g., housing) that also contributed to the increased costs in the Military Personnel account beyond inflation. [See page 26.]

RESPONSE TO QUESTION SUBMITTED BY MS. HANABUSA

Secretary CARTER. The Strategic Choices and Management Review (SCMR) looked at the entire Department, and all of the Services are facing end-strength cuts as well as severe reductions in funding as a result of sequester-level cuts. We typically talk about capacity cuts for the Army and Marine Corps in end-strength terms, and cuts in Navy and Air Force in terms of numbers of ships and aircraft squadrons.

The Services are now in the midst of determining exactly what a smaller military would look like and what it would be capable of doing. I hope the results of the SCMR indicate why we need the cloud of budgetary uncertainty and turbulence to be dispelled so that we can continue the strategic transition upon which we have embarked with certainty and stability.

The Department strongly supports the President's Budget Submission for Fiscal Year 2014 and the long-term budget plan for the entire Federal Government that makes critical investments to strengthen the middle class, create jobs, and grow the economy while continuing to cut the deficit in a smart and balanced way. I urge Congress to develop a comprehensive and balanced deficit reduction package that the House and Senate can pass, and that the President can sign. [See page 28.]

RESPONSE TO QUESTION SUBMITTED BY MR. FRANKS

Secretary CARTER. The Strategic Choices and Management Review (SCMR) was never intended to be definitive in describing the future force under various budget scenarios. Rather, it was intended to inform the decision space senior leadership faced, and, in turn, guide the Services and Defense Agencies in developing their budgets. They are now in the midst of determining exactly what a smaller military would look like and what it would be capable of doing. This work will dovetail with the Quadrennial Defense Review (QDR), which will look at the options for adjusting the current strategy and the implications of that assessment.

That said, the SCMR showed in the starkest terms that sequestration-level budget constraints are incompatible with sustaining the current defense strategy. Sequester is irrational, mindless, and damaging. The \$37 billion in FY13 sequestration cuts are having a damaging impact on readiness, which limits the United States' military options when responding to crises. The Services are planning now for how they would implement their plans if sequester remains in FY14, and the result could be a compounding of this year's damage. The Department will still have an obligation to defend the country and maintain global responsibilities. Accordingly, DOD will preserve the best possible force to do so in the long term, but sequestration-level caps will limit what is possible—now and in the future. The budgets that the Services are developing, combined with the results of the QDR, will position the Department to say with more clarity which missions it will no longer be able to afford. [See page 37.]

RESPONSE TO QUESTION SUBMITTED BY MR. NUGENT

Secretary CARTER. Much of the growth seen in Central Command (CENTCOM) was due to a temporary increase in manpower associated with the war effort. Most of the reductions for CENTCOM in 2014 are tied to the winding down of the war effort.

The reduction Secretary Hagel is implementing at all major headquarters, based on the results of the Strategic Choices and Management Review, is a 20% reduction in the 2013 baseline. This is in addition to previously planned reductions, such as the plans to reduce CENTCOM in 2014. [See page 39.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

AUGUST 1, 2013

QUESTIONS SUBMITTED BY MR. WILSON

Mr. WILSON. 1) The Strategic Choices and Management Review determined that the Army could be reduced from the plan of 490,000 to somewhere between 420,000 and 450,000 for the Active Component and from 555,000 to between 490,000 and 530,000 for the Reserve Component.

- a. In what timeframe would these reductions take place?
- b. How much risk does the Army incur with respect to strategic capacity in case the United States is drawn in to a more traditional war mission instead of a protracted counterinsurgency operation?
- c. How does this impact the Army's ability to pivot a focus to the Pacific and maintain a presence in Europe, Africa, and the Middle East?
- d. With this large of a reduction can we assume that it would require an additional BRAC since it would leave the Army with too much infrastructure for the force size?

Secretary CARTER. a. SCMR assumed that the Active Army would be reduced from 490,000 to 420,000 by FY19 and the Reserve would be reduced from 555,000 to 490,000 by FY23.

b. SCMR determined that, at end-strength of 420,000 to 450,000 Active Duty and 490,000 to 530,000 Reserves, the Army has the capacity to execute overlapping traditional wars and defend the homeland, with acceptable risk. At these end-strength levels, the Army would be more strained to support a large, protracted counterinsurgency operation.

c. The reduction in Army end-strength provides sufficient forces to prioritize DOD focus in the Pacific, while also maintaining some presence in Europe, Africa, and the Middle East.

d. The Secretary stated that the Department would benefit from an additional Base Realignment and Closure (BRAC) round to align decreasing manpower with infrastructure; accordingly, the Department requested a BRAC in the President's Budget Submissions for FY13 and FY14.

Mr. WILSON. 2) The plan for reform of the Administration of the Military Health System includes a proposed increase in the personnel in the Office of the Assistant Secretary of Defense for Health Affairs from the current level of 45 to 121 to include retaining the four Deputy Assistant Secretaries. The plan calls for this plus-up by October 1, 2013. How does this personnel increase meet the requirement to reduce headquarters by 20 percent? Despite the continuing assertion by DOD officials that health care costs are negatively affecting the overall DOD budget, the cost growth of the Defense Health Program from FY 13 to FY 14 is \$300 million, an increase of just under 1 percent. The cost of care in the Military Treatment facilities rose by \$175 million, less than 1 per cent. The cost of Private Sector Care decreased by \$650 million. Over the last 3 years DOD has requested authority to reprogram in excess of \$1.2 billion from the DHP to non-health-care-related activities. What do you anticipate will be unexpended in the DHP for this fiscal year?

Secretary CARTER. The plan to reduce management headquarters by 20% will be executed against an accurate baseline of headquarters personnel accounting, regardless of potential realignments among headquarters elements. It is important to note that the referenced proposed increase of personnel in the Office of the Assistant Secretary of Defense for Health Affairs (HA), from the current level of 45 to 121, is actually a realignment from the current TRICARE Management Activity (TMA) personnel who support headquarters functions as part of the current dual-hatting organizational structure between HA and TMA. There is no net increase in personnel in the Military Health System headquarters elements as a part of this realignment.

Given the size of the Defense Health Program's appropriation and the variability inherent in the beneficiary population's demand for health care, it is impossible to predict with great accuracy, as of this writing, what the Department's final financial position will be, to include unobligated/unexpended funds. Fiscal Year 2013 was further complicated by a Continuing Resolution as well as a reduction due to sequestration.

Mr. WILSON. 3) Secretary Hagel recently visited a commissary at Naval Air Station Jacksonville and, as I understand, he is the first Secretary of Defense to visit

a commissary and I thank him for taking the time to personally view this important benefit and meet the families it supports. According to a recent Resource Management Directive, the Defense Commissary Agency has been told to study the feasibility of focusing its operations mostly or entirely overseas and cut its budget by 33%. The study was due to the Secretary of Defense by 1 July. Is it truly the intent of the Department to eliminate CONUS commissaries and deprive military families on CONUS bases of this very important non-pay compensation benefit? If so, has the Department determined how much it would have to spend on maintaining overseas commissaries due to the loss of nearly 70% of surcharge funds generated by CONUS commissaries that currently support those overseas? Has the Department calculated potential impacts on readiness and retention if the cuts and closures are implemented? Finally, what is the net effect monetarily of implementing the RMD after adding other costs that are offset by the commissaries, such as maintenance of overseas commissaries, COLAs, unemployment compensation, adverse impacts to readiness and retention, etc.?

Secretary CARTER. At the outset, let me assure you that the Department continues to explore the future of military commissaries. In addition, the Resource Management Directive (RMD) report has not been delivered to the Secretary or me, so I am unable to comment about its contents at this time.

QUESTIONS SUBMITTED BY MR. LANGEVIN

Mr. LANGEVIN. 4) I understand that much of what you have to say today is very broadly couched and that many difficult decisions remain to be made as you choose from, as the Secretary said, a menu of options to deal with the mindless cuts that sequestration imposes. I applaud the Department's willingness to seriously examine reducing DOD's overhead and administrative costs, and share the view that this is an important route to cost savings, despite the backloading of the savings. But as the Department continues to dive into the very stark options that you have laid out and make some budgetary choices, I would simply emphasize the importance of having discussions with Congress sooner rather than later. I would also emphasize that I am very concerned over any degradation in our cutting-edge capabilities and our investments in the fundamentals of a strong national defense, such as STEM and R&D. Our vulnerabilities, and the interest of our adversaries, in these leading-edge capabilities would make any reduction penny-wise but pound-foolish. I am particularly concerned given that cuts in R&D show immediate budget effects but their more pernicious effects take years to set in, whereas personnel and other savings are much more backloaded. To that end, how did the Department look at second- and third-order effects of reductions—the effects on future workforce, other agencies, and other such groups outside the DOD?

Secretary CARTER. During the Strategic Choices and Management Review (SCMR) the Department worked to consider the impacts to the future workforce and others outside of DOD. For example, the Department leveraged previous studies on recruitment and retention to evaluate impacts to pay and compensation. However, the timeline that SCMR was working under did not permit a detailed quantitative assessment of the second- and third-order effects resulting from sequester-level cuts. That said, sequester-level cuts would harm missions across Government that support a vibrant economy and a strong national defense. The Department depends on a world-class education system to maintain a pool of qualified recruits, as well as on a domestic infrastructure that surrounds our bases and installations. DOD also counts on scientific breakthroughs funded by R&D grants joined with a strong manufacturing base to maintain our decisive technological edge. All of these aforementioned areas are threatened by sequestration. The Department must work with other impacted agencies to make the case for ending sequestration and assessing the second- and third-order effects that have yet to materialize. If the sequester remains the law of the land, I agree that the potential repercussions are very concerning.

Mr. LANGEVIN. 5) During the out-brief of the CSBA "strategic choices exercise," all four teams generally characterized the current budgetary constraints due to sequestration as unsustainable for securing U.S. interests and fulfilling our international obligations. Do you agree with that assessment?

Secretary CARTER. The Department agrees with this assessment. The abrupt, deep cuts caused by the Budget Control Act of 2011 (BCA) caps force DOD to continue to make the sort of nonstrategic choices made this year. The Services are currently planning for how they would implement their plans if sequester remains in fiscal year 2014, and the result could be a compounding of the current damage. If the cuts continue, the Department will have to make sharp cuts with far-reaching

consequences, including limiting combat power, reducing readiness, and undermining the national security interest of the United States. Sequestration-level caps will limit what DOD can do—both now and in the future.

Mr. LANGEVIN. 6) Dr. Auslin from the American Enterprise Institute mentioned at a recent hearing that the “U.S. should find it worrisome that every nation in the Asia-Pacific that can afford more weapons is buying more weapons.” Additionally, ADM Roughead stated at the same hearing that the real power of Asia is the “economy” and that we need to maintain stability within the region so no “one” nation is dominant. Under the scenarios in the SCMR, are we able to conduct the pivot to the Asia-Pacific region? If so, what costs and risks may be incurred elsewhere in the world if we do?

Secretary CARTER. No matter the fiscal scenario, the Department remains committed to executing the rebalance to the Asia-Pacific. Indeed, the Secretary made his second trip to the Asia-Pacific this month. What the SCMR did reveal was that, at sequestration-level caps, the Department is unable to completely implement the planned rebalance. DOD will have to make adjustments. The Quadrennial Defense Review will take a closer look at the options for adjusting the current strategy and the implications on the Department’s global activities.

Mr. LANGEVIN. 7) One of the assumptions made during SCMR was changes in the law that would grant the DOD flexibility in implementing the reductions. What happens if you don’t get this flexibility?

Secretary CARTER. The SCMR did not assume that Congress grants the Department flexibility in meeting sequester-level budget caps. DOD fully recognized the challenges in gaining approval to implement statutory changes, which is why some proposals were characterized as more risky. That said, the Department must cut more deeply into its force structure without this flexibility.

DOD needs Congress to be a full partner. Specifically, it needs Congress’ help on:

- Remove restrictions that limit DOD’s ability to manage efficiently. For example:
 - The rate at which the Department can draw down ground forces is capped by law. At sequestration levels, DOD may want to come down faster, to gain savings earlier and shift resources back into readiness and modernization as quickly as possible.
 - The law presently restricts the Department’s ability to rebalance the military/civilian mix in the medical field, which precludes DOD from lowering costs without impacting the ability to perform its mission.
 - The Department still does not have authority to conduct another Base Realignment and Closure round. DOD knows it has excess installations today, and sequester will only add to that excess.
- Compensation Reform. The Department must slow growth in military pay raises in manner that still supports the All-Volunteer Force. DOD must also be able to raise fees for health care programs for retirees while still maintaining the generous benefits they deserve. The force is healthy and recruiting and retention numbers are excellent—we can make some adjustments here. These proposals were made in the President’s fiscal year 2014 budget submission.

Still, although flexibility would of course help, it is not a panacea. Flexibility alone would not permit the Department to accommodate these very large and abrupt reductions without causing serious harm to DOD’s mission. Even with flexibility, readiness would at best remain at current degraded levels and many investment programs would be seriously disrupted.

Mr. LANGEVIN. 8) If the Budget Control Act’s sequester-level caps remain in Fiscal Year 2014 then what impacts will this have on DOD’s modernization portfolio? What major defense acquisition programs will be curtailed or even terminated to achieve this cap level?

Secretary CARTER. This decision holds enormous complexity, and there is no simple answer. If current sequester level caps remain in place, the ability to modernize Department of Defense portfolios will decrease significantly. As budget levels are established, requirements will be prioritized for execution in the Planning, Programming, Budgeting, and Execution cycle. Until exact budget levels are known, it will be nearly impossible to forecast which programs in the Department’s modernization portfolio will remain unchanged, will experience reduced funding and/or schedule delays, or will be cut outright.

The Department’s Senior Acquisition Executives reinforced this in recent testimony to the Subcommittee on Tactical Air and Land Forces, United States House of Representatives. Fiscal Year 14 funding level will impact all Air Force investment programs. Program disruptions will cost more taxpayer dollars to rectify contract breaches, raise unit costs, and delay delivery of critical equipment. Sequestration

will potentially impact every Navy program and system, forcing reductions in procurement quantities, delays in schedules (delivery and initial operational capability), deferral of costs to future years, and unnecessary cost growth. The budget pressures will create significant risk to Army aviation modernization efforts. Multiyear contract efficiencies are jeopardized as quantities of UH-60 and CH-47 helicopters may be reduced across the Department. Planned upgrades and modernization of combat vehicles would also be affected if sequestration occurs in FY14, potentially resulting in delays to scheduled upgrades to the Abrams tank and Bradley Infantry Fighting Vehicle. Over time, we will assume significant risk in planned modernization of combat vehicles, to include the Army's next-generation infantry fighting vehicle.

Ultimately, if needed, termination or curtailment of major defense acquisition programs will be a result of careful consideration of Warfighter requirements balanced with fiscal constraints. The current fiscal environment may result in a potential decrease of up to 20 percent in both investment and research and development accounts. As demonstrated, this will have momentous near- and far-term implications.

Mr. LANGEVIN. 9) I understand that much of what you have to say today is very broadly couched and that many difficult decisions remain to be made as you choose from, as the Secretary said, a menu of options to deal with the mindless cuts that sequestration imposes. I applaud the Department's willingness to seriously examine reducing DOD's overhead and administrative costs, and share the view that this is an important route to cost savings, despite the backloading of the savings. But as the Department continues to dive into the very stark options that you have laid out and make some budgetary choices, I would simply emphasize the importance of having discussions with Congress sooner rather than later. I would also emphasize that I am very concerned over any degradation in our cutting-edge capabilities and our investments in the fundamentals of a strong national defense, such as STEM and R&D. Our vulnerabilities, and the interest of our adversaries, in these leading-edge capabilities would make any reduction penny-wise but pound-foolish. I am particularly concerned given that cuts in R&D show immediate budget effects but their more pernicious effects take years to set in, whereas personnel and other savings are much more backloaded. To that end, how did the Department look at second- and third-order effects of reductions—the effects on future workforce, other agencies, and other such groups outside the DOD?

Admiral WINNEFELD. The SCMR did its best to consider impacts to the future work force and others outside the Department. For example, it leveraged previous studies on recruitment and retention to evaluate impacts to pay and compensation. Although we discussed the potential impacts of reduced funding on collaborative efforts that DOD has with other agencies, such as Department of State and Department of Homeland Security, the SCMR timelines didn't permit a detailed quantitative assessment.

Mr. LANGEVIN. 10) During the out-brief of the CSBA "strategic choices exercise," all four teams generally characterized the current budgetary constraints due to sequestration as unsustainable for securing U.S. interests and fulfilling our international obligations. Do you agree with that assessment?

Admiral WINNEFELD. I agree with the assessments that the current constraints with regard to the manner in which sequestration must be executed, are unsustainable for securing U.S. interests and fulfilling our international obligations. The most damaging element of the whole process is the speed at which the reductions hit us. They are sudden and deep, rather than gradual and backloaded. For a variety of reasons, for example, how fast we can or should get people out of the service, and the legislative limits on the ways we can cut, at the BCA level of reductions, they simply happen faster than we can digest them in a balanced and sensible way. With these constraints, all we will be able to do in the early years is grab money wherever we can, mostly out of the modernization and readiness accounts, which is particularly disruptive to our ability to defend this Nation.

Mr. LANGEVIN. 11) Dr. Auslin from the American Enterprise Institute mentioned at a recent hearing that the "U.S. should find it worrisome that every nation in the Asia-Pacific that can afford more weapons is buying more weapons." Additionally, ADM Roughead stated at the same hearing that the real power of Asia is the "economy" and that we need to maintain stability within the region so no "one" nation is dominant. Under the scenarios in the SCMR, are we able to conduct the pivot to the Asia-Pacific region? If so, what costs and risks may be incurred elsewhere in the world if we do?

Admiral WINNEFELD. SCMR, used the January 2012 Defense Strategic Guidance (DSG) to guide our analysis. As you are aware, the DSG guides our rebalance to the Asia-Pacific. All of the SCMR "scenarios" used during the strategic choices re-

view maintain our Asia-Pacific rebalance while accounting for fiscal realities going forward.

As Secretary Hagel said in his Shangri-La speech, “it would be unwise and short-sighted . . . to conclude that our commitment to the rebalance cannot be sustained . . . like the employment of all resources, it is always a matter of the wise, judicious, and strategic use of those resources that matters the most and has the most lasting impact.”

While sustainable over the long term, the rebalance may take longer to fully execute due to budgetary constraints caused by sequestration. Time and fiscal realities afford us an opportunity to ensure we are putting the right resources in the right places. We will continue our steady, thoughtful, and measured rebalance to the region—although some new and key relationships will take longer to develop and deepen because of sequestration (de-scoped exercises because of reducing steaming and flying hours).

We will strive to ensure risk incurred in other areas of the world, as a result of sequestration and the rebalance, will remain at acceptable levels. We will continue to monitor the risk throughout the rebalance and keep you apprised through the Chairman’s Risk Assessment, which we submit to Congress every spring.

Mr. LANGEVIN. 12) One of the assumptions made during SCMR was changes in the law that would grant the DOD flexibility in implementing the reductions. What happens if you don’t get this flexibility?

Admiral WINNEFELD. If we don’t get flexibility, our choices will be greatly limited. We must have flexibility to appropriately reshape the Department if we will absorb another nearly half-trillion dollars in budget reductions. Flexibility is required in three main areas. The first area includes elimination of restrictions on reducing or adjusting force structure. Cuts at the sequestration level require us to reduce personnel and equipment. Limiting reductions in these areas will cause disproportionate cuts to readiness and modernization—it is zero-sum. Second, we need to work with Congress on establishing flexibility in our pay, compensation, and medical accounts. Without this flexibility, we will lock one area of our budget, in this case personnel costs, while forcing disproportionate cuts to procurement, readiness, R&D, and operations. Finally, we need your support for reducing excess infrastructure through BRAC in 2015. The previous five rounds of BRAC eliminated excess infrastructure and save \$12B per year that is invested in our joint force.

Mr. LANGEVIN. 13) If the Budget Control Act’s sequester-level caps remain in Fiscal Year 2014 then what impacts will this have on DOD’s modernization portfolio? What major defense acquisition programs will be curtailed or even terminated to achieve this cap level?

Admiral WINNEFELD. Abrupt, deep cuts caused by the BCA caps in FY 2014 will force the Department to make nonstrategic changes that impact the Department’s modernization portfolio. The Department remains firmly committed to enactment of the President’s defense budget for FY 2014 because it provides the right level of resources to maintain a strong national defense.

Still, I recognize that a contingency plan must be developed in the event that the sequester-level budgetary caps currently imposed by the BCA remain in effect year over year. Although the specifics are still in development, DOD would be forced to make disproportionate reductions in procurement, research and development, and military construction. The Department will seek to protect most or all funding for a few programs that are most critical to our military strategy; however, funding for hundreds of program line items, large and small, will have to be cut significantly. This translates to buying fewer ships, planes, ground vehicles, satellites, and other weapons, and sharps cuts to modification programs and research funding.

QUESTION SUBMITTED BY MR. LOEBSACK

Mr. LOEBSACK. 14) Admiral Winnefeld, please provide additional detail regarding the implementation of end-strength reductions as reviewed in the strategy. Did the strategy look at the total force and the balance between the Active Duty and Reserve Components? What conclusions, if any, did the review come to regarding the balance between the two components?

Admiral WINNEFELD. The strategy encompasses the total force. The Services use an established, comprehensive, and transparent process to determine the optimal number and mix of Active and Reserve Component forces balanced with the National Military Strategy. As we work through the process of sequestration-level force structure reductions, we have put everything on the table, but at this time, we do not have conclusions on the mix of Active and Reserve forces.

QUESTIONS SUBMITTED BY MR. SHUSTER

Mr. SHUSTER. 15) What steps are being taking to ensure that future budget constraints are not mitigated through the use of future furloughs that impact readiness, morale, and financial security of the civilian workforce?

Secretary CARTER. As the Department contends with FY 2013 funding reductions and the prospect of continued sequester-level Budget Control Act (BCA) caps resulting in a cut of \$52 billion in funding in FY 2014, Operations and Maintenance (O&M) funds cannot be protected. Cuts in O&M funding would also affect DOD's civilian workforce because many civilians are paid with O&M dollars. To minimize adversity to our valued civilian workforce, the Department will continue current hiring freezes (as appropriate), minimize the use of temporary and term employees, and encourage the liberal use of Voluntary Separation Incentive Pay (VSIP) and Voluntary Early Retirement Authority (VERA), both of which are valuable in reducing involuntary separations and associated costs.

I am hopeful that Congress will pass a deficit reduction package that the President can sign and dettrigger sequestration. A comprehensive solution of this nature would do much to support the mission of the DOD and prevent the need for sharp reductions in the funding supporting the civilian workforce.

Mr. SHUSTER. 16) If sequestration remains, as a result of the President's failure to work with the legislative branch, what are the DOD plans to ensure that the organic industrial base will survive budget cuts to support the future needs of the warfighter?

Secretary CARTER. The Department recognizes that maintaining an organic industrial base provides readily available base and surge capabilities that enable DOD forces to respond to mobilization, national defense contingency situations, and other emergency requirements. Supporting an organic industrial base, as well as a commercial industrial base, will be a very difficult challenge in the face of severely restricted budgets. Industrial activities are competing with operational components for scarce resources.

The Department is taking proactive steps to mitigate these challenges. Existing authorities, such as public-private partnerships under 10 U.S.C. 2474, will be leveraged to the maximum extent possible. However, without authorization for a new round of Base Realignment and Closure, the Department may not efficiently align the military's infrastructure with the needs of its evolving force structure, which is critical to ensure limited resources are available to support the highest priorities of the warfighter and national security.

Mr. SHUSTER. 17) How is utilizing a BRAC round as a near-term solution for current budget shortfalls justified when previous rounds have proven more costly upfront and the potential savings are not realized beyond a 10-year window? What changes does the DOD plan to make to ensure a BRAC round would be beneficial? Are base closures and realignments overseas being looked at prior to domestic sites?

Secretary CARTER. While there are upfront costs for BRAC, in the long term there are significant savings. The previous five BRAC rounds ('88, '91, '93, '95, '05) closed 121 major bases and resulted in hundreds of other realignments and minor closures, saving a total of \$12 billion annually.

I agree the Department of Defense cannot afford another \$35 billion BRAC round similar to 2005. However, the key factor that drove the cost of the last BRAC round was the willingness to accept recommendations that were not designed to save money. Nearly half of the recommendations from the last round were focused on taking advantage of opportunities only available under a BRAC process to move forces and functions to where they made sense, even if doing so would not save much money. They were pursued because the realignment itself was important, not the savings. This "Transformation BRAC" cost just over \$29 billion and resulted in a small proportion of the savings from the last round. Even so, it allowed the Department to improve the distribution of forces within its infrastructure in ways that are difficult to achieve outside of a BRAC round, while also recapitalizing aging infrastructure. This was an opportunity that the Department could afford when budgets were higher and the Department was experiencing growth.

The remaining recommendations made under BRAC 2005 paid back in less than 7 years, despite experiencing cost growth. In contrast to the "Transformation BRAC," these "Efficiency BRAC" recommendations only cost an estimated \$6 billion, with an annual payback of approximately \$3 billion. This part of BRAC 2005 paid for itself speedily and will produce savings for the Department in perpetuity. If the Department receives authority to conduct another BRAC round, it anticipates undertaking a similar "Efficiency BRAC" (lower costs and savings with quicker payback and a focus on efficiency). A BRAC round that is focused on efficiency recommendations can succeed and makes eminent sense in today's fiscal climate.

The Department has initiated a comprehensive infrastructure analysis to identify potential opportunities for consolidation in Europe. The process will ultimately result in a validation of DOD's enduring European infrastructure requirements, providing an analytical basis to support sustainment funding and future recapitalization. By the end of this calendar year, we plan to have a Department-vetted list of European infrastructure options from which the DOD leadership can make strategic investment decisions. But given the size of the budget cuts, it is unrealistic to expect that DOD can make all reductions via overseas bases and installations alone.

Mr. SHUSTER. 18) Missile Defense remains a significant priority. When will the Service Branches bring members of the HASC into the planning phase of future funding plans to ensure that cuts aren't arbitrarily made in programs considered priority of the HASC?

Secretary CARTER. The Prioritized Capabilities List guides program priorities and the development of the missile defense budgets. The Department of Defense will continue to work with Congress through the annual authorization and appropriations processes to ensure adequate funding for defense programs are submitted as part of the President's Budget submission and also to ensure congressional priorities are included.

Mr. SHUSTER. 19) How is utilizing a BRAC round as a near-term solution for current budget shortfalls justified when previous rounds have proven more costly upfront and the potential savings are not realized beyond a 10-year window? What changes does the DOD plan to make to ensure a BRAC round would be beneficial? Are base closures and realignments overseas being looked at prior to domestic sites?

Admiral WINNEFELD. DOD cannot afford to keep excess infrastructure in an era of budget and security uncertainty. The tax on our warfighters is unacceptable as each dollar spent on excess infrastructure cannot be spent on maintaining our superb joint force. Absent BRAC, the Department will continue to support unnecessary infrastructure, so BRAC must be an essential part of any overall DOD reshaping strategy.

Given the force structure reductions on the horizon and the budget constraints we face, we have every expectation that a future round will be far more similar to the first four BRAC rounds than the most recent round in 2005 in terms of costs and savings. The first four rounds of BRAC (1988, 1991, 1993, and 1995) are producing a total of approximately \$8 billion in annual recurring savings with an average payback of less than 7 years, and BRAC 2005 is producing an additional \$4 billion in annual recurring savings.

It's important to note that the 2005 BRAC round was very different than the first four rounds. BRAC 2005 had two components with the major component focused on "transformation." The other component, "closure," was more traditionally aligned with previous BRAC rounds which eliminated excess infrastructure. The major, or "transformation," component of BRAC 2005 cost about \$29 billion with military construction accounting for over \$11 billion of this cost. In addition, the transformation component of BRAC 2005 included recommendations that had no savings or produced limited savings to include infrastructure consolidation. The more traditional or "closure" component of BRAC 2005 cost about \$6 billion to implement, paid for itself in less than 7 years, and is now generating \$3 billion in annual savings. The next BRAC round would be squarely focused on closure and eliminating excess capacity.

A 2004 survey found that the Department had 24% aggregate excess capacity, while BRAC 2005 only reduced capacity by 3.4%. Thus, the Department believes we have about 20% excess capacity at the aggregate level today. With today's force structure declining relative to 2005 levels, our excess capacity will continue to grow. No successful business would carry the amount of excess infrastructure that DOD currently is forced to maintain.

While we clearly have excess capacity, many have asserted that we should look first at our overseas infrastructure for reductions. We have been reducing our overseas infrastructure for years. Since 2003, the Department returned more than 100 sites in Europe to their respective host nations, and we reduced our overseas personnel strength by one-third. The remaining overseas force structure provides enormous dividends to this country in terms of presence and responsiveness. Ongoing force structure changes should produce additional opportunities for reducing infrastructure both at home and abroad while preserving the best joint force that is ready and postured for full-spectrum operations.

Mr. SHUSTER. 20) Missile Defense remains a significant priority. When will the Service Branches bring members of the HASC into the planning phase of future funding plans to ensure that cuts aren't arbitrarily made in programs considered priority of the HASC?

Admiral WINNEFELD. The restructuring of DOD under the Strategic Choices and Management Review, and the subsequent decisions from the QDR, will be a comprehensive process that will only succeed with mutual coordination and cooperation between DOD and Congress. In accordance with standard budgeting procedures, the explanations for all adjustments in key defense programs will be outlined in the budget justifications and associated briefings the DOD will present to Congress with the FY 2015 budget and associated FYDP.

QUESTIONS SUBMITTED BY MR. CASTRO

Mr. CASTRO. 21) and 22) During the hearing you discussed that another round of sequestration cuts could result in potentially not taking in new recruits into the Services. Can you describe the kinds of impacts that would have on our short-term/long-term recruitment and retention in an All-Volunteer Force and how that impacts national security?

Secretary CARTER and Admiral WINNEFELD. Another round of sequestration cuts could impact force structure and drive a reduction in the number of military personnel. Services will consider the best way to lower overall personnel numbers with the least impact on readiness, while attempting to maintain a positive tone. Although we have force management tools that allow us to reduce personnel strength on the current force, we also may reduce accession numbers to maintain balance in the overall force.

Additionally, the negative impact of another sequestration on operations and training will discourage the best and brightest from joining the military and discourage retention of our most talented Service men and women. Any impacts to recruitment and retention will impact the ability of our Service members to execute our national security strategy which is hinged upon being the most technologically advanced, best equipped, and most highly trained force in the world.

In addition to the impact on operations and training, the uncertainty surrounding sequestration cuts has a corresponding intangible impact on the morale of our Service members. In our All-Volunteer Force we rely on retaining the highest quality force. With further cuts and an improving economy retaining quality will become more difficult as our Service members look outside the military for opportunities to work or serve.

QUESTION SUBMITTED BY MR. NUGENT

Mr. NUGENT. 23) Secretary Hagel described the Strategic Choices and Management Review as “a menu of options.” With the drawdown of forces planned at the conclusion of our second war in the Central Command Area of Responsibility, CENTCOM has already announced plans to reduce their headquarters personnel at MacDill by 1,500 by the end of 2014. Just to clarify, when you consider a 20% reduction in major headquarters, is that measured in dollars or manpower? Does the menu of options presented in this review account for the reductions that are already planned? In other words, when the option of reducing headquarters by 20% is considered, does that mean another reduction for CENTCOM below the 1,500 personnel already planned?

Secretary CARTER. Much of the CENTCOM growth was due to a temporary increase in manpower associated with the war effort. Most of the reductions for CENTCOM in 2014 are tied to the winding down of the war effort.

The reduction Secretary Hagel is implementing at all major headquarters, based on the results of the Strategic Choices and Management Review, is a 20% reduction in the 2013 baseline. This is in addition to previously planned reductions, such as the plans to reduce CENTCOM in 2014.