

DEPARTMENT OF DEFENSE BUDGET PRIORITIES FOR FISCAL YEAR 2004

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

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DEPARTMENT OF DEFENSE BUDGET PRIORITIES FOR FISCAL YEAR 2004

THURSDAY, FEBRUARY 27, 2003

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

The committee met, pursuant to call, at 2:05 p.m. in room 210, Cannon House Office Building, Hon. Christopher Shays (vice chairman of the committee) presiding.

Members present: Representatives Shays, Gutknecht, Thornberry, Ryun, Hastings, Schrock, Crenshaw, Putnam, Wicker, Tancredo, Bonner, Garrett, Barrett, McCotter, Diaz-Balart, Hensarling, Brown-Waite, Spratt, Moran, Hooley, Moore, Edwards, Scott, Ford, Capps, Thompson, Baird, Cooper, Emanuel, Davis, Majette, and Kind.

Mr. SHAYS [presiding]. The committee will come to order.

Today's hearing will examine the Department of Defense budget request for fiscal year 2004. Our witness will be the Honorable Paul D. Wolfowitz, Deputy Secretary of Defense. Appearing with Secretary Wolfowitz will be Dov Zakheim, the Under Secretary of Defense, and Chief Financial Officer.

Also appearing will be Steven Kosiak, Director of Budget Studies at the Center for Strategic and Budgetary Assessments.

In the face of unprecedented threats to our domestic and international security, the defense budget must advance three overarching goals: to win the global war on terrorism, to invest in the procurements and people needed to sustain that effort, and to transform the cold war military structure to meet the 21st century demands.

The President said his aim was, "to move beyond marginal improvements, to replace existing programs with new technologies and strategies." He said, "Securing our common defense will require spending more and spending more wisely."

The fiscal year 2004 defense budget requests more. This committee and others will have to decide if the Department is capable of moving beyond marginal, often glacial reforms to the wiser spending the President demands. We are at war. Terrorism is being uprooted in Afghanistan. It appears more likely, with each passing day, Saddam Hussein will persist in refusing to comply with the United Nations and that the United States will be required to lead a coalition of willing nations to disarm him.

This budget reflects this committee's commitment and the commitment of every American that the brave men and women of our military will have every resource they need in the difficult months

and years to come. One specific area raises concerns in that regard: individual protective equipment against chemical and biological weapons.

The Government Reform Subcommittee on National Security, which I chair, was told last year of significant procurement shortfalls in key CB defense items. The Department's own 2002 report on the CB defense program pointed to high risks now and the out-years due to a lag in procurements of modern protective garments—boots, gloves, and collective protection shelters.

I am concerned this budget does little, too little, to close the gap between what it will take to protect U.S. forces on the contaminated battlefield of the future and the equipment we will be able to give them. Nor does this budget appear to take any bold, new steps toward solving the long-festering dilemma of how to pay for all of the tactical aircraft procurements now under way.

More money for fewer planes is not a wise fiscal policy, nor will it address the problem of an aging air fleet. This committee has consistently provided the resources our Armed Forces have needed to do their job, including the \$10 billion war reserve that was not appropriated until this month.

Despite the controversy surrounding the appropriation of an undefined request, this committee was willing to step up to the plate and provide the Department of Defense with the flexibility it asked for, and to do it in a timely fashion.

It is noteworthy and perhaps paradoxical that DOD officials have described the fiscal year 2004 budget request as a peacetime budget. The reason, of course, is that the administration's budget does not include the cost of potential conflict with Iraq. We all know there are great uncertainties about the cost of disarming Saddam Hussein, uncertainties that make it difficult to put a precise number on the cost of possible military operations. But this committee still needs to learn all it can about those costs.

Just yesterday, the White House released Pentagon estimates that the war and its immediate aftermath will cost between \$60 [billion] and \$95 billion. Today, the Washington Post reports that some internal administration estimates show the cost growing above \$100 billion.

It is worth noting that the 1991 Persian Gulf war cost \$82.5 billion in current dollars, which brings me to another critical subject, burden sharing. In the gulf war, the United States received financial contributions of over \$48 billion from our allies. This time we are being presented with a bill in advance from countries, I would argue, that will greatly and directly benefit from a regime change in Iraq. We have already agreed to a \$15-billion aid package to Turkey in exchange for rights to base American troops there; and we may also be increasing our aid to Jordan, Israel, Egypt, and others.

The bottom line is, we need a better and fuller understanding of the financial commitments we are undertaking, and how much of these costs our allies are willing to bear.

Finally, there is the big picture. Is the Pentagon's budget plan the right one for a long-term operation? Will it achieve the bold transformation progress that the President envisions, or will serv-

ice rivalries and entrenched inefficiencies soak up any additional spending to feed a sluggish but voracious status quo?

That said, I want to repeat our assurance that this committee will do everything in its power to assure that the men and women of our Armed Forces will receive the tools and the training they need to defeat terrorism and assure the safety of this Nation.

We look forward to your testimony, Mr. Secretary.

At this time, I would like to recognize Mr. Spratt, and announce to our members that the Under Secretary needs to leave here at 4 o'clock. I will be very strong on the 5-minute rule, which doesn't mean you ask a question for 5 minutes and then give him 5 minutes to answer, alright?

Mr. SPRATT. Thank you.

Secretary Wolfowitz, welcome to our committee. I usually see you in my other capacity as a member of the House Armed Services Committee, and since today I am wearing my budget hat, I want to express some budget and fiscal concerns.

The Department of Defense is now in the middle of the largest sustained buildup in 20 years. Your 6-year plan—we call it the FYDP—associated with this 2004 budget would leave the defense budget one-third larger in real terms at the end of that plan in 2009, than it was when the administration took office.

We haven't seen an increase of this size since the cold war, during President Reagan's first term. Much of that increase has already taken place. It is committed since the budget for national defense has increased from \$300 billion in fiscal 2000 to at least \$400 billion by the time we finish fiscal 2003, or 3 short years. This budget proposal, therefore, proposes to increase that to \$500 billion by the year 2009.

Let me make clear, all of us support a strong national defense. We certainly are going to put forward the funds necessary for the United States to work its policies in the world. And, most of all, we are going to support our men and women in uniform, and say, thank God there are such men and women who will go in an hour like this in harm's way and defend the United States of America. They are being asked to do Herculean feats around the world, night and day, and we will not let them down; we will support them.

Unfortunately, the increases in defense that you are requesting are being financed by deficit spending. And the bills for national defense, ultimately, when you charge it to the deficit, get charged to our children and grandchildren. The fiscal year 2004 budget proposes the largest deficit in American history, \$307 billion. That projects a deficit of over \$300 billion in 2003 as well.

The 10-year surplus of \$5.6 trillion, which was projected back in 2001, has been wiped out. That is a message that CBO gave us just a few weeks ago, and then OMB confirmed it. Between now and 2011, the administration's policies and, particularly the new tax cuts, would add an additional \$2 trillion to that public debt.

As bad as that sounds, it is likely to get worse. Data from the Treasury Department indicates that during the first few months of fiscal 2003, revenues are off 8 percent.

You have sent us a budget that has nothing in it for the war in Iraq to which—I understand why you wouldn't make that par-

ticular request, but you also included nothing for the global war against terrorism and, in particular, Afghanistan. I am at a loss to understand why that was not included in this particular budget request.

Yesterday's Wall Street Journal contains this news, that the Bush administration is preparing to submit supplemental spending requests totaling as much as \$95 billion for a war with Iraq, its aftermath, and new expenses to fight terrorism. Today, the New York Times reported that Pentagon officials said yesterday that the military's part of the cost over the next several months, through fiscal year, this fiscal year at least, would be \$60 billion. And, of course, these are just a portion of the costs.

We are reading about deals that are being cut with Turkey and other allies that we have no way of scoring or keeping a tab on. We don't really know what the cumulative cost of this effort is likely to be.

I hope that today's hearing will give us better insight into the real costs that we are facing because it is this committee's responsibility to put things in the stark light of fiscal reality. Today, we are not in position to do that, because there are so many significant things we just don't know about this budget.

If the estimated cost of additional spending for Iraq of \$95 billion turns out to be correct, that would push the deficit for 2003 up to \$400 billion, by far the largest ever recorded. Even if the lower figure of \$60 billion is more accurate, that will still give us the largest deficit, in constant dollars, since World War II was over.

Finally, as bad as the situation is today, we have to think about the long term; and really, the retirement of the baby boomers is not long term, it begins in 2008. They draw Social Security then. In 2011, they start drawing Medicare. And we are going to see a demographic change in this budget that is going to be phenomenal.

The question is, can we sustain this buildup in the face of the retiring baby boomers? I put these hard questions to you because these are questions we should be asking you, asking ourselves, and trying to resolve in the budgets that we will be preparing in the weeks ahead.

Thank you for coming. We look forward to your answers to our questions.

[The prepared statement of Mr. Spratt follows:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF SOUTH CAROLINA

Thank you, Mr. Chairman. I join you in welcoming Deputy Secretary Wolfowitz and Dr. Zakheim. I usually see you in my other committee, Armed Services. Today, wearing my budget cap, I want to express some serious concerns.

The Department of Defense is in the middle of the largest sustained buildup in 20 years. The Department's 6-year plan associated with this 2004 budget request would leave the defense budget one-third larger, in real terms, at the end of that plan in 2009 than it was when this administration took office. We have not seen an increase of this size since the cold war, during President Reagan's first term. Much of this increase has already taken place, since the budget for national defense will have increased from \$300 billion in fiscal year 2000, to at least \$400 billion by the time we finish fiscal year 2003, in just three short years. This budget request then proposes to increase that to \$500 billion by fiscal year 2009.

All of us support a strong national defense and a strong U.S. military that remains second to none. We all support our men and women in uniform. They are

being asked to do Herculean feats around the world night and day, and we will not let them down.

Unfortunately, these increases are being financed by deficit spending, and the bills for our national defense are being sent to our children. The fiscal year 2004 budget proposes the largest deficit in American history, \$307 billion, and now projects a deficit over \$300 billion in 2003 as well. The 10-year surplus of \$5.6 trillion projected in 2001 has been wiped out. Between now and 2011, the Bush administration's policies, in particular the new tax cuts, would add an additional \$2 trillion to the public debt. This would represent an astounding turnaround, reducing the unified budget surplus by \$7.8 trillion over 10 years.

And as bad as this sounds, the reality is, it's going to get worse, because this budget understates how big the deficits are likely to get:

Data from the Treasury Department shows that revenues are coming in well below the levels assumed in this budget. For the first 4 months of fiscal year 2003, revenues are down 8 percent from the same period in the previous fiscal year.

There is no money in this budget for the cost of our ongoing global war on terrorism in Afghanistan and other locations around the world.

There is no money in the budget for the cost of a war in Iraq, nor any money for the costs associated with such a conflict, including post-war occupation and reconstruction, and aid to Turkey and other key allies.

Yesterday's Wall Street Journal reports that, "The Bush administration is preparing supplemental spending requests totaling as much as \$95 billion for a war with Iraq, its aftermath, and new expenses to fight terrorism, officials said." Today's New York Times reports that, "Pentagon officials said today that the military's part of the cost over the next 7 months, through the fiscal year, would be at least \$60 billion." And of course the military's costs are only a portion, and perhaps not ultimately the largest portion, of these costs. So it appears the administration is aware of these costs, but they do not appear in the budget.

I hope today's hearing will give us some greater insight into the real costs we are facing, because it is this committee's responsibility to put things in the stark light of fiscal reality. Today, we are not in a position to do that, because there are these significant hidden costs out there. And there is no plan, that I am aware of, for how to pay for all of this. If the administration has a plan for where all the money would come from to pay for all of this, I would like to hear it.

If the estimated cost of additional spending for Iraq of \$95 billion turns out to be correct, that would push the deficit for 2003 up to \$400 billion, by far the largest ever recorded. Even if the lower figure of \$60 billion is more accurate, that would still give us the largest deficit, in constant dollars, since World War II.

Finally, as bad as the situation is today, we also have to think about the long term. Pretty soon we will not be able to call the retirement of the baby boomers a "long term" issue. That day is fast approaching. A few weeks ago the Congressional Budget Office released a study on the long-term implications of current defense spending plans. This study shows that, in order to carry out all the long-range plans DOD has to modernize its weapons systems: defense spending, in real terms, will probably have to be even higher 10 years from now, when the baby boomers are retiring, than it is today.

This will put defense spending on a collision course with the rapidly rising costs of Social Security and Medicare. But even if we did not have that fiscal squeeze coming, to carry out these plans would require a period of sustained increases in defense spending that, if you look at your history books, just doesn't happen.

I invite my colleagues, and our witnesses, to look over that study, because we all need to think seriously about whether we are on a path we can afford to sustain.

I look forward to your testimony, Secretary Wolfowitz.

[The prepared statement of Mr. Putnam follows:]

PREPARED STATEMENT OF HON. ADAM H. PUTNAM, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF FLORIDA

Mr. Chairman, I am pleased that we have convened today to receive the fiscal year 2004 budget priorities for the U.S. Department of Defense from Deputy Secretary Paul D. Wolfowitz. I am honored to be here with you, Ranking Member Spratt, and the rest of the committee, to exchange views on the Department of Defense budget for the coming year. Thank you, Mr. Secretary, for appearing before this committee to present the priorities and plans of your Department. The Department of Defense is essential in this time of global uncertainty and I would like to commend DOD's commitment to keeping Americans safe in an era of evolving threats.

Knowing the current and emerging threats to America, it is imperative that we continue to strive to reach the goals of the 21st century transformation of the U.S. Armed Forces outlined by Secretary of Defense, Donald Rumsfeld. We must prepare for new forms of terrorism, such as cyber attacks on our network infrastructure. At the same time, we must work to increase our own areas of advantages, such as the ability to project military power over long distances, precision-strike weapons, and our space, intelligence, and under-sea warfare capabilities. As it is difficult to predict every conceivable type of attack, we are required to prepare for new and unexpected challenges in order to continue to defend against terrorism and other emerging threats of the 21st century.

Being prepared also includes the transformation of the military toward more efficient internal systems and weapons driven by information technology. Secretary Rumsfeld has said the transformation process will “require a longstanding commitment” but concurrently “must be embraced in earnest today” because the Nation is under immediate threat.

Military IT transformation is necessary to keep the U.S. military ahead of its adversaries. As stated in the Quadrennial Defense Review, the technological revolution in military affairs holds the potential to confer enormous advantages and to extend the current period of U.S. military superiority.

Transforming the military largely involves changing its “state of mind” to one that is more business-like. It also involves using advanced technologies to gather intelligence and manage information. A secure, global information backbone of unlimited depth and global reach will be essential.

A strong emphasis should be placed on the efficient use of technology. The services must protect critical infrastructure so that it is available to only our troops and not infiltrated. The transformation of the U.S. military is not just about weapons, but the unification of what were once isolated components into one technologically unified battlefield scheme.

Mr. Secretary, I look forward to your testimony and I am sure you will provide all of us with a clear picture of the Department of Defense’s strategy to lead our forces militarily and technologically into the 21st century.

Mr. SHAYS. Mr. Secretary, we are going to hear from you. If we finish your statement in some time—we have an hour and a half for questions, we could potentially get everyone in this room being able to ask a question. But if you don’t need to use the 5 minutes, please don’t, OK?

Mr. Wolfowitz, thank you so much for being here.

**STATEMENT OF PAUL D. WOLFOWITZ, DEPUTY SECRETARY,
U.S. DEPARTMENT OF DEFENSE**

Mr. WOLFOWITZ. Thank you, Mr. Chairman. I will just read portions of my testimony and submit the entire testimony for the record.

Mr. SHAYS. Without objection, that will happen.

Mr. WOLFOWITZ. Mr. Chairman, this is a large budget that we are requesting, \$379.9 billion. But I would like to begin by pointing out that by historical standards, this budget is a sustainable defense burden, one that is significantly less than the burden we sustained throughout the cold war.

Moreover, this is a wartime defense budget, although it is fair to point out that some possible war costs are not included, particularly those that would be associated if we have a conflict in Iraq.

But if I could have—and I think we have rearranged the charts in the wrong order. Could I have the chart that shows the percent of GDP that goes to defense historically? You will see that in fiscal year 2004, DOD outlays are projected, even with the unfortunate economic situation, to be at 3.4 percent of our gross domestic product. That is well below its level at any time during the cold war, much less the peak during the cold war. Similarly, if you compare

it to total Federal outlays, it is 16.6 percent, again, well below its level at any time—I underscore, “any time”—during the cold war.

Another fact to remember, when one thinks about whether these are controllable costs, is that about 45 percent of the defense budget goes to cover the personnel costs for our magnificent men and women in uniform and for the civilians who support them. Despite great efforts to try to limit increases in personnel, we have had to activate a significant number of Reservists and National Guardsmen to meet our warfighting tasks. It is hard to imagine at this time how we could reduce costs by cutting force structure and people.

The proposed \$15.3-billion increase over last year is sizeable. But each year, much of any Defense Department increase is consumed by what we call, “fact-of-life” increases, specifically pay raises, and nonpay inflation. In the fiscal year 2004 request, over \$8.5 billion of the \$15-billion increase goes to inflation and non—to nonpay inflation and the increases in military and civilian pay, \$4.2 billion in pay increases and \$4.3 billion in nonpay inflation.

Some critics I read say the U.S. Defense budget is higher than it needs to be because it exceeds that of all our possible adversaries combined. But it is our task to defend against real threats, Mr. Chairman, not against budget accounts.

The defense budget of the Taliban was an insignificant fraction of ours, yet that regime proved to be a major threat to the United States. And it was thanks to the overwhelming superiority of our forces that we were able to achieve our objectives in that country in miraculously short order, and with miraculously low casualties.

Indeed, when we send our forces into combat, we want them to have that kind of overwhelming advantage that minimizes casualties and provides for decisive victories, not just the bare margin necessary for a close win. The only reasonable evaluation, the only reasonable evaluation of a U.S. Defense budget is its ability to cover the full range of uncertain risks that threaten America’s vital interests.

Besides the horrific toll, let’s remember that the attacks of September 11 cost our Nation billions of dollars in both physical destruction and damage to our economy. The direct costs of September 11 are already estimated to exceed \$100 billion. Another such catastrophe could cost far more, especially if attackers use weapons of mass terror.

The President’s defense budget is sustainable because, first, we have insisted on realistic budgeting, especially for acquisition programs and readiness requirements; and secondly, because we have made many hard choices in this budget to ensure that our programs are executable within their projected top lines.

For the FYDP of 2004–09, the Department has shifted over \$80 billion from previous budget plans into acquisition programs that support a strategy of transforming our military.

These hard choices will reduce the cost risk to the DOD top line that were highlighted in a recent Congressional Budget Office report. That report was done before it could reflect the work that we did in preparing this budget request.

Our commitment to realistic budgeting includes properly funding investment programs based on independent cost estimates. This

practice not only protects our future readiness, it also protects our near-term readiness, because training and operations funds are no longer a bill payer for underfunded investment programs, as they were throughout much of the last decade.

Let me say a little bit about funding the cost of war. The same rigorous planning and tough decision-making used in our budget preparation are being applied to our execution of the war on terrorism and to plans and preparations for the possibility of a war in Iraq. Our military and civilian planners are working hard to ensure that our scarce personnel and budgetary resources are directed to the highest priorities and that all alternatives are exhaustively assessed.

Nevertheless, any war is fraught with uncertainty, and that makes all projections of future war costs extremely uncertain. The President's proposed budget does not estimate the incremental cost of a possible war with Iraq, nor does it request contingency funding to cover them. Such estimates are so dependent on future, unpredictable circumstances as to be of little value. We are, however, doing everything possible in our planning now to make postwar recovery smoother and less expensive should the use of force become necessary. As in Afghanistan, we would seek and expect to get allied contributions, both in cash and in kind, particularly for the reconstruction effort in a post-Saddam Iraq.

If I might digress for a moment, Mr. Chairman, from my prepared testimony, because there has been a good deal of comment—some of it quite outlandish—about what our postwar requirements might be in Iraq. That great Yankee catcher and occasional philosopher, Yogi Berra, once observed that it is dangerous to make predictions, especially about the future.

That piece of wise advice certainly applies to predictions about wars and their aftermath, and I am reluctant to try to predict anything about what the cost of a possible conflict in Iraq would be—what the possible cost of reconstructing and stabilizing that country afterwards might be. But some of the higher-end predictions that we have been hearing recently, such as the notion that it will take several hundred thousand U.S. troops to provide stability in post-Saddam Iraq, are wildly off the mark.

First, it is hard to conceive that it would take more forces to provide stability in a post-Saddam Iraq than it would take to conduct the war itself and to secure the surrender of Saddam's security forces and his army—hard to imagine.

Second, in making predictions, one should at least pay attention to past experience. And in the case of Iraq, we have some recent experience to look to. The northern third of Iraq has been liberated from Saddam Hussein's grasp since Operation Provide Comfort, which we undertook just 1 month after the cease-fire of the Persian Gulf war in 1991.

By the way, our current Supreme Allied Commander in Europe, Gen. Jim Jones, was a colonel commanding a Marine battalion in that operation.

After that operation, we withdrew our ground forces from northern Iraq completely in the fall of 1991, and in the 12 years since then, we have not had any forces—emphasize, “any forces”—on the ground there. And yet the northern third of Iraq has remained rea-

sonably stable even though, sadly, it is subjected to the same economic sanctions that have been applied to the rest of the country, and even though the people there live under daily threat from Saddam's military, from Saddam's security forces, and for the last year and a half, from an al Qaeda cell that operates in northeastern Iraq called Ansar al-Islam.

In fact, even the U.S. air presence, which we have maintained over northern Iraq, is not necessary to keep peace among the people of northern Iraq, but to keep Saddam Hussein out.

There are other differences that suggest that peacekeeping requirements in Iraq might be much lower than our historical experience in the Balkans suggest. There has been none of the record in Iraq of ethnic militias fighting one another that produced so much bloodshed and permanent scars in Bosnia, along with a continuing requirement for large peacekeeping forces to separate those militias. And the horrors of Iraq are very different from the horrific ethnic cleansing of Kosovars by Serbs that took place in Kosovo and left scars that continue to require peacekeeping forces today in Kosovo.

The slaughter in Iraq, and it has been substantial, has unfortunately been the slaughter of people of all ethnic and religious groups by the regime. It is equal-opportunity terror.

Third, whatever numbers are required—and I emphasize I am not trying to make a prediction, but I will say, there is no reason, there is simply no reason to assume that the United States will or should supply all of those forces.

Many countries have already indicated to us, some of them privately, a desire to help in reconstruction of post-Saddam Iraq, even though they may not want to be associated with Saddam's forcible removal.

Indeed, remember that we are talking about one of the most important countries in the Arab world, with not only enormous natural resources that we keep hearing about, but equally importantly, I would say more importantly, extraordinary human resources.

I would expect that even countries like France will have a strong interest in assisting Iraq's reconstruction.

Moreover, the Iraqis themselves can provide a good deal of whatever manpower is necessary. We are training free Iraqi forces to perform functions of that kind, including command of Iraqi units, once those units have been purged of their Baathist leadership.

But the fourth and most fundamental point is that we go back to Yogi Berra. We simply cannot predict. We have no idea whether weapons of mass terror will be used. We have no idea what kind of ethnic strife might appear in the future, although as I have noted, it has not been the history of Iraq's past. We do not know what kind of damage Saddam Hussein will wreak on Iraq's oil fields or its other infrastructure.

On the other side, we can't be sure that the Iraqi people will welcome us as liberators, although based on what Iraqi-Americans told me in Detroit a week ago, many of them, most of them with families in Iraq, I am reasonably certain that they will greet us as liberators, and that will help us to keep requirements down.

In short, we don't know what the requirements will be. But we can say with reasonable confidence that the notion of hundreds of thousands of American troops is way off the mark.

I would like to add also, there is a danger in making single point estimates. It is not just an intellectual and analytical danger that you can't predict the future; this is a particularly bad time to be publishing specific numbers, because official numbers become part of our declaratory policy.

And single point estimates right now about the possible costs of the conflict, or about the possible length and size of a postwar reconstruction effort, could be misinterpreted. Think about that issue. The best estimate of what we will need, post-Saddam Hussein, is what the President and Secretary Powell and Secretary Rumsfeld have been saying: we will stay as long as necessary and leave as soon as possible.

I understand that that is a frustrating estimate for people who want a single point estimate of the future. But, it is the truth. Moreover, stop and think about it from an Iraqi point of view. They want to know that they won't be abandoned, that we will do what is needed for postwar reconstruction.

For that purpose, large numbers for long periods of time have a reassuring quality. On the other hand, they also want to know that we are coming as liberators and not as occupiers. From that point of view, they would prefer to hear that we won't be there in large numbers for very long.

Fundamentally, we have no idea what is needed unless and until we get there on the ground. There will be appropriate times for making public estimates, along with a range of assumptions that lead to them. But this delicate moment, when we are assembling a coalition, when we are mobilizing people inside Iraq and throughout the region to help us in the event of war, and when we are still trying through the United Nations and by other means to achieve a peaceful solution without war, is not a good time to publish highly suspect numerical estimates and have them drive our declaratory policy.

Let me say something else, if I may, Mr. Chairman, to put the costs of war into some context; and then I will wrap up with one other comment. The possible cost of war in Iraq ought to be considered in the context of America's other international undertakings of recent years. We must remember that there is a cost of containment in both dollars as well as risk to our national security. We have been doing some preliminary estimates—I emphasize they are preliminary, and until I am confident of the assumptions I wouldn't want to swear by them. But our preliminary estimate is that it has cost us slightly over \$30 billion to maintain the containment of Saddam Hussein for the last 12 years. And it has cost us far more than money, because as I think many of you know, it is that American presence in the holy land of Saudi Arabia and the sustained American bombing of Iraq as part of that containment policy that have been Osama bin Laden's principal recruiting device, even more than the other grievances he cites. I can't imagine anyone here wanting to spend another \$30 billion to be there for another 12 years to continue helping recruit terrorists.

Furthermore, it is worthwhile to consider what we might spend on reconstruction in Iraq against what we have already spent in Bosnia and Kosovo.

Again, these are very preliminary estimates, but the estimates already, so far, in Bosnia and Kosovo are that we have spent somewhere between \$12 [billion] and \$15 billion. I think that is a worthwhile expenditure, but our purposes in those two places are largely humanitarian. Iraq presents a case of direct threat to the security of the United States and our allies, and a key to the future of one of the most important regions in the world.

Indeed, I believe the most significant cost associated with Iraq, which is very, very difficult to estimate, is the cost of doing nothing. The simple truth is, disarming Iraq and fighting the war on terror are not merely related; disarming Iraq's arsenal of terror is a crucial part of winning the war on terror. If we can disarm or defeat Saddam's brutal regime in Baghdad, it will be a defeat for terrorists globally, and the value of such a victory against a terrorist regime will be of incalculable value in the continuing war on terrorism.

Mr. Chairman, let me spare a good deal of the rest, you can read it, but I would like to just have a minute on this business of transforming the business on defense. We are working hard not only to spend more, as we are doing, but to spend more wisely.

Much has happened as the President directed us to do. Much has happened in the last 2 years within our department to realize the President's mandate. But we also have a challenge that we share with you. In consultation with Members of Congress, including members on this committee, and many more that we hope to talk to in coming weeks, we are trying to develop an agenda for change that both the executive branch and the Congress can agree on that will streamline and modernize how the Department of Defense manages people, buys weapons, uses training ranges and manages money.

In an age when terrorists move information at the speed of an e-mail and money at the speed of a wire transfer, the Defense Department is bogged down in micromanagement and bureaucratic processes of the industrial age. We have created a culture that too often stifles innovation. The major obstacles faced by us all in making the broad transition that is necessary, include reforming an antiquated personnel structure, both civilian and military, increasing flexibility in managing money and managing the Department, reforming broken acquisition processes, and requirements and resource processes.

Mr. Chairman, we are fighting the first wars of the 21st century with a Defense Department that was fashioned to meet the challenges of the mid 20th century. We have an industrial age organization, but we are living in an information age world, where new threats emerge suddenly, often without warning, to surprise us.

Last year, Congress and the administration faced up to the fact that our government was not organized to deal with the new threats to the American homeland and created a new Department of Homeland Security. We must now address the Department of Defense.

Many of the obstacles we face today are self-imposed. Where we have the authority to fix those problems, we are working hard to do so. For example, we are modernizing our financial management structures to replace some 1,900 information systems. We are doing many things, and even more than I have mentioned in my testimony. But to get the kind of agility and flexibility required in the 21st century security environment, we also need some legislative relief, and for that we need your help.

We must work together, Congress and the administration, to transform not only the U.S. Armed Forces, but the Defense Department that serves them and prepares them for battle. The lives of the servicemen and -women in the field, and of our friends and families here at home, depend on our ability to do so.

Mr. Chairman, let me conclude with that, I think you want to get to your questions.

[The prepared statement of Deputy Secretary Wolfowitz follows:]

PREPARED STATEMENT OF HON. PAUL D. WOLFOWITZ, DEPUTY SECRETARY, U.S.
DEPARTMENT OF DEFENSE

Mr. Chairman and members of the committee, I welcome this opportunity to return this year to give you a brief overview of the fiscal year 2004 defense budget request and address your questions at this critical time for America and the world.

DEFENSE BUDGET TOPLINE

The President's budget requests \$379.9 billion for the Department of Defense for fiscal year 2004, a \$15.3-billion increase over last year's enacted level. The budget projects that the DOD topline will, in real terms, grow about 2.5 percent per year through 2008.

This fiscal year 2004 defense budget is indeed large and it will grow larger, even without factoring in likely costs for continuing the war on terrorism. But by historical standards, this budget is a sustainable defense burden—one that is significantly less than the burden we sustained throughout the cold war. Moreover, this is a wartime defense budget needed to help us wage the global war against terror. Fiscal year 2004 DOD outlays will be 3.4 percent of our gross domestic product (GDP) and 16.6 percent of total Federal outlays—both well below their levels at any time during the cold war. Another fact to remember is that about 45 percent of the defense budget goes to cover the personnel costs for our magnificent men and women in uniform—many of whom are now in harm's way as they fight the war against terror—and the civilians who support them. Despite great efforts to try to limit increases in personnel, we have had to activate a significant number of the reserve component to meet our warfighting tasks. It is hard to imagine how we could reduce costs by cutting force structure at this time.

This proposed \$15.3-billion increase is sizable. But each year much of any DOD topline hike is consumed by what could be termed "fact of life" increases—most significantly, pay raises and nonpay inflation. In the fiscal year 2004 request, over \$8.5 billion of the \$15-billion increase is for such increases: \$4.2 billion for military and civilian pay raises and \$4.3 billion to cover non-pay inflation.

Some critics say the U.S. defense budget is higher than necessary because it exceeds that of all our possible adversaries combined. But we must defend against real threats, not budget accounts. The defense budget of the Taliban was an insignificant fraction of ours, yet that regime proved to be a major threat to America. Indeed, in an era of proliferation and asymmetric threats, we must have the ability to confront a potentially wide range of threats. Moreover, when we send our forces into combat, we want them to have the kind of overwhelming advantage that minimizes casualties and provides for decisive victories, not the bare margin necessary for a close win. Thus, comparative national defense budgets are an inappropriate standard for measuring whether our defense capabilities are adequate to confront a 21st century security environment of uncertain and asymmetric threats.

The only reasonable evaluation of a U.S. defense budget is its ability to cover the range of uncertain risks that threaten America's vital interests. Besides their horrific human toll, the September 11 attacks cost our Nation billions, in both physical destruction and damage to our economy. Direct costs of September 11 already ex-

ceed \$100 billion. Another such catastrophe could cost much more—especially if attackers use weapons of mass destruction.

The President's defense budget is sustainable. Within its topline, the proposed budget funds a strong, strategy-driven program that supports both short-term and long-term requirements. Our multi-year program is sustainable first because we have insisted on realistic budgeting—especially for acquisition programs and readiness requirements. Second, we made hard choices—most notably, by restructuring acquisition programs—to ensure that they are executable within our projected topline. For fiscal year 2004–09 the Department shifted over \$80 billion from previous budget plans into acquisition programs that support a strategy of transforming our military. These hard choices in the fiscal year 2004 budget request will reduce the cost risks to the DOD topline that were highlighted in a recent Congressional Budget Office report, which does not reflect the work we did preparing this budget request.

Our commitment to realistic budgeting includes properly funding investment programs based on independent cost estimates.

This practice not only protects our future readiness, it also protects our near-term readiness because training and operations funds are no longer a billpayer for underfunded investment programs.

FUNDING THE COSTS OF WAR

The same rigorous planning and tough decision making used in our budget preparation are being applied to our execution of the war on terrorism and to preparations for a possible war in Iraq. Our military and civilian planners are working exceedingly hard to ensure that our scarce personnel and budgetary resources are directed to the highest priorities and that all alternatives are exhaustively assessed. Still, war is fraught with uncertainty and that makes all predictions of future war costs highly uncertain.

The President's proposed budget does not estimate the incremental costs of a possible war with Iraq, nor does it request contingency funding to cover them. Such estimates are so dependent on future, unpredictable circumstances as to be of little value. However, we are doing everything possible in our planning now to make post-conflict recovery smoother and less expensive should the use of force become necessary. As in Afghanistan, we would seek and expect to get allied contributions, both in cash and in kind, particularly for the reconstruction effort in a post-Saddam Iraq.

The possible cost of war in Iraq should be considered in the context of America's other international undertakings of recent years. We must remember that there is a cost of containment in both dollars as well as risk to our national security.

While the United States has judged it worthwhile to expend some very significant amounts on the efforts in Bosnia and Kosovo where our purposes are largely humanitarian, Iraq presents a case of direct threat to the security of the United States and our allies. Indeed, I believe the most significant cost associated with Iraq is the cost of doing nothing. The simple truth is, disarming Iraq and fighting the war on terror are not merely related; disarming Iraq's arsenal of terror is a crucial part of winning the war on terror. If we can disarm or defeat Saddam's brutal regime in Baghdad, it will be a defeat for terrorists globally. The value of such a victory against a terrorist regime will be of incalculable value in the continuing war on terrorism.

BALANCING NEAR-TERM REQUIREMENTS AND LONG-TERM TRANSFORMATION

The President's budget is designed to do two very important things at the same time. First, it funds the readiness and capabilities needed to fight the war on terrorism and meet other near-term requirements. Second, it advances the long-term transformation of the U.S. military and defense establishment, both critical to enabling us to counter 21st century threats most effectively. Thus our challenge is to fight the war on terrorism at the same time we are transforming. We have to do both. Although facing near-term funding pressures, we nevertheless must invest for the future—otherwise we undoubtedly will have to pay more later—in dollars, in economic losses, and perhaps even in lives.

Transformation overview: Transformation is a process that DOD is using to overhaul the U.S. military and defense establishment. Transformation is about new ways of thinking, fighting, and managing the Department's scarce resources.

The fiscal year 2004 budget reflects the Department's new way of thinking, first articulated in our 2001 Quadrennial Defense Review and intensively developed since then. That new way of thinking is now being implemented in visionary warfighting operational concepts, a restructured unified command plan, and transformational

military capabilities such as unmanned aerial vehicles and new generations of satellite communications.

Transforming U.S. military capabilities: Transformation is more about changing the way people think, the way they do things, and what is commonly called “culture” than it is about budgets. But, of course, budgets matter. In DOD budgets, military transformation is reflected primarily in our investment programs—i.e., in programs funded in the appropriations titles of Research, Development, Test, and Evaluation (RDT&E) and Procurement. Through such funding, new military systems are being developed and fielded—to achieve a new portfolio of military capabilities to decisively combat the full spectrum of threats to U.S. security.

To appreciate the impact of the Department’s investment on transforming our military capabilities, one must look at programs, not simply funding levels. The key is not simply how much we are investing, but whether we are investing in the right areas.

Given the immediate risk of terrorism and other non-traditional or asymmetric threats, we must be able to develop new capabilities while selectively modernizing current ones. The war on terrorism demonstrates that we need to be prepared to face both traditional and non-traditional threats.

We must be able to fight against conventional weapons systems as well as be prepared for the use of weapons of mass destruction against our troops or here at home. Countering such threats will require a carefully planned mix of capabilities.

Indicative of the Department’s strong emphasis on transformation, the military services have shifted billions of dollars from their older multi-year budget plans to new ones—as they have terminated and restructured programs and identified important efficiencies. For fiscal year 2004–09, the military services estimate that they have shifted over \$80 billion to help them transform their warfighting capabilities and support activities.

Some examples of cancellations, slow-downs or restructured programs include the following:

- The Army came up with savings of some \$22 billion over the 6-year FYDP, by terminating 24 systems, including Crusader, the Bradley A-3 and Abrams upgrades, and reducing or restructuring another 24 including Medium Tactical Vehicles. The Army used these savings to help pay for new transformational capabilities, such as the Future Combat Systems.
- The Navy reallocated nearly \$39 billion over the FYDP, by retiring 26 ships and 259 aircraft, and integrating the Navy and Marine air forces. They invested these savings in new ship designs and aircraft.
- The Air Force shifted funds and changed its business practices to account for nearly \$21 billion over the FYDP. It will retire 114 fighter and 115 mobility/tanker aircraft. The savings will be invested in readiness, people, modernization and new system starts and cutting edge systems like unmanned aerial vehicles (UAVs) and unmanned combat aerial vehicles (UCAVs).

Transforming the Business of Defense: We know we must become more efficient in our business practices and get more out of our defense budget by transforming the way we operate in the Department of Defense. President Bush gave the Department of Defense “a broad mandate to challenge the status quo and envision a new architecture of American defense for decades to come.” The goal, he said, is “to move beyond marginal improvements—to replace existing programs with new technologies and strategies.” Doing this, he said, “will require spending more—and spending more wisely.” Much has happened in the last 2 years to begin realizing that mandate.

In response to this challenge, the Department of Defense is developing an agenda for change that—once approved by the President—will require the concerted effort of many—both inside the Department and in Congress. The agenda advances the process of streamlining and modernizing how the Department of Defense manages people, buys weapons, uses training ranges and manages money.

Most agree that to win the global war on terror, our Armed Forces need to be flexible, light and agile—so they can respond quickly to sudden changes. The same is true of the men and women who support them in the Department of Defense. They also need to be flexible and agile so they can move money, shift people, and design and buy new weapons quickly, and respond to sudden changes in our security environment.

In an age when terrorists move information at the speed of an email, money at the speed of a wire transfer, and people at the speed of a commercial jetliner, the Defense Department is bogged down in the micromanagement and bureaucratic processes of the industrial age. Some of our difficulties are self-imposed, to be sure. Some are the result of law and regulation. Together they have created a culture that too often stifles innovation.

- We are working, instead, to promote a culture in the Defense Department that:
- Rewards unconventional thinking;
 - Gives people the freedom and flexibility to take risks and try new things;
 - Fosters a more entrepreneurial approach to developing military capabilities;
- and
- Does not wait for threats to emerge and be “validated,” but anticipates them before they emerge, and develops and deploys new capabilities quickly.
- The major obstacles faced by us all in making that broad a transition include:
- Antiquated personnel structure—both civilian and military;
 - Lack of flexibility in managing money and managing the department;
 - Support structures that are outdated, slow and inflexible; and
 - Broken acquisition, requirements and resource processes.

We are fighting the first wars of the 21st century with a Defense Department that was fashioned to meet the challenges of the mid-20th century. We have an industrial age organization, yet we are living in an information age world, where new threats emerge suddenly, often without warning, to surprise us.

Last year, Congress and the administration faced up to the fact that our government was not organized to deal with the new threats to the American homeland. Congress enacted historic legislation to create a new Department of Homeland Security and rearrange our government to be better prepared for potential attacks against our homes and schools and places of work.

We must now address the Department of Defense. Many of the obstacles we face today are self-imposed. Where we have authority to fix those problems, we are working hard to do so. For example, we are modernizing our financial management structures, to replace some 1,900 information systems so we can produce timely and accurate management information. We are modernizing our internal acquisition structures to reduce the length of time it takes to field new systems and drive innovation. We are working to push joint operational concepts throughout the Department, so we train and prepare for war the way we will fight it, jointly. And we are taking steps to better measure and track performance.

We are doing all these things, and more. But to get the kind of agility and flexibility that are required in the 21st century security environment, we also need some legislative relief. For that, we need your help. We must work together—Congress and the administration—to transform not only the U.S. Armed Forces, but the Defense Department that serves them and prepares them for battle. The lives of the service men and women in the field—and of our friends and families here at home—depend on our ability to do so.

Getting more out of defense dollars: In summary, there is much we can and must do to get the most out of our defense dollars. Especially with budget pressures from the war on terrorism, we must be able to focus resources on the most critical priorities. The Department cannot do this without strong support from the Congress. Yes, we will need additional funds in order to prevail in the war on terrorism and transform our military to meet the challenges of the 21st century. But we also confront a historic challenge to make the maximum use of those funds by transforming how we carry out the business of defense. Now is an historic opportunity to ensure that we make the best possible use of taxpayers’ money by transforming how we carry out the business of defense. We look forward to working closely with the Congress to meet this important and pressing challenge.

CONCLUSION

The President’s fiscal year 2004 budget addresses our country’s need to fight the war on terror, to support our men and women in uniform, and prepare to meet the threats of the 21st Century. It reflects hard choices to ensure sufficient funding for our most pressing requirements and to advance defense transformation. Those hard choices and our proposed transformation of the business of defense underscores our resolve to be exemplary stewards of taxpayer dollars.

This committee has provided our country strong leadership in providing for the national defense and ensuring taxpayers’ dollars are wisely spent. We look forward to continuing our work with you to achieve both of these critical goals.

Mr. SHAYS. I do.

Mr. Secretary, first, in my desire to be efficient, I didn’t truly welcome you here. It is an honor to have you here. We thank you for your service to your country over so many years. I want to put that on the record.

Given that I had an opening statement, I am going to pass on questions to give other members time. And I am going to go to Mr. Gutknecht, then Mr. Spratt, and then Mr. Thornberry. I will be strict with the 5 minutes, gentlemen and ladies.

Mr. GUTKNECHT. Thank you.

I think I speak on behalf of the entire committee, Mr. Wolfowitz. We appreciate your service to the country, and frankly, in your statement, I think you expressed as clearly, or probably far more clearly than any of us could, how important it is to do what needs to be done with the regime in Baghdad.

And I think most Americans now believe that something has to happen, and unfortunately, I think it is left to us, the Americans, to do it.

The chairman in his opening statement referred to two frustrating factors that I hope you will comment on. One is some of the other commitments. I realize that that has more to do with your colleagues down at the State Department, but we have all witnessed what I think is a rather unseemly auction with some of our allies, particularly with Turkey. And the concern we have is that there may be people inside the administration that are writing checks that the Congress may not be too eager to cash.

Can you talk a little bit about some of those other commitments, and whether you and the people down at the Pentagon have had something to say about that?

Mr. WOLFOWITZ. We have had a great deal to say about it. And let me say, I know some of what you read in the press sounds unseemly and some of what some other people say is unseemly. I think the notion that somehow we owe Turkey \$92 billion for the last 12 years of what they have been through is just way off the mark, way off the mark.

But a great deal of what we are talking about is very seemly and quite appropriate in the context of fighting a war on terrorism with countries that really are standing up to the challenges, and sometimes countries that are not in a great position to do so.

Think of Pakistan. Pakistan has done a great deal for us. We could not possibly have accomplished our objectives in Pakistan—at the moment, to be honest, we are behind in paying our bills to the Pakistanis for the support they are giving to our forces. We are working hard to get that done, and we are hoping, actually in this year's program to get a little more flexibility so that we don't fall behind in paying absolutely legitimate bills.

The issue with Turkey, and I want to be cautious here because we are in an absolutely critical stage in our negotiations with them, and there is a tendency to take anything I say and use it for whatever purpose anyone wants to.

But it isn't a question of how valuable Turkey is in bidding and auction and so forth. It is a fact that Turkey has great reason to be concerned, that if there is a conflict in Iraq, they are going to sustain some significant short-term economic costs and burdens. It is also a fact that they were promised some things in 1991, some by us and some by Arab countries, and only some of those promises were delivered. There has been a tendency to mythologize those afterwards, and they become much bigger. But there is some grounds for concern on their part.

It does seem to me that we need to get out of the bargaining stage and get on with this, because the fact is that whatever short-term costs Turkey suffers, and there will be short-term costs, the long-term benefits to Turkey of ending the economic sanctions on Iraq—and let me emphasize that is another great benefit that will come to the whole region and the people of Iraq—is that there will no longer be economic sanctions with Saddam gone.

The long-term benefits to Turkey's economy are enormous. And if Turkey helps us, they are not only helping us, they are helping themselves.

We can achieve our objectives with or without Turkey, but we will achieve them much faster, with much less economic cost to the region, with much less political disturbance in the region and, most importantly, with less risk to American and other lives, if we can confront Saddam Hussein with a two-front war rather than just a one-front. That is why it is important to have Turkey with us.

I think the Turks are close to understanding that. But it is, at the end of the day, about our mutual security and not about a bazaar.

Mr. GUTKNECHT. Let me also mention something else the chairman mentioned. That is the burden sharing. That is something that I think we have been awfully slow to negotiate with many of our allies.

I would remind you that in the last exchange we had with Saddam Hussein, we were able to get our allies to pick up, under some accounting, literally 100 percent of our direct costs.

Have we had any luck to this point getting any of our allies to step forward and say they would be willing to help share some of the burden this time?

Mr. WOLFOWITZ. We definitely had quite a bit of luck in Afghanistan, and Dr. Zakheim can go into more detail. He has been all around the world soliciting cash and assistance in kind.

As you know, the international peacekeeping force in Kabul is entirely non-American, except for a few officers. It was led first by the British, then by the Turks, now by the Dutch and Germans. I played a very big role in the fund-raising effort the last time around.

Mr. SHAYS. I am going to cut you off there, if you don't mind. Let me just say, if you can incorporate it in an answer, the burden sharing is out there. But the bottom line is a yes to him, and you will give us more details, hopefully fill it in to other questions.

We are going to go to Mr. Spratt, then Thornberry and then Moran.

Mr. SPRATT. Mr. Secretary, yesterday the Washington Post said administration officials said the Pentagon's estimate of \$60 [billion] to \$95 billion for a war and its immediate aftermath was certain to be eclipsed when the long-term cost of occupation, reconstruction, foreign aid, and humanitarian relief were figured in.

President Bush was briefed on the war cost Tuesday and is scheduled to receive detailed budget scenarios in the next week or two, officials said. Is that an accurate account?

Mr. WOLFOWITZ. It may be an accurate account of what some anonymous administration official said.

Mr. SPRATT. Are we looking at the administration official?

Mr. WOLFOWITZ. I don't think he or she knows what he is talking about. The idea that it is going to be eclipsed by those monstrous future costs ignores the nature of the country we are dealing with.

It has got already, I believe, on the order of \$15 [billion] to \$20 billion a year in oil exports, which can finally—might finally be turned to a good use instead of building Saddam's palaces. It has one of the most valuable undeveloped sources of natural resources in the world. And let me emphasize, if we liberate Iraq, those resources will belong to the Iraqi people. But they will be able to develop them and borrow against them.

It is a country that has somewhere, I believe, over \$10 billion—let me not put a number on it—in an escrow account run by the United Nations. It is a country that has \$10 [billion] to \$20 billion in frozen assets from the gulf war, and I don't know how many billions that are closeted away by Saddam Hussein and his henchmen.

There is a lot of money there. To assume that we are going to pay for it is just wrong.

Mr. SPRATT. The \$60 [billion] to \$90-billion cost estimate is consistent with what staff on this committee have developed in the past year. It is just a bit above what the Congressional Budget Office projected would be the cost of such a war, based on the costs in 1990.

Is it in your ball park also?

Mr. WOLFOWITZ. Congressman Spratt, I would go back to what I said at greater length in my opening statement. The ball park is so wide that it fits almost any number that you want to pick out of the air. It depends on the assumptions.

It depends on how long the war lasts. It depends on whether weapons of mass destruction are used. It depends, very importantly, on whether the Iraqi army turns on Saddam Hussein, which I think is a distinct possibility, whether some important pieces of it decide to fight. It is so dependent on assumptions that picking a number, or even a range of numbers, is precarious.

Furthermore, in answer to Congressman Gutknecht's question, before the gulf war in 1991, we had the whole world asking us to get—to do the job of liberating Kuwait, because the political situation at the time was such, my office initially proposed, let's get some help from our allies. We organized what became known as "Operation Tin Cup."

We got, as I remember, \$12 billion from the Japanese, a comparable number from the Germans. Huge amounts from the Saudis, from the Kuwaitis, from the United Arab Emirates. You know the Germans would be difficult people to approach today, but frankly, in the context of the reconstruction of one of the most important countries of the Arab world, I think we will approach the Germans and most other countries.

Mr. SPRATT. Well, what happened to the Germans before was, they got caught in a very, very embarrassing situation. They had exported some goods to Iraq that included machinery necessary for the production of unconventional weapons. They were very embarrassed by it, and part of the expiation for what they had done was about \$8 billion.

That raised the ante for everybody else, the Japanese, for example; and as a consequence, we were able to raise \$60 billion of the \$64 billion out-of-pocket cost of that war.

It looks like now we are in the reverse situation, whereas before the coalition members were paying us money, this time we are having to pay the coalition money, substantially.

Mr. WOLFOWITZ. Congressman Spratt, 12 years ago, the weaker members of the coalition, such as Turkey, were getting assistance from outside. The difference, as you point out, the German position is different, but believe me, when Iraq is liberated, I think we are going to find a lot more of what you are referring to.

In fact, Germany is one of the largest exporters to Iraq in the world today. Maybe that has something to do with their current position, but it will certainly lead to a lot of opportunity for expiation later.

Believe me, from what I heard from Iraqi-Americans in Dearborn, the Iraqi people are going to demand it.

Mr. SPRATT. Well, let me ask you this: Was the President briefed on Tuesday on the war cost, in detail?

Mr. WOLFOWITZ. I wasn't in the meeting, Congressman.

Mr. SPRATT. Do you know if he was? I mean—

Mr. WOLFOWITZ. I know there was a meeting and I know they talked about—

Mr. SPRATT. You must have formulated some kind of cost.

The reason I am pressing this issue is that we are getting ready to move a budget here, and the dollar amounts we are talking about for the likely cost of this war are pretty significant.

That budget will probably contain reconciliation authority for two tax cuts, with total revenue reduction totals of \$1.3 trillion. It might be pertinent to everybody, both sides, to know what the likely cost is going to be before we pass a budget resolution, and certainly before we undertake tax cuts of that magnitude.

Mr. SHAYS. Thank you. I am going to recognize Mr. Thornberry. Then we are going to go to Mr. Moran, and Mr. Hastings.

Mr. SPRATT. Normally I get—I am the ranking member, I get to—

Mr. SHAYS. You are the ranking member. And I would—

Mr. SPRATT. I have got one last question.

Mr. SHAYS. Do you want to take advantage of that?

Mr. SPRATT. I do.

Mr. SHAYS. You want to deprive one of these—fair enough. The gentleman may continue.

Mr. SPRATT. Is anybody contributing money to us this time? Do we expect to get any mitigation in the way of money from our coalition allies?

Mr. WOLFOWITZ. I expect we will get a lot of mitigation, but it will be easier after the fact than before the fact, unlike the last time.

And let me underscore, too, what I said in that earlier intervention. Obviously, the Congress will need to know some numbers even though they are going to be estimates, because they are going to be dependent on assumptions, and whatever we send up here will be based on assumptions that will probably turn out within a couple of weeks not to be correct.

But all of that is if we go to war. There is still some small chance that we won't go to war. We are at an extremely delicate point in everything that we are doing.

And let me underscore it again: It is not just at the United Nations, we are working hard to try to get the U.N. to stand up to its responsibilities; it is also in putting together a coalition and getting a number of countries that are quite frightened of their own shadows, to put it mildly, and they are stepping up, though quietly, in a very bold way.

And in some ways most important of all we are sending messages and signals to the people inside Iraq. This is part of our public diplomacy. And if you will forgive us for a few weeks, I think it is necessary to preserve what the diplomats call ambiguity about exactly where the numbers are. But obviously, the Congress is going to have to know sooner rather than later.

Mr. SPRATT. Thank you.

Mr. SHAYS. Thank you.

Mr. Thornberry, then Mr. Moran and then Doc Hastings.

Mr. THORNBERRY. Mr. Secretary, I think that most people on this committee and most people in the country are willing to spend whatever is required to have a successful conclusion to Iraq, continuing to prosecute the war on terrorism, but I think we all also want to make sure that money is spent well.

You were a little kinder than Secretary Rumsfeld has been. He said the Pentagon bureaucracy is like the old Soviet system, and he has promised to liberate DOD from institutional inertia.

I guess I want to ask about some of these kind of little less sensational, but very important management-type reforms. One of the issues that affects this committee is the fact that you folks have to start working on a budget request to come before Congress about a year before it comes. Then it takes us about a year to pass it. And then, by the time you are spending the money, it is 2 to 3 years after you started putting that budget request together. And yet there are restrictions on how you can move money among accounts and spend it, and sometimes the world changes in 2 or 3 years.

I guess I would like for you to elaborate somewhat on some of those management issues that you all are working on; and perhaps Mr. Zakheim can talk specifically about this, moving money around and the challenges that poses in a world that changes very quickly.

Mr. WOLFOWITZ. I appreciate your asking that. It was a very important part of my testimony, and maybe if Congressman Shays had given me a little more time, I could have been as unkind as my boss. I mean, I have commented at times that we run the most efficient Stalinist system in the world. It is efficient by the standards of such centralized systems.

But we need ability—for example, a budget in any business is a set of targets. It is a plan. No plan, as they say in the military, survives first contact with the enemy, and budgets don't survive contact with reality.

When a business encounters changes, it moves money around. When we need to move money around, we are still living within antiquated limits currently in the procurement accounts. We need to go to eight different committees to get approval to move anything

more than \$20 million out of a \$379 billion defense budget. That is just an invitation for the worst kind of micromanagement, not only up here, but among our proliferating staffs, to deal with things that none of you, none of us, are really going to have to look at.

Congress has made enormous contributions to the management of the Defense Department, and I think it should be recognized. Go back—you can probably go back further—my memory goes back to the Polaris submarine, which I think would have died in its cradle if it had been up to DOD. It was forced through by this branch of the government.

More recently, I think the success we have had with global positioning systems and with JDAMS is due in part to pressure from Congress insisting that these were programs that needed to be funded better than we were doing.

I am not saying that all of the wisdom lies on one side of Pennsylvania Avenue, but it doesn't lie down in the capillaries, down in the weeds, where none of us, none of you, none of us are really going to have the time to look. At that level, we have got to get the right managers, empower them to run programs. When they are not running them right, as happened in a major DOD program recently, you fire them and you get new managers. But you don't try to have staffs run things. It just doesn't work.

Dov, would you like to add to that?

Mr. ZAKHEIM. Yes, sir.

Congressman, one of the difficulties we have, quite frankly, is that we have a budget that spends about \$1 billion a day right now. We have the authority to move funds that would total 2 days' worth, \$2 billion.

Now, no business could survive that way. As the Deputy Secretary just said, budgets are simply estimates. We cannot manage cash that way.

I know, for instance, that Congressman Shays has been very concerned about how we manage our cash. We have done a lot. We have brought down problem disbursements and we have addressed many other issues in a more direct way than in many years. But the fundamental problem of managing cash is that we simply cannot move funds around, and it creates all sorts of inefficiencies.

I won't take up too much time, I will just give you one example. We are asking for 2 years to spend our operations and maintenance funds. Why? Because if you only have 1 year, as we do today, and there is an imbalance in the accounts, everybody wants to spend that money to get rid of it by the end the fiscal year. Now, that is nuts. We shouldn't be doing that.

Mr. SHAYS. We are going to Mr. Moran, then Doc Hastings, then Ms. Hooley.

Mr. MORAN. Well, Mr. Under Secretary, you and the Comptroller are professionals. You know what you are doing, and we both know that you would not be proceeding with this war without having some estimate of the cost. But I think you are deliberately keeping us in the dark. We are finding out far more in the newspapers than we are from you in testimony.

If you want to go into top secret, fine, do it. But we are the Budget Committee. We need to know what is going to be requested of us.

There was, in fact, a meeting yesterday between the OMB Director and Secretary Rumsfeld and the President. We all know that. We don't know what was discussed. But the Turkish ambassador told me yesterday that there has been agreement on \$14.5 billion—\$6 billion directly, about \$1-billion down payment, another \$8.5 billion to come later. You could at least tell us what you are discussing.

We talked with the Jordanian people. They have figures in mind. The Israelis have figures in mind; \$12 billion has been cited for months—\$4 billion directly and \$8 billion in loans. Egypt is going to get money.

We have to provide the money. We are being told now that there is no way that we are going to be told what it is going to cost until after you have begun military action. If you were on this side of the podium, you would be asking the same questions, and you would know that the Under Secretary and the Comptroller know far more than they are revealing.

Now, you can respond to that if you want. I have got two other questions. But you know, we are not so naive as to think that you don't know more than you are revealing.

With regard to Turkey, let me just make a point. You know the background in Turkey. I agree with you that Turkey is a terribly important ally, not just for its strategic location, but for all of the progress that they made there, their determination to stay secular, et cetera.

But they think they are going to go into the northern part of Iraq, into the Kurdish zone. They say it is for humanitarian reasons; the Kurds feel it is anything but. And if we turn our backs on the Kurds, if we sell out the Kurds for the third or fourth time, it is wrong. And I trust that you are aware of that. I would like some assurance that we are not going to do that to the Kurds again.

Now that is Turkey. I have got to speak up on two other quick questions too. If you don't want to address them now, we need them addressed for the record.

We have been told by Secretary Rumsfeld that he is going to submit legislation calling for a brand new personnel system for DOD civilians. It is going to be basically the same personnel system that caused the Department of Homeland Security authorization to be held up for almost a year.

You are going to take away the collective bargaining rights, et cetera, for civilian employees. I want to get some sense of what you have in mind for that new personnel system that is going to affect 600,000 civilian employees.

And, secondly, you are in a unique position. You have people working side-by-side performing the exact same function, but under different forms of compensation.

You are giving twice as much pay raise to uniformed personnel. You did that last year, you are proposing to do that again this year, as you are for civilian employees. I can't imagine that you are able to retain morale when you are doing that, when you are compen-

sating one group twice as much as the other group who are performing exactly the same function.

You have more civilian employees at DOD than in any other agency, and you are the one who is directly responsible for them.

DOD already took the biggest hit under the reforming government initiative, over 100,000 jobs were eliminated; and we need to have some idea of what you plan in terms of not only retaining and recruiting the caliber of people that we need, instead of just castigating them publicly, because they are committed and they are doing a good job.

And I would like to get some commitment from you that you are going to reward them properly, as though you were a CEO of a terribly important, well-functioning organization.

Mr. SHAYS. Let me just step in. That was a 5-minute question with no time to answer. I am going to say that we have to decide whether we want all of the members to be able to participate.

So, Mr. Secretary, I am going to ask you to answer one or two of those, and just leave those other charges unanswered, which a member can do. But you don't have 5 minutes to answer a 5-minute question.

So, you know, just please—I am sorry, but I hope members will give a question and time to answer.

Mr. MORAN. Mr. Shays, let me just say, this is terribly important. It is the biggest element in the entire budget resolution. And, you know, we have—to be limited to 5 minutes, I know that is at the Under Secretary's discretion, but it is not inappropriate to want answers to these questions.

Mr. SHAYS. These are all extraordinarily important questions. But we have decided as a group, rather than just having five people or six people ask questions, that we will allow others to as well.

I am going to, with all respect, just go to the next member. And the next member is—

Mr. WOLFOWITZ. I will see if there is some duplication, I can try to work answers in.

Mr. SHAYS [continuing]. Doc Hastings, and then Ms. Hooley and then Mr. Schrock.

Mr. HASTINGS. Mr. Secretary, I am not going to take all of the time with my questions. So if you want to use some of my time to respond, I would be more happy.

But I have to say, as one member, that certain budgetary issues are very important when we are in war. You mentioned that in your earlier statement, that we are in war. And I have to think back, what George Washington went through and what the Continental Congress had to do, wondering about the budget of the Revolutionary War that went on longer than they wanted.

I have to think back to what Lincoln must have thought when the country divided. That war went on longer than what he had anticipated.

But in the end, the support was there to fund both of those endeavors, thank goodness.

And we are somewhat in that similar situation. So I wanted to just say that, because we are in a wartime situation, while budgetary issues are important, there certainly has to be some sort of flexibility if we are going to win. I think we intend to win.

So with that, let me change—kind of change where I want to go or what I was talking about here.

And, first of all, thank you for your efforts on the completion of the 767 effort as far as tankers for our Air Force. I know that is being worked on. I just urge you to continue to work to bring that to a final conclusion. I appreciate your efforts.

You spent some time in your opening testimony talking about reorganizing the Defense Department in a variety of ways. And I want to focus on the new technology and perhaps newer players that could come in with new technology.

You said you are going to reform the procurement. You said that several times in responses to questions of my colleagues. I would just like to simply say, can you give me a time line on that?

And, first of all, are you going to have a process for new technologies, maybe perhaps smaller firms? It seems like all good ideas come from new ideas, new firms. Is there a time line on the reforms and specifically the procurement process as you go forward?

Mr. WOLFOWITZ. I suppose like any process it is a continuing one. In fact, we have done a lot of reforms already.

There was recently a major reform of just our acquisition regulations. I wish I could remember the numbers. But they cut it from a volume of about that thick down to about 54 pages, roughly. I will get that.

But it was Pete Aldrich's work; it was impressive.

I assume also that probably helps small contractors, because if you have got to bid on something and the price of entry is reading 2,000 pages of legal gobbledegook, you may go and do your business somewhere else.

One of our big targets is, we are hoping, though, we are really still in the process of consulting not only with the Congress, but elsewhere, in the executive branch and with the President, to put together a package of major legislative initiatives.

If I can answer you and Congressman Moran at the same time on at least one of his questions, one of the things we are looking at—and there has been no decision yet and we will be happy to brief any member of this committee that is interested on what things we are thinking about—is to get more flexibility, first of all, in how we hire civilians. Right now, it is such a burdensome and, in many ways, ludicrous process. No private company would do it the way that we do it through the civil service. It takes so long that good candidates are gone by the time you are able to make an offer to them, especially in a more competitive economy.

One of the results of that is that we still have people in uniform doing jobs that civilians ought to do. Another result of it, I think, is, we probably use contractors a lot more than would be rational if you could actually get people on your professional payroll.

And I want to emphasize too, as I said in my testimony, the civilians in the Department do magnificent work also. That is another reform we would like to work on, something that gives managers the flexibility to pay for good performance. We have had freedom from the Congress in a couple of places, the China Lake experiment notably, where I think some 30,000 people have been operating for quite a few years under a much more flexible pay system, and it has worked well. It not only gives people extra pay, but it

also means that those people who don't perform and don't get the same increases often leave, and that boosts morale all around.

These are things we are looking at. I think they can greatly improve our efficiency, greatly improve the way we spend the taxpayers' money, but they are not changes that we can make on our own. They obviously require agreement with the Congress, and we are in the process right now of consulting about them.

Mr. SHAYS. Thank you.

We will go to Ms. Hooley, then Mr. Schrock and then Mr. Moore.

Ms. HOOLEY. Thank you, Mr. Chairman. Deputy Secretary Wolfowitz, thank you for joining us today about this budget. And let me tell you, before I get to my question, one of the things that I heard: that you actually know, or have a range of numbers for what the war is going to cost and reconstruction is going to cost.

You are just not willing to tell us at this time?

Mr. WOLFOWITZ. No. Can I correct that?

What I am saying is, we can make many estimates. They are different, depending on what you assume about how long the war might last, how many munitions you are going to use, what the reconstruction requirements are afterwards.

There is not a single number; that was my basic point. We don't know.

Ms. HOOLEY. Now, wait a minute. If the President has been briefed on the numbers, you have indicated that you really don't want to—you want to keep it ambiguous until after there is some—the war starts. Then you will be able to tell us the numbers.

I know there are really good people in the Department of Defense who have had lots of experience, and to not be able to give us a range—everybody understands circumstances are different, and when something happens you can say we didn't count on this happening; it is going to cost us this much more. But to not be able to give us, this is sort of a minimum and this is the top, you know, with everything going wrong, this is one that is going to cost us. To give us a range—I just think you can do better than that.

Let me get on to the question that I have. We have—I have been going to a lot of mobilization ceremonies in Oregon for the National Guard and Reserves, and we have got them spread all over the Middle East. I am always amazed at how eager these people are to protect our freedom; and I, you know, appreciate their willingness to go into war and their families that are sending them off. I am very close to the Guard.

I am deeply troubled by the administration's budget request. Based on what I have read, it appears that DOD is borrowing \$1.5 billion a month from its active duty operations and personnel accounts to pay for the cost of the Reserves and National Guard in 2003. It is my understanding that Secretary of Defense Rumsfeld has testified that a supplemental appropriations will be required to pay for the activation and deployment of our Guard and Reserve units. Could you please explain to me why we are being forced to borrow \$1.5 billion per month from a separate account to pay for the Guard and Reserve deployment and why don't we budget for these expenses when we know they are occurring?

Also, I have a personal interest in many of these young soldiers. Can you assure me that the Guard and Reserve units will receive

adequate funding for 2004? Can you identify where the funding will come from in the budget?

Then the last question, very quickly, when are you going to be ready to go through an audit and get a clean financial statement?

Mr. WOLFOWITZ. I will do the best I can in the time available.

We have very good people who do cost estimates, and they depend on the assumptions you give them. There are even very legitimate issues about whether, for example, if you want to measure the cost of combat, whether the number of days, which is an old way of doing calculations, is in fact the appropriate measure in an era of precision guided munitions. It gets complicated, and some of it in fact gets classified. I think if I gave you a truly—a range that truly covered the range of possible numbers you would say, well, that is so wide a range it is not very helpful.

Let me emphasize there will be an appropriate point when we will give you numbers and assumptions that go with the numbers, and the assumptions may probably prove not to be correct. We are not in a position to do that right now.

On this issue about the \$1.5 billion, I think what you are hearing is the estimate—I emphasize it is only an estimate—of what the ongoing operations in Afghanistan and elsewhere in the world are costing us in terms of operating expenses and extra people; and some chunk of that in fact is the money that we spend for the Guard and Reserve officers that we mobilize. We were able to stop borrowing, to use that phrase—we don't borrow, we call it cash flowing—when we got the extra \$6 billion out of the war reserve in the closing hours of the Appropriations Committee conference.

At some point we—depending on how those numbers go—we may be back into having to cash flow and, therefore, coming back for more money. But this is one of those huge uncertainties. Even in an operation that has been ongoing now for 18 months and where would you think there is some predictability, we keep trying to find ways to push down the numbers of Guards and Reserve so that we don't have to mobilize people and pull them away from their families. We have had some success in doing that; and, as a result, some of our early estimates have proven to be too high.

There is adequate funding for the Guard and the Reserve in the budget, and there will be adequate funding for—one way or another—for people we call up that are serving their country enormously well, and they certainly shouldn't have to pay for it any way out of their pocket.

Mr. SHAYS. You did pretty well answering about 12 questions. Excuse me. It wasn't 12, but a number.

We are going to go to Mr. Schrock and then Mr. Moore if he is here. If not, it will be Mr. Edwards and Mr. Wicker.

Mr. SCHROCK. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, Dr. Zakheim, for being here. I will be very quick.

Of all the things you said in here I think the most poignant was we need legislative relief probably in more ways than we realized before we came in here. But you need relief, and that is something we need to focus on.

No. 1, the budget puts \$98.6 billion in paying the benefits, which is an increase of a little more than 5.5 percent; and it funds a raise.

The pay raise is anywhere from 2 percent to 6.5. The budget also reduces out-of-pocket expenses for moving from 75 to 35 percent for private housing, dropping to 0 percent in 2005. This is a huge investment for the taxpayer.

No. 1, is it accomplishing what you want? No. 2, are we keeping the best and brightest? And No. 3, do you think we need a draft?

Let me add another thing here that I was asked to ask, and it is a good one because I am interested in this. This budget increase of Special Operation Forces by 47 percent—don't we wish—47 percent for a total of \$4.52 billion. Can you give us what your vision would be for an enhanced role for the Special Operation Forces?

Mr. WOLFOWITZ. Let me try quickly.

First of all, I think the improvements we are making in covering base allowance for housing adequately and getting people out of inadequate housing are having hugely positive effects on morale. I hear about that from pretty much every commander I visit, and you probably hear it down in your district a lot. I think some of those things that indicate how you care about people and how you are treating people have a value that exceeds what a straight cash payment might have done.

The—I am sorry. I should have taken a note.

Mr. SCHROCK. Are we keeping the best and brightest?

Mr. WOLFOWITZ. Oh, yes. I am sorry. I think we have made some great advances in the last few years with a lot of support from the Congress in being able to correct some of the gap that existed between those absolutely key middle enlisted officer ranks where some of our most valuable people are and where the private sector was bidding them away fiercely. Those are people who, by most measures I have seen of employment compensation equivalents, were hurting and the kinds of targeted pay raises the Congress has allowed us to apply have made a very big difference.

Mr. SCHROCK. Do we need a draft?

Mr. WOLFOWITZ. Right. You know, the short answer is, no, we don't. We have wonderful people who are volunteering. If we drafted everybody, we wouldn't know what to do with them, frankly. The numbers would just be beyond belief.

You know, I will say one thing, and I think I am speaking for everyone in uniform in saying this. I am not in uniform, but anytime anybody makes the mistake of thanking me for working for the Defense Department I say that it goes the other way. At this time of national emergency to be able to feel that you are working on the problems that matter most to the country is of enormous satisfaction, and I think the men and women in uniform are volunteering because they feel good to be able to do something for the country. The more we can find ways for people not in uniform to help the country the better. But we don't need several million people under arms.

Mr. SCHROCK. Special Operations Forces.

Mr. WOLFOWITZ. And Special Operations Forces. We have taken a very broad look at thinking—a snapshot history. We had the disaster of so-called "Desert One" in 1980, the failed hostage rescue mission in Iraq—in Iran, excuse me. We learned a lot of lessons from that. We developed a Joint Special Operations Command. We

developed the Delta Force. We developed the incredible ability to go to a specific place and rescue people.

The war on terrorism has demonstrated that we need a different—an additional kind of capability that—not to go to just one place where you have a lot of time to prepare and plan with one specific force that is just trained to the edge for that, but the ability to respond on a global scale, to respond not within even a few days but sometimes within 30 minutes, to be able to go after those most critical terrorist targets if and when they pop up. I would say that is the short summary of how we are organizing. There are a lot of political and diplomatic and other considerations that go with that as well, but we definitely need our special operators in a way we have never imagined them before September 11.

Mr. SHAYS. I think we are going to go to Mr. Edwards and then Mr. Wicker. Then if Mr. Scott isn't here, it will be Ms. Capps.

Mr. EDWARDS. Secretary Wolfowitz, I have twice supported authorization of force against Iraq, and I applaud this Bush administration, and you, for fighting to increase defense spending that I think is necessary for our national security. But I was appalled at the recent administration proposal to cut \$141 million from the important Impact Aid military education program.

In my district, which includes Fort Hood, as you know, an installation where 12,500 troops have already been given orders to ship out any day now to the Iraqi theater, and which might have 30,000 soldiers leaving if 1st Cav Division is deploying that area, \$31 million of funds would be cut from two public schools that educate the large majority of those soldiers' children.

Frankly, last week, as I spent 3 to 4 days there at Fort Hood talking to the soldiers about to be deployed, the wives, the spouses, husband or wife, the children, frankly, I had a hard time explaining to the children that, as your mom or dad is getting on that airplane to go fight for our country, perhaps putting their life on the line, the administration is saying it is OK to be cutting the children's education funds back at home. And these cuts would be dramatic. Massive teacher layoffs, many educational programs would have to be reduced.

Now, in fairness, you were not part of putting together that Impact Aid request. It came, I assume, either out of the Department of Education or OMB or collusion between the two of them. But while you didn't create the problem, I know you understand as much or more than anyone in this room that in a time of war we need high military morale. And our soldiers will have enough to worry about if they are fighting in Iraq. They shouldn't have to be—it would be immoral to have them worrying about their children's education back at home.

My question to you, sir, would you be willing to use your influence to try to put this proposed cut—dramatic cut in Impact Aid to rest before we commence a possible war with Iraq, not after? We don't need to let this morale problem fester for the next 6 to 9 months. I think it could be devastating to morale. In fact, I think this just would cause a lot of our soldiers to think that our country has a lot of gall to ask them to fight for us while we are not willing to educate their children back home.

Any thoughts on that? Can you help us on that?

Mr. WOLFOWITZ. As you correctly pointed out, Congressman, it is in a different department. I guess my first reaction is to say, absolutely, the morale of our families is a critical thing, and we need to think about it as we go to war. My second thought is, I know how hard it is balancing the priorities in the Defense Department with what some people think is a large but we don't think a large increase. The other departments are facing that challenge with more or less flat funding levels. So I don't know what the Department of Education had to balance.

I think it is fair, and I don't want to go any further than that, for me to at least undertake to talk to them and see if they did think about that.

Mr. EDWARDS. Well, I hope you would; and I hope you will do so aggressively. Because, while the Department of Education isn't under your direct jurisdiction, you are part of the leadership of this administration that the American people are entrusting to carry out this possible military conflict in Iraq. I think it has a direct impact on the morale of our soldiers.

I can tell you that, having met with many of them, I think it is morally wrong to send soldiers and servicemen and women to war while we are cutting their education funds back home. I certainly couldn't look them in the face and say we could propose a \$700-billion tax cut for people sitting here safely at home over the next year or two, while they are being asked to fight for our country, but yet we can't afford to educate their children. I would urge you to take whatever time you could to, during a very busy time for you, to pursue that.

My final question would be this, if we have time to answer it. Given this administration's request for a \$700-billion tax cut, does the Bush administration still oppose full funding of concurrent receipt for military retirees?

Mr. WOLFOWITZ. The short answer is yes, and it is a long and difficult issue.

Mr. SHAYS. We will have you give him the long answer later, OK?

Mr. WOLFOWITZ. OK.

Mr. SHAYS. I am sorry. We are going to go——

Mr. WOLFOWITZ. Can I just say because at the end of the day it comes out of things that we need for our active duty people.

Mr. SHAYS. Mr. Wicker, then Ms. Capps and then Mr. Putnam, if Mr. Barrett isn't here.

Mr. WICKER. Thank you, Mr. Chairman.

Dr. Wolfowitz, I want to try to squeeze in two questions.

First of all, there is no question we are making significant increases in the defense budget as a result of our security needs. Indeed, out of the discretionary spending, defense is well over half of that figure. You testified in your prepared statement that 45 percent of the defense budget goes to cover personnel costs for our men and women, and I am sure that that is a proper amount.

My first question is this. As larger increases go to personnel and operations, there is a concern that the percentage of the defense spending year after year for research and for procurement appears to be shrinking. Would you comment on the long-term implications of this pattern?

Mr. WOLFOWITZ. I don't think—I think we are in fact bringing up overall our investment accounts. There is some debate about the S&T portion of that. But when we say investments accounts, we mean science and technology, research and development and procurement; and we have been bringing up those numbers not as fast as we would like because of the considerations you mention about the cost of people and the cost of readiness. But we have been bringing them up; and I think, by making some hard decisions, we have been able to move some of that money in the places where it is better needed.

The Navy, for example, this year is retiring several quite usable surface ships early in order to save operating costs to invest in the Navy in the future. I think that was absolutely sound judgment. But we have to make some of those kinds of choices. Some of these numbers shift around because quite a few of our programs, especially tactical aircraft programs, were in—have been in R&D for a long time. The F-22 is just entering the procurement phase. The Joint Strike Fighter is still in the R&D phase, but it will soon be in the procurement phase. So you would expect money to shift between those accounts.

But I would say overall we are increasing the investment accounts. Would we look to increase them faster? Yes. But I think we made the right set of decisions in balancing them among priorities.

Mr. WICKER. Alright. Well, let me then shift to a question about Reserves. I know we have already talked about this in this hearing, but my concern is the overdeployment or the overuse of our Reserve forces. You and I have had a conversation earlier about this. And I agree with Mrs. Hooley. It is just amazing the enthusiasm that we see at these deployment ceremonies. But when you see units coming home from an 18-month deployment and then having to turn right around and go back again, I just wonder if we are going to have to look down the road at increasing our active duty force even more than you have projected so that people will be willing to stay in the Reserve for that occasional call-up that we have sort of been facing over time.

Mr. WOLFOWITZ. Two comments. No. 1, one of the reasons we are making such a strong push to have more flexibility to hire civilians and to make better use of the civilian work force is our estimate that we have some 300,000 people in uniform who could be—who are basically performing civilian functions. And before we start adding to end strength, which is extremely expensive, I think we ought to look at whether more of that could be provided from the civilian side.

The second point to make is that I think some of the worse stresses in the Reserves come from those units. We developed this euphemism in the Pentagon called low-density, high-demand, which Rumsfeld says that just means something we didn't buy enough of; and one of the things was a whole lot of units that come out of Reserves. So there is no other place to go for them, and we need to fix that. We need to have the right kind of density proportional demand, and I think we really need to rethink about some of these functions that were put largely or entirely in the Reserve forces.

Mr. SHAYS. Thank you very much, Mr. Secretary.

We will go to Ms. Capps, then Mr. Putnam; and I think, Mr. Ford, I might have skipped you. I think you are next, and then it will be Mr. Emanuel after that on your side.

So, Ms. Capps, you have the floor.

Mrs. CAPPS. Thank you.

Mr. Secretary, I wish to turn to the conflict between Israel and the Palestinians, if I may. I strongly believe that U.S. concerted efforts to resolve the Israeli-Palestinian conflict today would help build international support for our efforts to disarm Iraq and to fight global terrorism. The biggest obstacle to peace is Palestinian terrorism. All forms of terrorism must cease once and for all.

Another obstacle is Israeli settlement policy. The West Bank and Gaza lands given over to settlements make it more and more difficult to envision President Bush's vision which he articulated again last night, and I quote: "Two states, Israel and Palestine, living side-by-side in peace."

Settlements are not only a political issue, but a tremendous drag on the Israeli economy and military. Last night, the President said very clearly settlement activity in the occupied territories must end. Last month, David Ignatius of the Washington Post reported that you favor, "concrete measures" such as dealing with Israel settlements. So I would like you to articulate how you think the United States can implement the President's desire to see a halt in settlements.

Specifically, let me ask about one such concrete measure. What about linking settlement policy to the loan guarantees that Israel has requested from us?

Now I am likely to support Israel's request for a substantial amount of U.S.-backed loan guarantees and supplementary military aid. Israel's dire economic straits and security challenges warrant this assistance. There is a proposal circulating in Congress to pre-condition the loan guarantees on an immediate credible freeze of all settlements. Mr. Secretary, can you just give me your views on this proposal? Does the Bush administration support an immediate settlements freeze and how does the President plan to make it clear to the Sharon government that settlements must stop?

Thank you.

Mr. WOLFOWITZ. Did she run out of her time, I hope?

Mrs. CAPPS. You wish.

Mr. WOLFOWITZ. Because, clearly, these are questions—I am sorry to cop a plea here. But these are clearly questions that the State Department has to answer. Their lives are difficult enough without people like me complicating them.

But as you correctly said before you started to mention them, I was going to answer by quoting the President. He was quite clear last night. That was a very important statement. And he also said, and I don't—you made the point which many people make. It would be easier to deal with Iraq if we could settle the Arab-Israeli conflict first. With all respect, we don't have—I mean, I don't know how long that would take, but we certainly don't have that kind of time.

Mrs. CAPPS. But, Mr. Secretary—

Mr. WOLFOWITZ. Let me—you can use up the time.

Mrs. CAPPS. No. Go ahead.

Mr. WOLFOWITZ. OK. The comment works in reverse equally. I have always said progress on either one of these issues can help on the other. We are on the verge one way or another, peacefully still, if possible, or by force, if necessary, of getting rid of Saddam Hussein's weapons of mass terror. And if we get rid of the whole regime, think about what the impact of that is going to be on the Arab-Israeli peace process. It is not an accident at all that two of the biggest breakthroughs we have made in the last 50 years in negotiations between Arabs and Israelis happened after Saddam Hussein's defeat in 1991. It was right after that that we were able to get Arabs and Israelis sitting down face to face in Madrid for the first time ever, the first time that anyone except the Egyptians had met with the Israelis.

It is not an accident. When Anwar Saddat made his brave trip to Jerusalem 25 years ago, it was Saddam Hussein who organized the Baghdad block to oppose him. With Saddam Hussein out of the picture, it will be a much better atmosphere for peace and a much better atmosphere to consider the kinds of issues that you are talking about. But, hopefully, we might come to some of them in a voluntary way, instead of necessarily by pressure.

Mrs. CAPPS. But you beg my question and I think you sell yourself short. Because you have been a point person for the administration on Israeli-Palestinian conflicts, and you have made public statements.

Mr. WOLFOWITZ. No, I haven't. I am sorry.

Mrs. CAPPS. Well, I have watched your statements, and they have been very effective. It is clear that as we handle the Israeli request for aid, much as we negotiated with Turkey last week, this is directly related, as you mentioned, to our policy in Iraq. You are going from the back to the front. I want to start from the front and go to the back, and I would appreciate your personal views on this matter.

Mr. WOLFOWITZ. I am not allowed personal views. But let me give you views that actually speak for the administration that are my deeply held personal views.

I have spoken quite a few times, including I think near your district in Monterrey or maybe it is in your district.

Mrs. CAPPS. North, that is close though.

Mr. WOLFOWITZ. When I talk about bridging the dangerous gap with the Muslim world—for 3 years, I was the American ambassador to Indonesia, which has 200 million Muslims, more than any other country in the world. And I think fighting the war on terrorism, as the President said, is not only about killing terrorists. It is about building a just and peaceful world beyond the war on terror.

There is simply no question that the ongoing, continuing violence between Israelis and Palestinians is one of the cancers of the Middle East. It is unquestionably a burden on our policy. You correctly said terrorism is a major part of the problem. I think settlements are also a problem, as the President said, and we have got to address both.

Mr. SHAYS. Thank you, Mr. Secretary.

We are going to go to Mr. Putnam, then Mr. Ford and then Mr. Hensarling.

Mr. PUTNAM. Thank you, Mr. Chairman.

Mr. Secretary, I have—I share Mr. Wicker's concerns about our continued investment in research and development. The Pentagon has given us some tremendous innovations that allow us to maintain our battlefield superiority because of investments that were made decades ago, so it is important that we continue that.

By the nature of your high-risk research or the investments in that high-risk research, there will be some gray areas. There will be some pushing of the envelope by its very nature. And the Senate has expressed some concerns over our work on data mining. While I don't necessarily share those concerns I am curious about your thoughts on our oversight of high-risk research and whatever cost benefits can be applied to that type of high-level, questionable, high-risk type work.

Mr. WOLFOWITZ. OK. I mean, there are many kinds of risks. You know, there is the risk that goes into space exploration. We have become totally too risk adverse, I think, in a lot of our technology developments, to the point where things take much longer, become much more expensive and we cancel things because one test went wrong. We would never have had many of the most available programs we have if we did that. But I have a feeling when you were talking about high risk and you mentioned data mining that you are most concerned about a particular project that some people think is going to invade American civil liberties.

Let me be very, very clear. The project that we have in the Defense Advanced Research Project Agency on information awareness is not something that goes and procures data from anywhere. There is an impression that has been created in the press that this is a project to go and secure information on people's bank accounts or their credit card accounts or things of that kind. Those are activities that can only be done under very strict authorities by the Congress, either by the Justice Department and appropriate Justice authorities in the case—in domestic cases or, where it is overseas, by the CIA.

We don't do it. The Defense Advanced Research Project Agency doesn't do it. At least—let me be more specific—the Defense Advanced Research Project Agency doesn't do it. We have intelligence agencies in DOD, obviously. The project that has gotten so much attention and controversy is to develop the kind of software that could be used by people who have the legal authority to look at that kind of data and to make those kinds of links. It is not data mining, therefore, in the sense of going out and securing data. It is a kind of data pattern recognition that allows people who have a data base, for example, collected by intelligence that puts together dirty telephone numbers of lots of terrorists.

It is amazing how complicated it gets and how quickly. But if you stop and think about it, if you have the ability and a large mass of data to recognize that some bad guy has phoned somebody, who phoned somebody, who phoned somebody, who phoned somebody who has a relative, who phoned somebody else who is another bad guy, suddenly, wow, you have got two bad guys connected in a way that never really phoned each other. It is that kind of pattern in large masses of data that require new computing tools, and that is

what—and that is only what the Defense Advanced Research Project Agency is working on.

And let's be clear, too—I mean, we are fighting a war on terrorism in order to protect the civil liberties that we love and cherish in this country; and we do not want to, in the course of fighting terrorism, destroy those civil liberties. But it is also the case I think, that if we don't aggressively pursue terrorists, and end up, as a result, with some kind of catastrophic attack on the United States, that will be a much greater threat to civil liberties because people will be clamoring and saying, why indulge this kind of thing if you don't have to?

I mean, just as my friend Jim Woolsey sometimes points out—just think about it—after the attack on Pearl Harbor, it was three of the great American civil libertarians—Justice Hugo Black; Governor, later Chief Justice, of California Earl Warren; and President Franklin Roosevelt—every one of them with reputations for civil liberties, who agreed to put Japanese in concentration camps.

When you get a shock afterwards—I mean, I think we have been remarkably intelligent and calm as a country in reaction to September 11. I hope we can preserve that calm if something worse happens. But it is incredibly important if you want to protect civil liberties to prevent catastrophic terrorist attacks.

Mr. PUTNAM. I am glad you had an opportunity to respond to that on the record because I was disappointed that the Senate slipped that into the omnibus. I think it is the DNA technology of the 21st century. It is something that people will take some time to get comfortable with, but it is a necessary law enforcement tool, and I am glad you had the opportunity to expand your vision for that.

Mr. SHAYS. Thank the gentleman.

Mr. WOLFOWITZ. Thank you for the question.

Mr. SHAYS. We go to Mr. Ford and then Mr. Hensarling and then Mr. Emanuel.

Mr. FORD. Thank you, Mr. Chairman. I will be brief.

Thank you, Secretary Wolfowitz, for being here. A couple of questions. I know some of them have been asked, and I don't know if I heard the answers altogether.

This coalition that we are building around the globe and particularly our efforts in Turkey, is the amount that they are asking for, is it \$15 billion? Is that what it looks like the deal will end up being to gain access to their bases or access to their soil?

Mr. WOLFOWITZ. No, although one of the things we are discussing with them is taking some of the money that we were prepared to provide in cash and enabling—

Mr. FORD. What is the amount, Mr. Wolfowitz? I know our time is short.

Mr. WOLFOWITZ. Well, we are still negotiating. It is in the range of—I mean, it is basically—I am hesitant about what is comfortable to say in public here. I think the press reports say it is \$6 billion.

Mr. FORD. It is the people's money, so we might as well say it publicly.

Mr. WOLFOWITZ. Well, I know, but you are in the middle of a negotiation. That is the difficulty. The point is that we are—it is roughly \$6 billion. But, as we pointed out to the Turks, there are

many other benefits that will come not only from the kind of direct expenditures that our troops will make in Turkey. But most importantly of all the big benefit to Turkey is not something we are paying for, not something we are paying the Turks for, it is something we are accomplishing by liberating Iraq, by ending the economic sanctions. Turkey stands to gain far more than the amounts that we are—

Mr. FORD. Does that include the loan guarantees, too, this \$6 billion figure?

Mr. WOLFOWITZ. The \$6 billion would be part of securing the loans that get you to some of those larger numbers, and I think the \$15 billion you may have heard is based on borrowing against that cash.

Mr. FORD. I read this morning that we now have a similar arrangement working with Saudi Arabia. Is there a dollar amount attached to that one as well?

Mr. WOLFOWITZ. I am not aware of us paying the Saudis anything. They are helping us in many ways, and they can afford to.

Mr. FORD. Let me ask you this, Mr. Chairman. I don't want to ask this to be critical. It just appears—I know it has been said over and over again—but this is becoming more of a coalition of people bought and paid for.

Mr. WOLFOWITZ. That is not true.

Mr. FORD. Well, there is certainly—I appreciate how emphatic you and the doctor are in denying that, but there is—that perception certainly exists, and at least in my little district in Memphis people are asking the question.

Mr. WOLFOWITZ. I would love to have a chance to respond, if I may.

Mr. FORD. Sure, but let me finish my question. I hope that that is not the case, and I hope that we can indeed move beyond that. I would love to hear you answer that question as well one last one before we run out of time.

In my district, the 164th Airlift Wing will play a role on the Reserve and Guard unit side. One of the challenges that we face—I saw in the President's budget there is a proposal for a 20 percent cut for the C-17 aircraft. The C-917 will replace the C-5, as you well know—and this is all new to me and even new to many in my district—the C-5, which in turn will be used to replace the four-decades-old C-141, which is currently used by the 164th in my district. I would hope as you all think about your expenditures and where you allocate dollars at least be aware that the point has been made over and over again here on the committee about our Reserve units and the antiquated equipment that many of them are using. In light of all the other things that are mentioned here, the new spending and tax cuts and so forth, I would hope that you all would bear that in mind as you ask for monies in the supplemental and even as you look at the budget you presented to this Congress and make changes there.

But I would love to hear your response to this perception which you and the doctor emphatically deny. But I can—as much respect as I have for the administration and I have for you, Dr. Wolfowitz, I am not going to accept you telling me what people in my district

are saying. You can tell me that their impression is wrong. But to suggest that I am wrong in what I hear—

Mr. WOLFOWITZ. I didn't mean to imply that for a minute. I am sorry. No, no. I understand where they might have gotten that impression. But, no, I am happy to have a chance to correct it.

Mr. FORD. Sure.

Mr. WOLFOWITZ. There are two countries that get a lot of attention, Jordan and Turkey, that are hurting badly and are going to hurt worse if there is a conflict. And they need economic support. There is no question about that. It is not a matter of being bought and paid for. It is a matter of cushioning them from some of the effects.

On the other hand, to name one small country that stood up early, Qatar, the small Persian Gulf emirate, is not only giving us enormous basing rights but they are paying a very large fraction of the cost of expanding those bases for American forces.

The Gulf Cooperation Council countries who have been very careful because these are countries whose survival could be threatened if Saddam Hussein is around 2 or 3 years from now to punish them have stepped up and said if there is a conflict they will come to the defense of Kuwait. They said that a little while ago. It is a hugely important step.

Mr. FORD. We couldn't convince Turkey that they had the same interest as Qatar?

I know. Yes, sir, Mr. Chairman. I thank you.

Mr. SHAYS. Yes, sir.

Mr. WOLFOWITZ. There are some 40-plus countries that have offered us basing rights or overflight rights or troops and—

Mr. SHAYS. Maybe someone from our side of the aisle will give you a chance to answer this question. Why don't we do that, because this is an important question.

Right now, it is Mr. Hensarling, it is Mr. Emanuel and Ms. Brown-Waite. And, Mr. Hensarling, maybe you could give him some opportunity to answer that question as well, if that is possible.

Mr. HENSARLING. Mr. Secretary, continue on.

Mr. SHAYS. Is that alright, sir?

Mr. HENSARLING. Yes.

Mr. WOLFOWITZ. Thank you.

There are some 40-plus countries that have stepped up to the plate here.

Most recently, I believe the Prime Minister of Latvia, who came out openly in our support, got a lot of attention a few weeks ago when first some eight heads of NATO governments and then joined later by 10 candidate countries came out openly in opposition to the French and German position. President Chirac of France told them they ought to shut up and behave themselves like good East Europeans, and that produced a wonderful reaction from those people. They are doing it because they believe in it. Believe me, we aren't offering them anything.

If we want to talk about who is bought and paid for, it would be worth looking at who has big financial commercial interests in Saddam Hussein's regime, who are the big importers, who are the big oil developers.

I get so tired of hearing chants of “no war for oil.” if we have to go to war—and I still hope we don’t have to go to war—this will not be a war for oil. If we wanted Iraq’s oil we could have had it years ago by dropping all the sanctions on Iraq. It is because we are concerned about a threat to the United States, and if we go to war it will be to eliminate that threat, and in the process we will be liberating Iraqi people.

It is not accidental that, as she was quoted in the newspaper the other day, Angela Merkle, who is a leading figure in the German opposition who herself lived in East Germany for many years, is a physicist, said to my secretary, well, I am from the “old” Europe, but I have some of the “new” Europe in me. She meant by that the new Europe, that is, those people who were newly liberated from Communist tyranny and understood the importance of liberation.

It is kind of ironic that you have all of these countries—Latvia, Estonia, Poland, Bulgaria, Romania—who know what it is like to be under a dictator and because of that are stepping up to support the liberation of another people; and it is frankly disappointing that France and Germany, who had that experience themselves, seem to have other ideas in mind.

Mr. HENSARLING. Mr. Secretary, if I could go back and refocus on some dollars and cents here. I certainly personally believe there is nothing more important our Federal government does than protect us and our liberties from all enemies, foreign and domestic. But that doesn’t mean that any government entity can’t be more efficient with the use of dollars. In your own testimony you speak about the need to be more efficient in business practices. You alluded to it in some earlier questioning, but I want to make sure that it is very clear to myself and the rest of the committee that, in trying to run a more efficient Pentagon, what is it that you would need from this particular Congress that you do not have now that would allow you to run a more efficient and more productive operation?

Mr. WOLFOWITZ. Let me sketch it in general terms. As we have been up around consulting, people say the devil is in the details. Show me the details. We don’t have the details until we have done this kind of consultation and get some idea from you and your colleagues what is feasible, some idea from the President of what he is willing to try to get.

But there are three principal areas. One is personnel, more flexibility in hiring, more flexibility to reward people for performance, more flexibility to manage some of the slightly odd restrictions we have on—we would like to be able to keep good performers in the senior ranks in the military in their positions longer. We think they go—circulate through too fast.

Then, on the other hand, we think there are instances where people are forced to hang on for an unnecessary year or two when they ought to retire because of rules. We would like that kind of flexibility.

Secondly, flexibility in the procurement system from a whole range of issues. Some of them are enormously controversial and may not be doable. But we are looking for ways to deal with them. Some of them are self-inflicted by us but in many cases now reinforced by law.

The third area is some flexibility, not very much, in the application of environmental laws or, more importantly, it is not their current application but to protect us from what we think would be excessive extension of things like considering every use of an artillery piece on a military base as an act of waste dumping, which is a potential threat to our ability to train.

Those are the three main areas.

Mr. HENSARLING. Thank you, Mr. Secretary.

Mr. SHAYS. Thank you, Mr. Secretary, for really trying to cooperate on these 5 minutes here. You have been awesome.

Going to Mr. Emanuel, Mr. Brown-Waite—excuse me, Ms. Brown-Waite and Mr. Scott.

Mr. EMANUEL. One statement about Turkey and then another question about your comments about Saudi Arabia, our troops based there as an impetus to al Qaeda.

You know, in the very week that we negotiated with Turkey, the administration also told the Governors there wasn't any more money for education and health care. I appreciate this is aid being handled out of the State Department, not so much your area, but just so the facts are given, that I contacted CRS. They expect us to give about \$24 billion in loans and grants, that you—we pay \$11 billion in Pell grants now—so that would be, basically, double the size of Pell grants for what we are giving Turkey, as well as you could probably provide basic health care to all the working people who have no health insurance for over a 5-year period for \$24 billion.

So I would recommend to the Governors that they may want to hire the person that has been negotiating for Turkey on their behalf, because he has done a very good job.

I understand what my colleague hears from Memphis, because that is what I am hearing at home. Whether it is true or not true, the perception is our negotiators haven't done a very good job as it relates to dealing with Turkey. I do think there is a serious matter as it relates to making sure that we have a, if we have a war, a second front here.

I will tell you, though, for folks that are dealing with issues of education, health care, homeland security, what we are doing for Turkey vis-a-vis what we are telling our folks back home that we have, the two stories don't exactly gibe, especially in the week in which you are negotiating with Turkey and maybe improving the offer, telling our Governors who are dealing with police, firefighters, teachers and health care providers, we don't have the resources—just so you know what we are hearing and you feel the same sense of what we are hearing from the people who pay the bill.

And your comments as it relates to troops in Saudi Arabia post the gulf war, that that was the impetus behind al Qaeda, which is true, my big worry about going into this effort is that if we don't broaden the coalition beyond what is perceived as an American-British-led effort, perceived American-British-led effort, and we have 100,000-plus U.S. troops practicing basically community policing in Baghdad for over a year, that the very thing we are trying to snuff out, which is terrorism as well as change the region, is exactly the opposite effect that we will have.

My concern is that if we go in there and occupy, given the size of the force of the American—the size of the force without other allies, without the perception of a broader coalition, that the very terrorism we are trying to hit will end up being an impetus for it, just like the U.S. troops in Saudi Arabia were for al Qaeda; and, B, the type of change we are trying to bring to the region, which I think is true and will have that impact, it will be set back because it doesn't seem like the coalition is broader and deeper, as you just mentioned the 40 countries.

Mr. WOLFOWITZ. Let me be quick.

First—on the first point, I hope our listeners in Turkey picked up your comments, because the President told them that what we have put on the table is all we can do. We have looked at some ways to make it more usable for the Turks, but that—they think their negotiators didn't do very well.

I have to tell you that that is what the big controversy is in their parliament. But we are not trying to bargain. We are trying to cover legitimate costs.

On this other subject, you use the phrase “American-British-led coalition.” Well, it was an American-British-led coalition in the first gulf war. It was an American-British-led coalition in the Kosovo war. There have to be some leaders. We are not even in the sole position as leader. Tony Blair has been heroic.

But I said there are more than 40 countries that are going to participate. Many of them are Arab countries who do not want to be remembered by a Saddam who survives as somebody who spoke out against Saddam. Therefore, until they are absolutely sure where we are going, they are going to be cautious.

But I will tell you, in the aftermath, I think if you want a glimpse of what it is going to be like, I would urge you to do what I did a week ago Sunday and go to Dearborn, MI, where the largest Iraqi-American community in this country lives, some 400,000 I was told. There were 300 to 400 people that turned up on a snowy Sunday on 4 days' notice to talk to me.

The two things that were overwhelming was, first, one personal tragedy after another. And later they said, it is worse than we would say in public because we are afraid; we are still afraid here living in the United States that he may assassinate us. So, many people didn't want to talk; and nobody wanted to take talk openly about the widespread use of rape as an instrument of terror and yet was overpowering.

The second thing, and I—these are almost all people who have families back in Baghdad. One of them even told of getting a call from a friend of his who is a son of a minister in the Iraqi Government. They are just unanimous in their hope that we will help to liberate Iraq. These are Arabs, 23 million of the most educated people in the Arab world, who are going to welcome us as liberators. When that message gets out the whole Arab world, it is going to be powerful counter to Osama bin Laden.

The notion that we are going to earn more enemies by going in and getting rid of what every Arab knows is one of the worst tyrants—and they have many governing them—is just nonsense. To the contrary, we will have millions of people witnessing on our behalf; and we will finally be able to stop bombing Iraq every day,

which we have been doing for more or less the last 12 years. It will be a great step forward.

Mr. EMANUEL. Thank you.

Mr. SHAYS. Thank the gentleman.

Ms. Brown-Waite and then Mr. Scott and then Mr. McCotter.

Ms. BROWN-WAITE. Thank you very much.

Thank you, Mr. Deputy Secretary, for being here today.

As you know, in Florida, we face many hurricanes; and, historically, the National Guard has been there to help. We are now down approximately 5,000 National Guardsmen and -women who have been transferred, some within our country, some going overseas. Tell me what backup plans you have should the National Guard actually be needed.

My second question relates to the fact that I have National Guard units in my area, including a brand new helicopter unit at the Brooksville Airport. As the Department continues its intentions to transform the Guard and transform the entire Defense Department, tell me how the Guard is going to fit into this transformation.

Also, are we going to have enough to—while we are sending the Guard overseas, are we going to have enough to help us with Homeland Security?

Mr. WOLFOWITZ. Well, first of all, where the Guard fits in transformation is a crucial piece of it. I mean, we have depended so much on the Guard since September 11. We couldn't have managed many of the things we do without them. Clearly, if we are going to transform the military, the Guard is part of doing that. I think there are many lessons that we are learning already about mobilization procedures, about what kinds of tours we can expect people to undertake, about trying to avoid problems that were mentioned earlier of people being in low-density, high-demand units and getting called up right away over again.

Clearly, just because of where they are located and their relationship to State governments the Guard needs to be, I think, one of the absolutely critical elements in developing the military's role in responding to attacks on the homeland; and that includes response to mass casualty attacks. It is, I guess, not an accident that Gen. Eberhart, who is the new commander of the new Northern Command, which is the first time we have had a commander for North America, has as his deputy a National Guard general. His links into the National Guard are absolutely critical.

Something we have clearly got to look at is this assumption that if there is a war overseas the National Guard—we have been dual tasking the National Guard to an extraordinary extent, expecting them in wartime to do jobs overseas, in peacetime to be available for domestic emergencies. Frankly, before September 11, we didn't think nearly enough about the possibility that these two things will happen at the same time, not by accident but because our enemies will attack us in both places at once.

We are facing that, for example, with the Coast Guard. We have always depended on the Coast Guard to perform harbor protection duties when the Navy deploys in emergencies as they are doing now, and we have called up Coast Guard Reservists to fill that gap. It may be the right thing to do. The Coast Guard people tell me

that it is very important even for homeland security to have that integration with the Navy where the Navy does the long-range protection and the Coast Guard does the close-in.

But we have got to look at every one of those assumptions where we assume that everything is nice and stable at home if we go to war overseas. That is not true anymore.

Let me try for the record to get you a specific answer on where Florida stands. I mean, every State has this problem that Guardsmen have been called up. And there is a lot of backup. I don't know to what extent it is also available if there is an emergency. I know there are arrangements if there is an emergency in one State to provide it from another.

Ms. BROWN-WAITE. We have been fortunate that we haven't had massive hurricanes since 1992. But it is almost—as you know, it is very, very cyclical; and I have had many people just express a concern that our numbers on the National Guard have been diminished so.

Thank you. If you would get that information, I would appreciate it.

Mr. SHAYS. I am sorry. Are we all done? Yes. Thank you.

We may—Mr. Secretary, you may be able to help us out, because we only have three people left. We have Mr. Scott, we have Mr. McCotter, and we have Mr. Davis, and I think we would cover everybody. Do you think could you stay like 3 or 4 minutes—oh, I am sorry. Mr. Baird. Well, let's do the four, and then let's see if you can just—

Mr. WOLFOWITZ. I will try to talk fast.

Mr. SHAYS. I am sorry, Mr. Scott. I took up too much time. You have the floor.

Mr. SCOTT. Was that out of my time?

Mr. SHAYS. No, it is not on your time. Starting right now. Let's go.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Wolfowitz, it is good to see you.

Mr. Secretary, in 1941, President Roosevelt signed an executive order prohibiting discrimination in employment in defense contracts. That has been the law of the land for over 60 years. You don't have a problem complying with that, do you?

Mr. WOLFOWITZ. I sure hope we don't.

Mr. SCOTT. Thank you.

The gentleman from Texas mentioned Impact Aid and concurrent receipts. I think you have responded to those. I just wanted to share the fact that I have the same concerns and hope we can deal with them effectively.

Yesterday, it is my understanding that the CNO mentioned 375 as an appropriate level of the number of ships in the Navy. How are we doing in closing the gap from where we are now? It is my understanding that we are actually decommissioning more than we are building. What are we going to do to close the gap?

Mr. WOLFOWITZ. Well, the decommissioning is in fact to provide some money for building. I mean, it is a conscious decision that if we go down now we will have some money to go up faster in the future.

The 375 number—I would like to see what the context was for that. If we ever get to that number, I think it was speculating in the context of some of the smaller ships the Navy is looking at for what they call the toro combat, close-in combat, where you would actually go to smaller ships in order to get higher numbers where numbers matter. I think we are still probably a couple of years from a decision on whether to buy those kinds of ships and what kinds they would be.

The target, the number that we anticipate in fiscal year 2009 as a result of this program will be 305. We dip down to a low in 2006 of 291. We are going down to 292 in 2004, as low as 291 in 2006 and then coming back up to 305 in fiscal year 2009.

Mr. SCOTT. Since we are anticipating the possibility of a war, is there any thing in the budget for maintenance of ships after they get back?

Mr. WOLFOWITZ. That, frankly, is one of the costs that we are looking at in putting together what the cost of war would be. Again, it depends on how many of various kinds of things you send over.

You know, my boss points out regularly that we sent—I don't know, what was it—300,000 people to Desert Storm and all kinds of stuff, and we brought 90 percent of it back unused. Gen. Myers points out—I am, quite frankly, with Gen. Myers on this one—it was a lot better not to have to use it. It may be that sending too much sometimes is the key.

We are trying to get it right. We are trying to make sure we have everything we need. We are also trying to make sure that we don't have huge things that—bills that turn out to be unnecessary. But there will be some considerable wear and tear, I would say, in the single digit billions of dollars to fix things.

Mr. SCOTT. And that will be requested.

Mr. WOLFOWITZ. That would have to be part of any Iraq-related request, yes.

Mr. SCOTT. Could you say something about the effect that the multi-year procurement is having in helping the shipyards build ships?

Mr. WOLFOWITZ. Dov, do you want to comment on that?

Mr. ZAKHEIM. Sure. As you know, there was an arrangement reached particularly with respect to building amphibious ships down in Mississippi and in Louisiana; and then Bath up in Maine was going to build the DDGs, the guided missile destroyers. Multiyear works well for everyone, simply because it allows the corporate planners to have a sense of the type of labor force they are going to have and what they need to have on their order books from subcontractors. It also allows the Navy to plan. It is an integral part of the plan that the Deputy Secretary just talked about that will start ramping us up above 300 ships in the outyears.

Mr. SCOTT. That is also happening with the *Virginia*-class submarines. You are doing that with them, too.

Mr. ZAKHEIM. It certainly is, sir.

Mr. SCOTT. Thank you.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

Mr. McCotter will have about 3 minutes, and then I am just going to ask—Mr. Davis and Mr. Barrett want to just make a comment to you before you leave, two wonderful members on the other side of the aisle.

Mr. McCotter, you have 3 minutes.

Thank you. Mr. McCotter, we have about 3 minutes. If Mr. Davis and Mr. Baird want to make a comment. Mr. McCotter, you have 3 minutes.

Mr. MCCOTTER. I will limit myself to a quick couple of observations of Dr. Wolfowitz. First, I represent Michigan, I border Dearborn, and I want to thank you for what you did by going down there and addressing the community.

Mr. WOLFOWITZ. They are wonderful people. They are unbelievable.

Mr. MCCOTTER. Your visit was very helpful. I would like to make sure that I reiterate that the Caldean community is especially concerned in post Iraq, that they are allowed to participate in the government to protect their rights and status as a minority.

Mr. WOLFOWITZ. Can I say for the record, Congressman Moran isn't here, I think it is very important that all communities in Iraq be protected, certainly including the Kurds who have suffered horribly over the years.

Mr. MCCOTTER. I would also like to say that, just for the record, my distinction on the question of whether this is a new war with Iraq. I believe it is just because military hostilities were stopped, ceased in 1991, there was never a real resolution of this war, because Iraq did not disarm, did not show that they had disarmed. In short—

Mr. WOLFOWITZ. They did not comply with the conditions of the cease fire.

Mr. MCCOTTER. Yes. I would also like to point out that it is not a new war, because it is a new theatre in the continuing war on terrorism that started in the wake of September 11. This is the arsenal of al Qaeda, and it will be defeated. But, as all Americans must realize, that it is not the end of the war on terrorism with the defeat of Iraq, it will be the continuation, sadly. It will be just a battle, much as Tara was a stepping stone to eventually being able to bomb Japan.

I am heartened by the fact that everyone is questioning the perception of the coalition. I did not hear anyone say that the coalition was bought and paid for, just that they had heard the perception. Now, as a firm believer in the fact that perception is not reality and the truth will set us free, I trust that after your testimony, everyone will go back to their districts and change that perception so that the truth will get out there, and assuage the concerns of our shared constituents in this country.

I would also like to point out on a less glib note, your statement about no on data mining to Mr. Putnam. This is a country that was founded on the concept of give me liberty or give me death. It is not a question of whether we want to infringe civil liberties in protecting ourselves, it is a question that we must not.

Data mining may have its uses, but all technology is morally neutral. It is only as good as those people who utilize it. And I am very concerned about data mining, because I think it was Churchill

who said, those who seek to trade liberty for security will receive neither.

So I would just ask that we be very careful with that. I thank you for your time.

Mr. WOLFOWITZ. Thank you.

Mr. SHAYS. I just say that Mr. Davis and Mr. Baird have been here the whole time. And we also have our colleague, Mr. McCotter. If they could just make a comment to you, an observation. They have been here the whole time. It won't be 5 minutes. Gentlemen, just real quick.

Mr. DAVIS. Thank you, Mr. Chairman. I appreciate your indulgence, Mr. Secretary, in letting us make a couple of observations to you. Let me make two in just the time that I have. One thing that I think explains some of the passion that you saw on this side of the aisle about the administration's indirection of the cost of the war is a contradiction that strikes me after being here yesterday and today.

The Secretary of Health and Human Services testified in great detail about the amount of money that the administration wants for its Medicare program, about \$450 billion over 10 years. But the administration says it doesn't know the content of that plan.

Now, today it is the administration's position that after spending elaborate amounts of time planning and doing various scenarios for war with Iraq, and thinking about various contingencies that we don't know the cost. So on one day we know the number, but don't know the plan, today it is the opposite. I think that is what explains some of the passion over here.

Mr. SHAYS. Mr. Baird, let me just have you make your comment too.

Mr. BAIRD. Mr. Secretary, nonrelated Iraq things. First of all, I am very concerned about the transfer of U.S. high technology overseas in the sense of chip manufacturing plants. Current there is the one custom chip fab in the United States. Many custom chip fabs are being relocated in mainland China. That is an economic problem for us, but it is a defense problem for you. I would like to work with you to try to correct that.

Secondly, I have got a number of small contractors, small businesses at the cutting edge of among other things, laser and display technologies who are really concerned that the Department of Defense procurement procedures advantage greatly the very large military suppliers to the disadvantage of small suppliers, who may actually be more cutting edge and more cost effective, and I would like to work with you on that as well as I think it is both a defense and an economic issue. And I appreciate the chance to work with you.

Mr. SHAYS. I thank the gentleman.

Mr. Kind.

Mr. KIND. Thank you. Thank you, Mr. Chairman. Mr. Secretary, you have been very generous with your time, I will be brief. Personal observation. To the extent that you have any discussions or influence over this, many of our guard units right now are being called up, deployed on very short notice. You know, sometimes less than 48 hours.

The troops are ready, they are well-trained, well-motivated, very impressive. The families, however, are going through a very difficult time. Anything you can do to try to give a little more notification so they can get their family affairs in order, I have been going to a lot of the farewell ceremonies.

And then, finally, I think as we go forward in further hearings and testimony from the administration, we do need to be talking more about defense modernization, where we can realize some cost savings in the budget as far as the new generation of weapons systems that has to occur.

Otherwise, in defining our country, we are also going to be bankrupting it at the same time. But thank you for your time.

Mr. SHAYS. Mr. Secretary, let me just say you have been awesome. You have really tried to cooperate with the committee. You have spent wonderful time. I would be happy to have you make any closing comment you might want to make. But you have been a wonderful witness, and more importantly, you have been a terrific deputy secretary.

Mr. WOLFOWITZ. I would just say quickly, I will compliment the questions. They were very good. I will tell Congressman Skelton, by the way, that you were nice but you were tough. I think that is probably what he wanted.

If I can just say, very quickly, I share your concern about high tech. Let's see what we can do. The problem is, the most problematic thing is to keep our competitive edge.

Congressman Davis isn't here, but I would just say a short answer is every time we go on a briefing on the war plan, it immediately goes down six different branches of what a scenario might look like. If we costed every single one of them, we would maybe give you a range between \$10 billion and \$100 billion, you would say that is useless and you would be right.

Finally, on the National Guard issue, the Guard and Reserve issue, we are very aware, painfully aware that the system has had some major bugs in it, frankly it is one of our cold war relics. It was designed to get 10 divisions in Europe in 10 days to meet a Soviet invasion. This is a more complex thing, and the result has been, we have given Guardsmen and Reservists too short a notice.

The Secretary of Defense has spent several hours of his own time working on fixing it. We understand what a big problem it is.

Thank you, Mr. Chairman. You have been a great chairman. I appreciate getting out of here on time.

Mr. SHAYS. Thank you. We have another witness. And we are grateful to that witness. We have Mr. Steven Kosiak.

And again, Mr. Secretary, thank you. Mr. Kosiak, if you would come up we will get you started. Mr. Kosiak, it is very good to have you. You are a very respected expert on defense issues, on strategic issues. And while we have a few members here, it will obviously be on the record. And you are speaking to more than just this room as well, I might add. Thank you for being here. Happy to hear your statement and then we will have some questions for you.

[Prepared statement of Mr. Spratt:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF SOUTH CAROLINA

I would like to welcome you to our hearing today, Mr. Kosiak, and we thank you for your testimony. The Center for Strategic and Budgetary Assessments is known for the high quality of its work on defense budget issues and on defense strategy as well, and we look forward to hearing from you.

**STATEMENT OF STEVEN M. KOSIAK, DIRECTOR OF BUDGET
STUDIES, CENTER FOR STRATEGIC AND BUDGETARY AS-
SESSMENTS**

Mr. KOSIAK. Thank you very much for that very kind introduction. And I would like to tell the committee what an honor it is to be asked to testify here today, especially in the same hearing with Deputy Secretary of Defense Paul Wolfowitz and Dov Zakheim, two individuals for which I have a great deal of respect.

I have submitted my remarks for the record, and with your permission, would like to summarize them now. I want to focus on three important topics related to defense planning, policy, and budgeting. The first issue is the current defense plan and the question of whether it is affordable and sustainable over the long term.

The second question is whether the current defense plan adequately provides for the transformation of the U.S. military. And the third question isn't so much a question, but the third topic I want to look at is the cost or potential cost of a war in Iraq, and the cost of post-war peacekeeping operations and other related costs.

First, I want to look at the affordability and sustainability of the current defense plan. During the 2000 Presidential election campaign, then-candidate Bush suggested that the U.S. military should take a different more selective approach to modernization. Specifically, he said that the real goal should be to move beyond marginal improvements, to replace existing programs with new technologies and strategies. As he put it, to skip a generation of technology.

That was an approach that the administration also reaffirmed in the 2001 Quadrennial Defense Review. However, in its most recent budget submission, it really backed away from that, and largely abandoned the notion of skipping a generation.

With the exception of the *Crusader* artillery system which was canceled last year, the administration has basically decided to go ahead with all of the major modernization programs it inherited from the Clinton administration.

This is a decision that has enormous implications for the Department of Defense, and enormous implications for the budgetary requirements for the Department of Defense. Under the President's latest plan, funding for the Department would increase to about \$430 billion by 2009. That is \$430 billion in today's dollars adjusting for inflation. That is a lot of money. That is 22 percent more than we spent on average during the cold war, and it is roughly equal, in fact, slightly above the level we spent in the 1980s, the decade of the Reagan buildup.

But even those defense budgets would probably not be enough to pay for the administration's long-term defense plan. A recent report by the Congressional Budget Office estimated that we would have to bring funding up to something like \$500 billion a year to implement and execute the administration's long-term defense plan.

And that is not just bringing it up to \$500 billion for the next several years, that is bringing it to \$500 billion and keeping it at roughly that level over a period of decades.

Achieving that kind of increase, an increase of that magnitude and sustaining it over a period of not several years, but over several decades would be really unprecedented historically. It is not just historical precedence that suggests that this would be very difficult to accomplish, it is also the existing fiscal environment that we face.

Two years ago we had a projection by the Congressional Budget Office that we would see surpluses of some \$5.6 trillion over the 2000–11 period. In the last 2 years, that shrunk to a point now where over that same period CBO is now projecting a surplus of only \$20 billion. So there has been a dramatic change in 2 years.

It is likely that things will get even worse over the coming decade, because the CBO baseline doesn't take a lot of important things into account. It doesn't take into account calls for additional tax cuts, calls for more funding for defense, calls for more funding for homeland security, calls for more spending for prescription drug benefits, more spending for domestic programs like education, and perhaps most significantly, it only looks out to the end of this decade.

Around the end of the decade we are going to see the beginning of the retirement of the baby boomer generation. This has enormous implications, as you all know, for spending on Social Security and Medicare, and it is likely to lead to substantially greater deficits in the years beyond this decade.

So given that fiscal outlook, which I think is frankly pretty bleak, it is probably not wise to assume that we will be able to achieve and sustain budgets for the Department of \$500 billion a year. It is not just achieving them, it is sustaining them over a period of decades. Fortunately, I think there is good reason to believe that the United States can meet its security requirements at lower budget levels than the administration's plan, projects or would—or the Congressional budget office estimates would actually require.

One important element in this strategy would be for the administration to re-embrace the notion of skipping a generation of military hardware to focus more on selective modernization.

DOD is, in general, I think, the best equipped to make those kind of decisions, but I think one area where they clearly would have to make some harder choices than they have made to date, is in the area of tactical fighter modernization.

We are still planning to build some 3,300 aircraft of three different types at a total cost that is likely to exceed \$300 billion over the next several decades. I think certainly some of that modernization is necessary, but I think there is good reason to believe that we could maintain a very effective capability with a reduced number of new aircraft and perhaps even cancelling at least one of these three next generation fighters.

Another critical element that could, over the long term, help the U.S. military live within lower, or at least not quite as high defense budget levels as are currently projected, would be the transformation of the U.S. military.

Importantly for our discussion today, the ability to transform the military over time is likely to help DOD control costs and possibly even reduce costs, because by definition a transformed military, if it is successfully transformed, should be more cost effective than the military it is replacing.

This notion of transformation, has been a central theme of this administration over the past couple of years. But I think there is some reason to question whether we are really headed in the right direction on transformation, whether we are really spending money to support an effective transformation strategy.

Overall, R&D funding still appears to be very much still tilted toward traditional kinds of weapons systems. If you look at spending comparing unmanned aerial vehicles versus tactical fighter modernization, the 2004 budget request projects about \$870 million for UAVs and \$5.5 billion for the three manned fighter programs.

Now, no one would suggest that we should transform the U.S. military overnight, or that these ratios should be reversed. But I think they still suggest that we are still tilted too far toward traditional systems and not enough toward innovative new kinds of systems.

The allocation of funding among different R&D budget activities also raises questions about the priority given to transformation in the 2004 budget request. In particular, the current plan seems to underfund science and technology programs. S&T programs are the earliest stages of R&D development, and it is widely believed that the discovery of new technologies is most apt to happen at that stage, and especially the kinds of technology that could really lead to dramatic improvements in military capabilities. As a result, most advocates of transformation believe it is important to really focus a lot of energy on S&T programs.

But, under the administration's plan, funding for S&T programs would only be increased by about 10 percent in real terms. That is adjusting for inflation, there would only be about a 10-percent increase between 2001 and 2004.

And in fact, in this year's budget, the 2004 budget request would represent a slight 6-percent decline from 2003. This very modest increase in S&T funding is in stark contrast to funding elsewhere in the R&D budget.

The overall R&D budget is projected under the administration's plan to increase by 42 percent in real terms, between 2001 and 2004. And the ballistic missile programs are projected to increase—funding for ballistic missile defense programs is expected to increase by 76 percent over this same period. So this seems to indicate to me a misplaced or a lack of emphasis on S&T programs, which, again, I think are a very important facet of developing transformational capabilities.

The last area of R&D I would like to look at is the full scale development phase. Essentially, the administration argues that the programs in this phase are transformational oriented, for the most part. Some of them I think are, but I think there are some questionable programs in there as well.

This is an important area, because it is, by far and away, the most expensive area of R&D. Perhaps the most questionable programs being funded in this area again are the administration's—

are the three tactical fighter modernization programs. This focus on relatively short-range systems seems at odds with recent experience we have had in Operation Enduring Freedom in Afghanistan, Desert Fox in Iraq back in 1998, and prospectively the experience we may have in Iraq in a few weeks if we do decide to go to war.

A better approach might be to shift some of the funding allocated to full scale development for these kind of traditional short-range systems and put more money into developing long range weapons systems, and in particular, putting more money at the S&T level.

The next area I want to talk about—the next and last area—is the potential cost of a war in Iraq and its post-war occupation. We have done a study at the Center for Strategic and Budgetary Assessments. And what we tried to do is look particularly at costs related to direct military costs of a war and peacekeeping operations. So that is what I want to talk about mainly.

We also did look a little bit, try to get some range of estimates for costs, nonmilitary costs for reconstruction and other activities, I will talk briefly about those as well.

One of the important fundings which I think will come to no surprise to the members of this committee, is that there is an enormous amount of uncertainty inherent in trying to make this kind of estimate. There is a great amount of uncertainty about the number of troops that will be involved in the conflict, the duration of the conflict, the level of hostilities we will meet, the level of allied participation.

And when we have that level of uncertainty about what the fundamentals of the conflict or the peacekeeping are going to look like, by definition you are going to have a wide range of estimates on what they could cost. Notwithstanding the limitations of doing this kind of analysis, we did make a stab at it.

We looked at three different scenarios, the cheapest and smallest scenario was that we have 175,000 troops in the region and the war would last a month. The more costly, high-end option was that it would require a total of 350,000 troops and the war would last 6 months.

Given that range of fundamentals, we estimated that the cost of a conflict would range from something like \$20 billion to as much as \$85 billion.

Occupation costs we found could, and in fact, are likely to exceed the cost of the war itself. Again, you have to make some guess-timate about the size of the peacekeeping contingent. We looked at again a range of scenarios. Looking at an average of 20,000 U.S. peacekeepers there for a period of 5 years, to a high average of 90,000 peacekeepers kept there for 5 years.

Those two scenarios generated cost estimates ranging from about \$25 billion to \$105 billion. Again, that is over a 5-year period. Another important point, I think it is not strictly budgetary, but it is important, is that even a relatively small occupation force could have a significant impact on the readiness of the U.S. military to fight wars elsewhere and to carry out other important missions.

In Bosnia and Kosovo, we have, in the past couple of years, had only about 10,000 peacekeepers in the two countries combined. That obviously is a much, much smaller presence than we are likely to see, at least over the first year and possibly several years in

Iraq. And the need to maintain this, as I say, could hurt readiness levels, it could also harm the ability of the U.S. military to attract and retain quality personnel.

On the other hand, if we are able to fight a war there and win it quickly, we may, in some sense, be able to put up with more reduced readiness levels because we will have defeated one of the powers in the region that the U.S. has been most concerned about.

Although the focus of our study was on direct military costs, as I noted earlier, we also took a brief look at trying to estimate some of the various nonmilitary costs associated with a war and its aftermath. I will run through these real quickly. These costs include something like \$6 [billion] to \$10 billion potentially for aid to allies in the region; \$1 [billion] to \$10 billion for humanitarian assistance; \$5 [billion] to \$12 billion for governance activities, like paying their police force and civil service for some period of time; and \$10 [billion] to \$105 billion for reconstruction and recovery activities.

In the end, the degree to which one can usefully conduct sort of a cost benefit analysis to try to determine the wisdom of launching an attack against Iraq is limited, I think. And one reason for that is there is a substantial divergence between reasonable low-end estimates of the cost and reasonable high end estimates of the cost. There is also the possibility that if an effective and durable peaceful solution to the current crisis cannot be found, that we might ultimately have to fight a war later that could be actually more costly, both in terms of direct military costs and nonmilitary costs.

Nevertheless, I think speculating about the cost of a potential war with Iraq and its aftermath is a useful exercise. Ironically, I think that one of the most useful things that comes out of this kind of analysis is it just really graphically illustrates just how uncertain going to war is.

Now, the fact that there is a great amount of uncertainty doesn't mean that we shouldn't go to war. We operate in an environment of imperfect information all of the time, and certainly policymakers trying to decide whether to go to war or not, operate generally, operate in that kind of environment.

But I do think the existence of that level of uncertainty does provide some insights on some things that we may or may not want to do. And one thing in particular I think is that one might want to be more cautious about signing on to additional tax cuts or spending increase than one would otherwise would be when there is that level of uncertainty.

It might make more sense to wait until—if we do have a war—to wait until the war is over and we have a better idea for what the costs of the war itself were, and also what the costs of peacekeeping operations might be and reconstruction activities might be.

A second insight is simply the importance of support, of gaining support from friends and allies. The direct military cost of this operation, unlike the 1991 gulf war, are very likely to be borne by the United States alone, and to the extent that we have peacekeeping troops there, we are likely to incur those costs as well. On the other hand, if we could get more allied participation to help with peacekeeping after a conflict, that would obviously reduce the cost, and support from friends and allies might be most important in

trying to cover some of the reconstruction and humanitarian assistance and other nonmilitary costs.

With that, I would like to end my presentation. And I would be happy to take any questions.

[The prepared statement of Mr. Kosiak follows:]

PREPARED STATEMENT OF STEVEN KOSIAK, DIRECTOR OF BUDGET STUDIES, CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS

Mr. Chairman and members of the committee, it is a great honor to have the opportunity to appear before you today to discuss the administration's fiscal year 2004 defense budget request and related issues.

Today we face a remarkable range of challenges to our national security. There is the terrorist threat demonstrated so cruelly and tragically on September 11, 2001, the threat posed by the proliferation of weapons of mass destruction (WMD), and the imminent prospect of a war with Iraq. Figuring out how to effectively meet and manage these challenges while also meeting other demands on our national resources, such as preparing for the retirement of the baby boomer generation toward the end of this decade, is a complex and difficult task. But it is a task that falls very much within the purview of this committee.

It is my hope that I might be able to help you, in some small way, with this task through my testimony today. I would like to focus on three important topics related to defense policies, programs and spending. First, the question of whether or not the administration's latest defense plan puts the Department of Defense (DOD) and the services on a path that is likely to prove affordable and sustainable over the long term. Second, whether the administration's defense plan adequately provides for the transformation of the U.S. military. Third, I want to spend a few minutes talking about the cost of a potential war with Iraq, as well as the costs associated with occupying Iraq for some period of time after a war.

AFFORDABILITY AND SUSTAINABILITY

During the 2000 presidential campaign, then-candidate Bush suggested that the U.S. military should modernize its military "selectively," but that the real goal should be to "move beyond marginal improvements—to replace existing programs with new technologies and strategies: to skip a generation of technology." These goals were essentially reaffirmed in the 2001 Quadrennial Defense Review (QDR). After conducting a series of program reviews, however, the administration seems to have decided to largely abandon this approach. With the exception of the Crusader artillery system, which was canceled last year, the administration has decided to move ahead with virtually all of the major weapons platforms included in the plans it inherited from the Clinton administration.

This decision has enormous implications for United States' defense spending. Buying all of these new weapons systems in the quantities called for in the services' plans, while simultaneously maintaining the current force structure and high readiness levels, will require dramatically increasing funding for defense over not just the next few years, but the coming decade and beyond.

The administration's fiscal year 2004 request would bring the defense budget to its highest level since the early 1990s. The proposed budget would be about 13-percent higher than the average cold war budget in real (inflation-adjusted) terms.¹ In addition, under the administration's long-term plan, by fiscal year 2009 DOD's budget would reach some \$430 billion (fiscal year 2004 dollars). This would be about 22 percent above average cold war levels and roughly equal to the levels sustained during the 1980s, the decade of the Reagan buildup. But even defense budgets of this magnitude are unlikely to prove sufficient to pay for DOD's existing long-term plans.

A recent report by the Congressional Budget Office (CBO) concluded that—assuming historical rates of cost growth in operations and support (O&S) activities and modernization programs—executing existing plans could require substantially higher DOD funding levels, perhaps as much as an additional \$60 billion a year.² This would bring defense budgets up to nearly \$500 billion (fiscal year 2004 dollars) annually. Furthermore, this level of spending would need to be sustained through 2020 and beyond. Such a large and sustained boost in spending on defense would be truly unprecedented for the United States.

Moreover, it is not just historical precedent that suggests that achieving and sustaining these budget levels would be difficult. The long-term Federal budget picture has dramatically worsened over the past 2 years. Two years ago, CBO projected a 10-year surplus of about \$5.6 trillion over the fiscal year 2002–11 period. By con-

trast, CBO's baseline estimate now projects large deficits for the next several years and a net surplus over the entire fiscal year 2002–11 period of only about \$20 billion. The dramatic change in the government's fiscal outlook has resulted from the enactment of large tax cuts, as well as a weak economy and other factors. Unfortunately, it is likely that the outlook will deteriorate still further in coming years. The administration has proposed further large tax cuts at the same time it is proposing a large increase in defense spending. In addition, there is strong bipartisan support for adding a Medicare prescription drug benefit, and increasing spending on homeland security, as well as popular domestic programs, such as education. Taken together, this mix is likely to lead to sizable deficits for the remainder of this decade. And at the end of this decade, we will begin to see the retirement of the "baby boomer" generation, with the enormous implications that has for spending on Social Security and Medicare, and for a worsening of the deficit picture in the years beyond this decade.

With this fiscal outlook, is it really reasonable and wise to assume that DOD will be able to achieve and sustain budget levels approaching \$500 billion a year? Probably not. At best making such an assumption amounts to a very risky approach to defense planning. It is risky because, if those funding levels do not materialize or prove unsustainable, DOD will have wasted tens of billions of dollars developing new weapons systems it cannot ultimately afford to put into production, or which it can produce only at very low and inefficient rates.

Fortunately, there is good reason to believe that United States' security requirements could be met at lower levels of defense spending than are now being proposed by the administration, or would be required to execute the services' existing plans. One important element in this alternative strategy would be for the administration to re-embrace the concept of skipping a generation of some weapons systems and to adopt a more selective approach to modernization.

DOD and the services are in the best position to make the kinds of hard choices that would be required to implement this approach. But one step in particular would almost certainly be necessary: the services' plans for tactical fighter modernization would have to be significantly scaled back. These plans have been cut somewhat over the past few years, but they still remain enormously ambitious and expensive. Altogether, the Air Force, Navy and Marine Corps plan to buy some 3,300 new F/A-22 fighters, F/A-18E/F fighters and Joint Strike Fighters at a cost that is likely to exceed \$300 billion over the next couple decades. Given the level of superiority the United States currently enjoys with its existing air forces, the impressive capabilities of new, and far cheaper, current-generation systems like the F-16 block 60, and the promise of new kinds of systems such as unmanned combat air vehicles (UCAVs), it seems clear that the planned buy of at least one of these new, next-generation fighters could be substantially scaled back, or possibly even cancelled, without significantly reducing the effectiveness of the U.S. military.

TRANSFORMATION

Another critical element that could, over the long-term, help the U.S. military live within more modest spending levels is the transformation of the U.S. military. The need to transform the U.S. military is driven by the notion that advances in technology—especially information technology—and changes in organization and operational concepts could dramatically alter the way wars are fought in the future. This revolution in military affairs (RMA) creates both opportunities and challenges for the U.S. military. However, transforming the U.S. military is, over time, likely to help DOD control or even reduce costs because, by definition, successfully transformed forces should prove more cost-effective than the forces and systems they replace.

A central theme of the administration's fiscal year 2004 defense budget request is that it would effectively support efforts to transform the U.S. military. According to the administration, the proposed budget includes \$23 billion in fiscal year 2004 and \$239 billion over the fiscal year 2004–09 period for military transformation. Until the DOD provides greater detail concerning which programs are included in this estimate, it is difficult to evaluate the reasonableness of this claim. However, an analysis of DOD's fiscal year 2004 request for defense research and development (R&D) suggests that—notwithstanding administration assertions to the contrary—efforts to transform the U.S. military may not be receiving sufficient priority in DOD's plans.

Although the fiscal year 2004 budget request does contain R&D funding for several programs widely believed to be important for transformation (such as the conversion of four Trident ballistic missile submarines to carry Tomahawk cruise missiles), overall, defense R&D funding still appears to be very much focused on tradi-

tional kinds of weapons programs. For example, while the fiscal year 2004 request includes \$870 million for the development of unmanned aerial vehicles (UAVs), it includes \$5.5 billion for continued development of the services' three short-range fighter programs. No one believes that the U.S. military can or should be transformed overnight, but the magnitude of the tilt in this budget toward traditional systems may be inconsistent with an effective transformation strategy. The allocation of funding among different R&D budget activities also raises questions about the priority given to transformation in the fiscal year 2004 budget request.

The Science and Technology (S&T) budget activity includes programs in the three earliest phases of R&D. The discovery and development of new technologies promising major leaps in military capability are most likely to be made in these early phases of R&D. As a result, many advocates of military transformation believe that S&T programs should be given a high priority. Under the administration's plan, at \$10.2 billion, funding for S&T programs would be higher in fiscal year 2004 than it was in fiscal year 2001. But the level of growth provided is extremely modest compared to the increases provided for the overall R&D budget. Under the new plan, S&T funding would be increased by only some \$1.3 billion, or 10 percent, between fiscal year 2001 and fiscal year 2004. Moreover, the administration's new plan actually calls for spending 6 percent less on DOD S&T programs in fiscal year 2004 than in fiscal year 2003. By comparison, the overall defense R&D budget is projected to grow by some 8 percent in fiscal year 2004, and by a total of 42 percent between fiscal year 2001 and fiscal year 2004. The level of increase requested for S&T programs also falls far below that projected for specific programs, such as ballistic missile defense (BMD) activities and fighter development.

The Advanced Component Development and Prototypes budget activity represents the middle phase of the R&D process. Compared to S&T programs, which focus primarily on technology development, these efforts place greater emphasis on the development of specific weapon systems and testing under realistic operational conditions. Thus, the potential for major breakthroughs is less, but there is a greater potential for nearer-term payoff. As such, the demonstration and validation phase of the R&D process might also be considered important for transformation. Under the administration's plan, funding in this category would grow by \$5.1 billion, from \$8.1 billion in fiscal year 2001 to \$13.2 billion in fiscal year 2004, or 57 percent. However, this projected increase is almost entirely due to the expansion of BMD programs. Exclusive of BMD programs, funding for advanced component development and prototype programs would grow by only some \$773 million, or 11 percent, over this period.

The final phase of the R&D process I would like to discuss today is the System Development and Demonstration (SDD) budget activity. This is the last phase of R&D prior to production, as well as the most costly phase for most programs. Under the administration's plan, SDD funding would increase more than any other category. Between fiscal year 2001 and fiscal year 2004, SDD funding would grow by about \$7.5 billion, or 81 percent. Altogether, SDD programs account for \$15.9 billion of the fiscal year 2004 request. The dramatic growth in SDD funding projected in DOD's latest plan essentially reflects the administration's decision—*noted earlier*—to proceed with virtually all of the new weapons systems it inherited from the Clinton administration and to forego the "skip-a-generation" strategy it had earlier embraced. Among the long-planned, next-generation programs included in the administration's plans are the F-35 JSF, the Comanche helicopter, and the DD(X) destroyer. Much of the funding growth projected for SDD funding is due to the JSF program in particular. The decision to move ahead with this short-range fighter will cause SDD funding associated with fighter modernization programs to increase by \$3.6 billion between fiscal year 2001 and fiscal year 2004.

The administration and the services claim that most of the programs undergoing SDD are transformational systems, or at least consistent with a sound transformation strategy. If so, this boost in SDD funding may be appropriate. But at least some of the weapons programs being pushed into SDD appear ill-suited for the emerging security environment. Perhaps most questionable is the administration's decision to continue to move ahead with all three planned tactical fighter programs. This focus on relatively short-range tactical fighters seems at odds with recent experience in Operation Enduring Freedom (Afghanistan, 2001–03), Operation Desert Fox (Iraq, 1998) and elsewhere which suggests that, in the future, the U.S. military may often have to operate in wartime without access to forward bases. Arguably, a better approach would be to shift some of the funding allocated to SDD programs to earlier phases of the R&D process, and to focus more on the development long-range weapon systems.

Another problem is that the administration's decision to move ahead with so many costly traditional programs today might make it impossible to increase fund-

ing for more transformational kinds of systems several years down the road, when their feasibility and potential is better proven and they are ready to be moved beyond the early stages of R&D. This is because the level of funding absorbed by traditional weapon systems entering SDD today will grow significantly over the next 5 years or more, as they move further through the SDD process and into production—potentially crowding out promising, emerging transformation programs.

Determining the appropriate level of funding for defense R&D is an important and challenging task. But even more critical than the question of how much the United States should spend on defense R&D is the question of how defense R&D dollars should be spent. This is especially true today because of the widespread belief that we are in the midst of an RMA. However, while there is broad support for the notion that the U.S. military needs to be transformed, there is substantial disagreement over specifically what transformation means.

In general, if one believes that the greatest threats to United States' security are relatively near-term challenges, and that the major weapons programs already under development by the services are well suited to counter those challenges, or one believes that the threat of ballistic missile attacks is the preeminent military challenge facing the United States, one may be well satisfied with the administration's new R&D budget request and its approach toward transformation. As noted above, it provides a large increase in SDD funding, as well as an enormous increase for BMD programs over the fiscal year 2001–04 period.

On the other hand, if one believes that the greatest threats to United States' security are likely to emerge over the longer term, and that many of the major weapons programs included in the services' existing plans will likely prove ill-equipped to counter these challenges, or even many of the challenges that exist today, one may find the administration's plan more troubling. As mentioned earlier, the most significant breakthroughs, with the greatest long-term payoff, are likely to come from the earliest phases of R&D. But the new defense plan provides only a very modest increase in funding for S&T programs over the fiscal year 2001–04 period, and would actually reduce funding for S&T activities between fiscal year 2003 and fiscal year 2004. Moreover, the effect of buying-in today to the many weapons programs in the services' existing plans may be to crowd out purchases of more transformation-oriented weapons programs later in this decade.

POTENTIAL COST OF A WAR WITH IRAQ AND ITS POST-WAR OCCUPATION

The last topic I would like to discuss is the potential cost of a war with Iraq and its post-war occupation. The Bush administration has made clear that it expects to soon begin military operations against Iraq, very possibly within the next several weeks. One of the factors that should be considered before a decision is made to initiate a war with Iraq is the likely financial and economic costs of such a war, as well as the costs of any post-war occupation, humanitarian assistance and reconstruction activities. In deciding whether to begin this war, it may be appropriate to give greater weight to political, strategic and humanitarian interests than to the likely financial and economic costs and consequences of the war, but those costs should at least be considered.

I would like to share with you some of findings of a recent CSBA study that attempted to estimate a subset of the potential costs of a war and its aftermath. Specifically, our study focused on the direct military costs to the United States of a war with Iraq and the post-war occupation of the country. Although not the focus of our study, I will also briefly note some of the non-military costs that might be incurred in the aftermath of a war. Among other things our study concluded the following:

- Given the great amount of uncertainty surrounding the size of the U.S. force that will be required, the level of resistance that will be offered, the duration of the conflict, the level of allied participation, and other factors, it is impossible to provide more than a very rough estimate of even the direct military costs of a war with Iraq and its post-war occupation.
- Based on publicly available information, a reasonable estimate of the number of U.S. troops that might ultimately be deployed to the Gulf region would be 175,000 to 350,000. Assuming the war were to last from one to 6 months, this suggests that the direct military costs of the war could range from as little as \$18 billion to as much as \$85 billion, roughly the cost of the 1991 gulf war.
- Occupation costs could far exceed the direct military costs of the war itself. A reasonable estimate of the average number of U.S. troops that would be required for occupation and peacekeeping duties after a war might be 20,000 to 90,000 over the next 5 years. This would equate to 5-year costs of roughly \$25 [billion]–\$105 billion.

- Even a relatively small occupation force could greatly exceed the size of past U.S. deployments to peacekeeping missions (e.g., in Bosnia and Kosovo, where the U.S. military has had an average of about 10,000 troops stationed over the past few years). The need to maintain this presence over a period of years could impair the ability of the U.S. military to recruit and retain quality personnel, and to carry out some other important military missions. On the other hand, the fact that the U.S. military would no longer have to plan and prepare for a possible future war with Iraq might partially offset the risks associated with lower readiness levels.

- Although the focus of our study was on direct military costs, it is important to understand that those costs could be substantially exceeded by various non-military costs associated with the war and its aftermath. By one estimate, those costs include roughly \$6 [billion]–\$10 billion for aid to allies in the region, \$1 [billion]–\$10 billion for humanitarian assistance, \$5 [billion]–\$12 billion for governance activities, \$10 [billion]–\$105 billion for reconstruction and recovery, and \$62 [billion]–\$361 billion for debt relief and related costs.³ On the other hand, these costs would almost certainly be borne not just by the United States, but by the United States' friends, allies and international financial institutions.

In the end, the degree to which one can usefully conduct a cost-benefit analysis to help determine the wisdom of launching a war against Iraq is limited. There is a substantial divergence between reasonable low-end estimates and reasonable high-end estimates. There is also the possibility that—if an effective and durable peaceful solution to the current crisis cannot be found—the failure to take military action today could necessitate waging a war in the future that could be even more expensive, both in terms of direct military and non-military costs. Nevertheless, speculating about the cost of a potential war with Iraq and its aftermath can provide some useful insights.

Ironically, what may be the most important insight to be gained from these estimates is related to what may also be their most serious limitation: they show in graphic terms just how much uncertainty there is surrounding a war with Iraq and its aftermath. The existence of so much uncertainty should not necessarily prevent the country from going to war. Policymakers rarely have the luxury of operating in an environment of perfect information, especially when trying to decide questions of war and peace. At a minimum, however, the existence of so much uncertainty, and the possibility that the costs of a war with Iraq and the peace following the war could be quite high and be incurred over a period of many years, might suggest that policymakers should take a more cautious approach to considering additional tax cuts or spending increases than they otherwise might—at least until the war is over and we have better idea of what the true costs of the war and its aftermath will be.

A second insight that flows from our study is how critically some of these costs are likely to depend on the level of support the United States receives from friends and allies. Under any circumstances the United States will undoubtedly have to pay for the bulk of the direct military costs associated with the war itself. However, if the United States can win the support of a broad range of friends and allies, it might be able to significantly reduce the size of the occupation force it needs to maintain in Iraq and the level of reconstruction and related assistance it need to provide. Conversely, the failure to win broad and deep support among important friends and allies could leave the United States with a bill that ranges toward the high end of the estimates discussed earlier.

ENDNOTES

1. Unless otherwise noted, all changes in funding levels noted in this testimony are expressed in real terms.

2. Lane Pierrot and Gregory T. Kiley, "The Long-Term Implications of Current Defense Plans" (Washington, DC: CBO, January 2003), p. 5. With cost risk, CBO estimates that executing the current defense plan would require an average of \$471 billion (fiscal year 2002 dollars) a year over the fiscal year 2008–20 period. This is equivalent to roughly \$490 billion in fiscal year 2004 dollars.

3. Gordon Adams and Steven Kosiak, "The Price We Pay," *The New York Times*, February 15, 2003, p. A31.

Mr. SHAYS. We are going to begin with Mr. Spratt. I will have some questions. But, Mr. Scott, I will go to you after Mr. Spratt.

Mr. SPRATT. Thank you very much for coming. Thank you for your testimony. Do you have a copy of your study you can submit for the record?

Mr. KOSIAK. Certainly.

Mr. SPRATT. If you could, I ask unanimous consent that it be made part of the record.

Mr. SHAYS. Without objection so ordered.
[The information referred to follows:]

POTENTIAL COST OF A WAR WITH IRAQ AND ITS POST-WAR OCCUPATION

The Bush administration has made clear that it expects to soon begin military operations against Iraq, very possibly within the next several weeks. One of the factors that should be considered before a decision is made to initiate a war with Iraq is the likely financial and economic costs of such a war, as well as the costs of any post-war occupation, humanitarian assistance and reconstruction activities. In deciding whether to begin this war, it may be appropriate to give greater weight to political, strategic and humanitarian interests than to the likely financial and economic costs and consequences of the war, but those costs should at least be considered. This background paper provides a range of estimates related to a subset of those potential costs. Specifically, it focuses on the direct military costs to the United States of a war with Iraq and the post-war occupation of the country. It also briefly discusses some of the non-military costs that might be incurred in the aftermath of a war.

This analysis finds that:

- Given the great amount of uncertainty surrounding the size of the U.S. force that will be required, the level of resistance that will be offered, the duration of the conflict, the level of allied participation, and other factors, it is impossible to provide more than a very rough estimate of even the direct military costs of a war with Iraq and its post-war occupation.
- Based on publicly available information, a reasonable estimate of the number of U.S. troops that might ultimately be deployed to the gulf region would be 175,000 to 350,000. Assuming the war were to last from one to 6 months, this suggests that the direct military costs of the war could range from as little as \$18 billion to as much as \$85 billion, roughly the cost of the 1991 gulf war.
- Occupation costs could far exceed the direct military costs of the war itself. A reasonable estimate of the average number of U.S. troops that would be required for occupation and peacekeeping duties after a war might be 20,000 to 90,000 over the next 5 years. This would equate to 5-year costs of roughly \$25 [billion]–\$105 billion.
- Even a relatively small occupation force could greatly exceed the size of past U.S. deployments to peacekeeping missions (e.g., in Bosnia and Kosovo, where the U.S. military has had an average of about 10,000 troops stationed over the past few years). The need to maintain this presence over a period of years could impair the ability of the U.S. military to recruit and retain quality personnel, and to carry out some other important military missions. On the other hand, the fact that the U.S. military would no longer have to plan and prepare for a possible future war with Iraq might offset the risks associated with lower readiness levels.
- Although the focus of this analysis is on direct military costs, it is important to understand that those costs could be substantially exceeded by various non-military costs associated with the war and its aftermath. By one estimate, those costs include roughly \$6 [billion]–\$10 billion for aid to allies in the region, \$1 [billion]–\$10 billion for humanitarian assistance, \$5 [billion]–\$12 billion for governance activities, \$10 [billion]–\$105 billion for reconstruction and recovery, and \$62 [billion]–\$361 billion for debt relief and related costs.¹ On the other hand, these costs would almost certainly be borne not just by the United States, but by the United States' friends, allies and international financial institutions.
- In weighing the merits of military action, it is also important to understand that there could be substantial financial costs associated with foregoing or delaying military action. It is clear that Iraq's willingness to accept the return of U.N. weapons inspectors has been due largely, if not entirely, to the existence of U.S. military forces in the region and the threat of imminent attack posed by the U.S. military. Maintaining this posture could cost \$1 billion a month, or more. In addition, over time, it could have a deleterious effect on the readiness of the U.S. military. More generally, if an effective and durable peaceful solution to the current crisis cannot be found, it is possible that the failure to take military action today could necessitate waging a war in the future that would be even more expensive, both in terms of direct military costs and non-military costs.

HOW MUCH IS A WAR LIKELY TO COST?

The direct military costs of a war with Iraq can be only very roughly estimated. There is substantial disagreement and uncertainty concerning the size of the U.S. force that will be required to fight the war, the level of resistance that will be offered, the duration of the conflict, the level of allied participation, and other factors that could significantly affect the cost of the war. The approach used in this analysis was to generate three different scenarios which appear to represent a reasonable range of possible requirements, both in terms of force levels and conflict duration.

The first scenario assumes the war would involve 175,000 U.S. troops deployed to the Persian Gulf region and would last 1 month, about 2 weeks less than the 1991 gulf war. The second scenario assumes that a total of 250,000 U.S. troops would be deployed to the region and that the war would last about 2 months, 2 weeks longer than the last gulf war. The third scenario, assumes that a total of some 350,000 U.S. troops would take part in the war, and that the conflict would last about 6 months. Most military experts appear to believe that such a lengthy war is unlikely. However, given the level of uncertainty inherent in any major military operation (especially, perhaps, one in which chemical or biological weapons might well be used), the possibility of a prolonged conflict should be considered.

In order to estimate the direct military costs of each of these scenarios two sources of data were relied upon. One source is a range of estimates derived by the Congressional Budget Office (CBO) concerning the costs of various aspects of a possible military operation against Iraq.² This data is supplemented by Department of Defense (DOD) estimates of the direct military costs of the 1991 gulf war. In both cases, the estimates reflect the extra or incremental costs of conducting military operations—costs above and beyond those that would be incurred by DOD as part of its normal peacetime operations.³

According to CBO, deploying a force of 250,000–350,000 U.S. troops to the gulf region, would cost about \$13 billion, the war itself would cost roughly \$8 [billion]–\$9 billion for the first month, and \$6 [billion]–\$8 billion for subsequent months, and redeploying troops back to the United States would cost \$5 [billion]–\$7 billion.⁴ These estimates suggest that the cost of the scenarios outlined above would range from about \$15 billion to \$68 billion. Another approach to estimating the costs of the a war with Iraq would be to assume that it will cost roughly the same amount as the 1991 gulf war, adjusted for differences in the size of the U.S. force involved and the duration of the conflict. This would suggests that the three scenarios outlined above would incur direct costs ranging from about \$22 billion to \$100 billion.

Rather than choosing one of these two approaches, this analysis assumes that actual costs for the three scenarios would range from about \$18 billion to \$85 billion, with these figures representing roughly the midpoint between the estimates derived through the two different approaches. In the 1991 gulf war, the United States' friends and allies covered almost 90 percent of the incremental costs incurred during the operation. By contrast, it seems unlikely that contributions from other countries would cover much, if any, of the costs incurred by DOD in a second war against Iraq. Table 1 summarizes the three scenarios and the costs associated with each one.

TABLE 1.—ROUGH ESTIMATE OF DIRECT MILITARY COSTS OF A WAR IN IRAQ

Number of troops	Duration of war	Estimated cost (fiscal year 2003)
175,000	1 month	\$18 billion
250,000	2 months	\$35 billion
350,000	6 months	\$85 billion

Source: CSBA based on CBO and DOD data.

HOW MUCH IS THE POST-WAR OCCUPATION OF IRAQ LIKELY TO COST?

As with the costs of the war itself, the direct military costs of occupying Iraq in the war's aftermath can be only very roughly estimated. The level of disagreement and uncertainty surrounding the size of the occupation force that may be needed in Iraq and the duration of that occupation is, if anything, even greater than the uncertainty surrounding the war itself. Among other things, the size and duration of the U.S. occupation force required after the war would depend on four factors: the attitude of the Iraqi population toward the U.S. presence; the amount of tension or hostility between different ethnic groups within Iraq; the degree of participation by the United States' friends and allies in carrying out occupation duties; and the

goals of the occupation—the more ambitious the goals, the larger and longer the occupation that would likely be required.

According to Bush administration officials, current plans call for a U.S. general to be placed in overall charge of Iraq for at least 2 years.⁵ The administration, has not, however, indicated the overall size of the U.S. force that would be needed for peacekeeping or the likely length of the occupation. Estimates of the size of the occupation force that might be needed range from about 75,000 to 200,000 troops.⁶ Past experience in Bosnia, Kosovo, and elsewhere, suggests that the size of the force could be reduced over time. Thus, for example, while a force of 75,000 troops may be required the first year after the war, it might be possible to cut the size of the occupation force to 50,000 troops the second year, and to 25,000 troops over the following 3 years. Such a deployment profile would result in an average of some 40,000 troops being stationed in Iraq over the next 5 years.

As in the case of estimating the cost of a war with Iraq, the approach used in this analysis to estimate the potential cost of the post-war occupation of the country is to consider a range of possible requirements. Table 2 shows the costs associated with maintaining average forces of between about 20,000 and 90,000 U.S. troops in Iraq over the next 5 years. These averages would be consistent with a variety of different possible deployment profiles. The high-end estimate, for example, would be consistent with a deployment profile that included 150,000 troops the first year, 100,000 troops the second year, and 65,000 troops in the third and subsequent years. The low-end estimate would be consistent with a deployment profile that included 50,000 troops in year one, 25,000 troops in year two and only some 10,000 troops by the third and subsequent years. The cost estimates for these force levels are based on CBO estimates of the incremental costs of peacekeeping operations.⁷ As Table 2 indicates, the 5-year costs associated with these different scenarios range from about \$25 billion to over \$105 billion.

TABLE 2.—ESTIMATED 5-YEAR COSTS OF U.S. OCCUPATION OF IRAQ

Average number of troops	Estimated cost (fiscal year 2003)
20,000	\$25 billion
40,000	\$45 billion
90,000	\$105 billion

Source: CSBA based on CBO and DOD data.

These figures suggest that the direct military costs associated with the post-war occupation of Iraq could exceed the cost of the war itself. They also point to the potential importance of gaining substantial support among U.S. friends and allies for a war in Iraq. In Kosovo, for example, the U.S. military fought and won the war almost single-handedly, but was able to rely on friends and allies to provide the vast majority of the follow-on peacekeeping force. The situation in Bosnia followed a similar pattern. In both countries, today U.S. troops account for only 15–20 percent of the overall peacekeeping force. It seems doubtful that the U.S. military will be able to hand over responsibility for the occupation of Iraq in a similar manner. However, the more support the Bush administration can generate among friends and allies for the attack, the more likely it is that non-US forces will be able to relieve the United States of a significant portion of the burden of occupation—and the more likely it is that the United States' costs will range toward the low end, rather than the high end, of the estimates provided in this analysis.

POTENTIAL IMPACT OF THE POST-WAR OCCUPATION OF IRAQ ON THE READINESS OF THE U.S. MILITARY

In addition to financial costs, the long-term occupation of Iraq by U.S. troops could have a negative impact on the ability of the U.S. military to recruit and retain quality personnel, and to carry out some other important military missions. During the Clinton administration, the U.S. military became involved in long-term peacekeeping missions in Bosnia and Kosovo. Some military leaders and others argued that involvement in these operations was causing significant strains in the U.S. military. Among other things, they argued that involvement in these operations: resulted in lower mission-capable rates for many weapons systems (because of higher usage rates); reduced the time available for combat training; limited the ability of the U.S. military to redeploy forces in the event of war; and led to personnel retention problems, as troops had to spend more time away from home. In the 2000 presidential campaign, candidate Bush was among those who raised concerns about the impact of peacekeeping missions on military readiness.

If the U.S. peacekeeping presence in Bosnia and Kosovo—which has involved an average of about 10,000 troops in recent years—has indeed significantly undermined the readiness of the U.S. military, it follows that a long-term occupation of Iraq, which might well involve several or even many times that number of troops, could do a great deal more damage. Military officials have in the past stated that in order to maintain a single unit overseas, another two or three units must typically be available as a rotation base.⁸ In other words, supporting 10,000 troops overseas could require a total of as many as 30,000–40,000 troops. If this same metric were applied to potential occupation force in Iraq, it would suggest that supporting a force of 20,000 to 90,000 troops in Iraq would actually affect the readiness and availability for other missions of 60,000 to 360,000 U.S. troops.

On the other hand, these figures may overstate the impact of a long-term occupation of Iraq on the readiness of the U.S. military. Notwithstanding the concerns raised by candidate Bush in 2000 and others throughout the late 1990s, it is not clear that U.S. involvement in peacekeeping operations in Bosnia and Kosovo had a significant negative impact on military readiness. Overall, the impact of these operations on military readiness appears to have been relatively modest, and in some cases, mixed. Perhaps more importantly, if the U.S. military were to defeat Iraq, one of the most significant major regional powers against which the U.S. military has, for the past two decades, planned and prepared to fight, would disappear as a military challenge. The disappearance of this threat might offset at least some of the risks associated with the lower readiness levels that might result from the occupation of Iraq.

POTENTIAL NON-MILITARY COSTS OF REBUILDING IRAQ

Although the focus of this analysis is on direct military costs, it is important to understand that those costs could be substantially exceeded by various non-military costs associated with the war and its aftermath. By one estimate,⁹ non-military costs incurred over the next 5 years or so could include:

- \$6 [billion]–\$10 billion for aid to friends and allies in the region, especially, Turkey, Jordan and Israel. In part, this aid is needed to gain access to bases in the region for U.S. forces.¹⁰
- \$1 [billion]–\$10 billion for humanitarian assistance. These funds would, for example, be needed to pay for emergency food and medical supplies for the Iraqi civilian population.
- \$5 [billion]–\$12 billion for governance activities, such as paying Iraqi civil service and police salaries.
- \$10 [billion]–\$105 billion for reconstruction and recovery. The low-end estimate assumes a relatively modest rebuilding program, while the high-end estimate would fund something akin to the Marshall Plan with which the United States helped rebuild Europe after World War II.¹¹
- \$62 [billion]–\$361 billion for debt relief and related costs. The low-end estimate represents Iraq's foreign debt. The high-end estimate also includes both settled and unsettled claims, and reparations to Kuwait.

It is important to understand that these costs would almost certainly not be borne by the United States alone. The United States' friends and allies, and international financial institutions would likely bear a substantial portion of these costs. Although just how much of these costs the United States could avoid would likely depend, at least in part, on how successful it was in gaining broad international support for the war.

Over the long term, at least, Iraqi oil production would be expected to increase, and oil production would presumably remain the core of the Iraqi economy for the foreseeable future. However, it would probably be a mistake to assume that Iraqi oil revenues could be used in the post-war period to reimburse the United States for any costs it incurred in waging the war to oust Saddam Hussein, or in the subsequent occupation mission. Depending on how extensively Iraq's oil production capabilities were damaged during military operations (or intentionally sabotaged by Iraqi forces), it could be years before production levels could be increased beyond today's levels. More importantly, given the enormity of Iraq's reconstruction requirements and the size of its foreign debt, if the Bush administration's goal is to turn Iraq into a stable, pro-United States democracy, it would probably prove counter-productive to use Iraqi oil revenues to reimburse DOD for its costs.¹²

In addition to the non-military costs outlined above, it is possible that a war with Iraq could have broader economic consequences. Estimating these costs is even more speculative than estimating the costs of military operations or the cost of rebuilding Iraq after a war. Nevertheless, the costs could be significant. By one estimate, if a war with Iraq were to substantially disrupt oil supplies, it could cause an "oil

shock” that could result in a reduction in real national income for the United States of \$175 billion the first year and billions more over the course of the decade.¹³ Moreover, the oil shock could, in turn, tip the U.S. economy into recession, causing economic losses of another \$391 billion.¹⁴ On the other hand, if the war is short and decisive, the impact on oil prices and the U.S. economy could be very modest, and might even be modestly positive.¹⁵ Moreover, in the context of a U.S. economy of some \$11 trillion annually, even a relatively severe oil shock might not prove too disruptive or costly.

POTENTIAL COSTS OF INACTION

In weighing the merits of military action, it is also important to understand that there may be substantial financial costs associated with foregoing or delaying military action. It is clear that Iraq’s willingness to accept the return of U.N. weapons inspectors has been due largely, if not entirely, to the existence of U.S. military forces in the region, and the threat of imminent attack posed by the U.S. military. This strongly suggests that sustaining an enhanced inspection regime over the long-term would require maintaining a substantial U.S. presence in the region as well. Just how much of a presence would be required is unclear. It might not be necessary to maintain a force as large as the force the U.S. military now has in the region, which consists of perhaps 175,000 service men and women.¹⁶ However, even assuming that only some 75,000 troops would be required (triple the number of U.S. troops normally present in the region), the annual incremental costs to DOD might amount to some \$10 billion a year.¹⁷

In addition, over time, maintaining such a heightened near-war posture could have a negative impact on the readiness of the U.S. military—both to fight in Iraq and to carry out other missions. By giving the Iraqi military more time to prepare for an attack, any delay could also reduce the odds of winning the war quickly and decisively, especially if Iraq were to use the time to improve its WMD capabilities. More generally, it is possible that the failure to take military action today could necessitate waging a war in the future that would be even more expensive, both in terms of direct military costs and the non-military costs discussed in the preceding section of this analysis.

CONCLUSIONS

As the analysis in this backgrounder suggests, the United States is likely to incur substantial financial costs if it invades Iraq. Moreover, the cost of occupying Iraq after the war could exceed the cost of the war itself. And non-military costs associated with rebuilding Iraq and providing other kinds of assistance could well exceed the direct military costs of both the war and the subsequent occupation of the country. However, it is impossible to determine with much certainty and precision just how much a war with Iraq would cost, or how much would need to be spent on peacekeeping or reconstruction and other non-military activities after the war. This is because there is substantial uncertainty surrounding a wide range of variables that could affect these costs, such as the size of the U.S. force that would be required for the war and occupation duties, the level of resistance that will be offered, the duration of the conflict, and the level of participation by U.S. friends and allies.

The degree to which one can usefully conduct a cost benefit analysis to help determine the wisdom of launching a war against Iraq is also complicated by the fact that there could be substantial financial cost associated with a failure to act, or a decision to defer an attack, as well. This does not mean that the financial costs discussed in this analysis have no bearing on the merits of a decision to go to war. It does, however, suggest that, by themselves, these considerations do not offer a clear-cut answer to the question of whether or not such a decision is in the best interest of the United States. Thus, in the end, in making this decision, it may be appropriate that political, strategic and humanitarian interests be given greater weight than the likely financial and economic costs and consequences of the war. Whether those interests provide greater support to those advocating war, or those advocating alternative approaches to resolving the current crisis, is of course a question that lies far beyond the scope of this analysis.

ENDNOTES

1. Gordon Adams and Steven Kosiak, “The Price We Pay,” *The New York Times*, February 15, 2003, p. A31.

2. Dan Crippen, Director of CBO, Letter to Senator Kent Conrad and Representative John Spratt concerning the cost of possible military operations against Iraq, September 30, 2007.

3. Incremental costs include, for example, costs associated with activating reserve personnel, operating equipment more intensively than normal, combat pay, and expending munitions in

wartime. They do not include military pay for active duty personnel, the cost of equipping U.S. forces, or the cost of regular day-to-day operations, since those costs would be incurred by DOD even absent a war.

4. CBO, pp. 9–10.

5. Barbara Slavin, “U.S. General Would Run Iraq,” USA Today, February 13, 2002, p. 1.

6. CBO, p. 5.

7. *Ibid.*

8. The rotation base consists of units preparing for upcoming deployments and recovering from past deployments.

9. Adams and Kosiak, p. A31. These figures represent the authors’ estimates. They were derived from a variety of sources, including the Asia Development Bank, the Center for Strategic and International Studies, the Congressional Budget Office, the Council on Foreign Relations, the House Budget Committee Minority Staff, the United Nations, the World Bank, and economist William D. Nordhaus.

10. At the end of February, the United States offered Turkey up to \$6 billion in aid plus perhaps \$20 billion in loan guarantees for Turkish support in the event of a war with Iraq. www.economist.com/agenda/displayStory.cfm?story-id=1591496.

11. Among other things, these estimates include the cost of repairing and rebuilding Iraqi oil production capabilities. The high-end estimate is taken from William D. Nordhaus, “The Economic Consequences of a War With Iraq,” in *War With Iraq: Costs, Consequences, and Alternatives* (Cambridge, MA: American Academy of Arts and Sciences, 2002), p. 66.

12. In any case, it is unclear how much Iraqi oil production could or would (given the inverse relationship between oil production levels and price) likely be increased after a war. For a discussion of this question, see Nordhaus, pp. 68–73.

13. *Ibid.*

14. *Ibid.*, pp. 74–76.

15. *Ibid.*, pp. 68–76.

16. On the other hand, since even the presence of roughly 175,000 U.S. troops in the region today has not led Iraq to fully cooperate with U.N. weapons inspectors, it is unclear whether a smaller force would suffice.

17. This assumes that 50,000 more troops would be deployed to the region than is typical in peacetime and that the per-troop costs of maintaining this force would be roughly the same as the per-troop costs CBO estimates for peacekeeping missions.

Mr. SHAYS. Thank you. Mr. Kosiak, you have provided very helpful testimony.

I will also ask unanimous that all members may have 7 days to submit a written statement for the record. Without objection so ordered.

Mr. SPRATT. Going down the categories that you have listed as potential cost components of the war in the gulf region, you have got direct cost of the war itself, of course that includes getting there and getting back. You have got occupation costs which are, in your analysis, basically the personnel costs of personnel and equipment costs of deploying a force. And then you have got additional costs on top of that for reconstruction, for humanitarian assistance, for governance activities, and an enormous number for debt relief, as much as \$361 billion.

If you took everything you have got there, all of the categories, I can’t quite get it together on the back of an envelope, low end to high end, what is the low end of all categories? What is the high end of all categories?

Mr. KOSIAK. I didn’t bring my calculator, so I couldn’t actually tell you. I would say that final category, debt relief and related costs includes claims, Kuwaiti claim for reparations from Iraq and some other claims, contract claims and not just debt relief. But, it is a very large number. I honestly can’t—I can’t answer that question.

Mr. SPRATT. Reparations from Iraq?

Mr. KOSIAK. Reparations to Kuwait.

Mr. SPRATT. To Kuwait.

Mr. KOSIAK. From the 1991 gulf war.

Mr. SPRATT. You are assuming that those might be exonerated?

Mr. KOSIAK. We don’t know. If one—and in part, it depends on what your real goal is for Iraq. Obviously, if the American goal

there is to essentially oust Saddam Hussein and make sure there are no weapons of mass destruction, and then pretty much leave the country on its own, then presumably these kind of reconstruction and other debt relief and costs like that would not have to be borne or are not borne at the high end of these estimates.

On the other hand, if your goal is to really establish a long-term democracy that is pro western and a country that has a viable and growing economy, then one might want to make some of these—incur some of these costs.

Mr. SPRATT. In just basic costs for the first two categories, the war itself and occupation afterwards, you have got a range of \$18 [million] to \$85 million for war itself, and a range of \$25 [million] to \$105 million for occupation. So the low end of the first two categories would be \$43 [billion] to almost \$200 billion.

Mr. KOSIAK. Right.

Mr. SPRATT. You are in Larry Lindsey's ballpark now.

Mr. KOSIAK. It is not too difficult to get to that ballpark.

Mr. SPRATT. Do you have any notions as to how likely any of those numbers is, where you would fall?

Mr. KOSIAK. I mean, I think the—in terms of the war itself, it is very difficult to say, because there is a wide range of uncertainty as to what a war might look like. What I have seen, this is just based on press reports, it looks like we are moving in with something like 250,000 troops into the region. The estimates I have seen for the war's length from people, military experts, seems to be in the range of as short as a week to as long as 2 months.

One of the options we looked at here was a war that involved 250,000 U.S. troops in the region and lasted 2 months. Our estimate for the cost of that war was about \$35 billion just for the war itself.

Mr. SPRATT. Pretty close to CBO then?

Mr. KOSIAK. Right. A little higher than CBO numbers would suggest. In terms of peacekeeping, it is just very hard to say. There was the statement by Gen. Shinseki, where he suggested that several hundred thousand troops might be needed for some period of time after the conflict. But, most estimates have been that we would have fewer troops in there than that.

Mr. SPRATT. You mentioned two other problems. No. 1 is transformation which is a long time coming, and it is questionable as you look at the accounts where you would expect to see a plus-up, the science and technology accounts, and find that they are actually being shaved, whether or not we are laying the basis for transformation.

I was always a skeptic about transformation because I thought it would involve maintaining three levels of Armed Forces, the legacy force, the transition force, and an objective, transformed force, more or less all at the same time as you merged toward the eventual day when everything would be transformed.

But, you see right now, in today's world that you have got to have a legacy force that can fight. You can't take a transformed force over there yet. We don't have any transitional forces, but you have got to maintain a robust legacy force for a long time to come, because these transformational items, if ever, may not materialize.

So when we started this process, the chairman of this committee was a bit chagrined with the DOD request for an increase for next year, because he thought that the transformation meant getting more for less. In truth, it will be a long time before we get the less for the more, will it not?

Mr. KOSIAK. Well, I think it is difficult to say. So I think that you have to look at it on a case-by-case basis. But I think over the long term, I think one thing that is important to remember, if you look historically at transformation efforts, and we have done some work in this area, you know that a real transformation really is transformation, it is not layering on one system on the next.

When the U.S. Navy transitioned from battle ships to aircraft carriers, there was a period of transition. But, ultimately we basically got rid of the battle ships, got these out of the fleet, and were focused almost entirely on aircraft carriers.

Mr. SPRATT. At least until John Lehman came back.

Mr. KOSIAK. That is right. And so ultimately, and carriers won the day, because they were the most cost effective systems. So I think ultimately when this force is transformed, and obviously this will be a slow process, it might be faster in some areas than in others, but I think ultimately it will lead to a more cost-effective military.

But, again, you—you kind of have to look at it on a case-by-case basis. One of the things that I tried to do in our analysis of transformation funding was to look at—not so much look at the programs, but look at the process. And I think my concern is that the—if you look at the R&D budget and look at the categories of funding where you would think we should be spending money if you are worried about transformation, we don't seem to be spending.

Mr. SPRATT. One final point. Let me highlight it about your testimony, because you point to a problem that CBO has raised in a recent study, that is, the sustainability of the programs that we have in development at this point in time, the total program, whether or not we can bring to fruition with the budget totals that are projected all of the systems that we have now got on our drawing boards.

And you raise a red flag here saying if you look, anybody looks at any recent period in defense spending history, it is cyclical. There are ups and downs. And if indeed the current wave of spending proves to be cyclical, we could be developing a lot more stuff than we can actually bring to fruition; is that your point correctly stated?

Mr. KOSIAK. Yes. I think the concern is that there are risks associated with this strategy, with assuming that you are going to have extremely large and sustained increases in funding for defense, and the risk is, among other things, that you will spend a lot of money developing systems that you ultimately won't be able to put into production, or if you can put them into production, only at very low and inefficient production rates.

So in the end, you actually end up worse off than if you had more realistic assumptions, and made harder choices earlier.

Mr. SPRATT. Thank you very much for your testimony, for bridging the study with you. And I yield back to the chairman.

Mr. SHAYS. I thank the gentleman. I think with three members, we can go back and forth too. I would—I would like to ask you to comment. You can't audit the DOD. I mean, there is over a trillion transactions that are not auditable yet. That goes back historically over all administrations. Inventory control is not like what a modern store would have where you would know what is in and out of your inventory on a timely basis.

Our ability to use IT equipment, we always seem one step behind or two. And we have more weapons systems than we can afford. And we have a military that really isn't yet—it is in transformation. But would you—if 10 was all the way there, to 1, you know, we really haven't even begun, tell me where we are in this transformation process?

Mr. KOSIAK. That is an excellent question. I think it is very difficult to answer. I am not sure that I can offer an effective answer to that. In certain parts of the defense—some defense plans, we are quite far along. In some areas we are quite far along. In other areas we are not so far along. I think the area where we have the most concern is that we are not developing a capability, we are not focusing on capabilities to be able to project power into regions of the world where we don't have—where we don't have military bases, or in wartime where we may not have access to military bases, either because of political reasons, or because those bases are subject—are put at risk by ballistic missiles or other capabilities possessed by, you know, regional powers.

And I think one dramatic example of that is our focus on short-range tactical fighters and how much money we are projecting to spend on short-range tactical fighters, when this is an area where we really currently have an enormous superiority over any potential foes, and at the same time we are not spending any new money or very little new money to develop capabilities to project power over great distances.

For example, stealthy long range, UCAVs, for example. We are spending money on UCAVs, but not on stealthy long range ones. It is very difficult to say. I mean, and again, part of the reason why I focus on looking at, you know, you can find people, there are many people who believe in transformation, but obviously people have very different views on exactly what that means.

One of the reasons I focus in my analysis of the R&D budget on sort of looking at the process of where the money is going rather than specific programs, was to try to get around that problem. But, in fact, it is a problem, because people—everybody embraces the notion of transformation, but there are dramatic differences about what that means.

Mr. SHAYS. I am not on the Armed Services Committee, like my colleague, Mr. Spratt, but when I think of transformation, I think of the ability to move, for instance, men and equipment more quickly from one place to the other, to not have to be tied down with heavy armaments, quick in, quick out. I think of the Predator as being an example of moving into new technology that is transforming us.

Is that the way I should be thinking of transformation?

Mr. KOSIAK. Well, I think transformation in general is—the notion of transformation is based on this idea that we are in or enter-

ing a period of revolutionary change in military—the so-called revolution in military affairs. The notion is because of changes and advances in technology and especially information technology, when you combine those changes with changes in the way forces are organized and the use of new operational concepts, that the combination of those three things can lead to dramatic increases in capabilities, just like the aircraft carriers did in World War II, or strategic bombing in World War II, or mechanized forces.

Mr. SHAYS. Bottom line, transformation is critical. The nations that are able to transform have extraordinary advantages over those that don't, correct?

Mr. KOSIAK. Right. And also, again, it is not—I think in general, when you see a transformed military, it is not as though militaries that have not transformed are necessarily cheaper than those that have transformed if you look back historically.

We shouldn't feel that we have to break the budget, I think, in order to effectively transform the U.S. military.

Mr. SHAYS. Just one last point. Frankly I don't know why the administration isn't able to give us a range of numbers, and we can decide whether it is helpful or not. But, you know, for me in this whole issue of going into Iraq, we need to go in. If Saddam doesn't disarm, and he shows no intention of doing that, we need to make sure that we go in before he has the weapon I most fear, a nuclear capability.

And so I am willing to live with almost any cost. Because I think it has to happen. But it is perplexing to me why we are not able to nail it down a little bit more. But one of the things you seem to talk about that I had originally thought the war would be paid for by Iraq. And I was not chastised but corrected quickly by the administration.

It is not a war about oil, this is not a war about their having to pay us for our having to come in. The administration made very clear, the oil revenues and so on will go to rebuild Iraq, to feed the people, to give them the medical care to rebuild their schools and to generate their economic activity.

And so are you excluding that from the cost? Are you also subtracting from that cost what you think the Northern Watch and the Southern Watch, when you calculate these costs to us?

Mr. KOSIAK. Well—

Mr. SHAYS. One is the war and then one is what happens afterwards.

Mr. KOSIAK. Right. One of the things I didn't include in my testimony but is something that I looked at in the study, was what is the cost of maintaining—I didn't actually—the cost of Northern and Southern Watch is typically a billion, a billion and a half dollars a year, something like that.

So if you didn't have to pay that, that would be a—you should deduct that from these amounts, because I did not do that. Also, it is possible that you—if you don't go to war, you may have to maintain a significant presence there, maybe not like the presence we have there now, but if you want to maintain a level of threat to Iraq that would help enforce an enhanced inspection regime, you may have to spend significantly more than we spent on Southern and Northern Watch.

My own estimate was it could be \$1 billion a month, depending on how big a presence you felt that you had to keep in the area in order to keep the pressure on. So those costs, I did not mention those costs when I went through it in my testimony.

Mr. SHAYS. Let me go to Mr. Scott. Thanks for your patience.

Mr. SCOTT. Thank you, Mr. Kosiak, for your testimony. It has been extremely helpful. Your testimony on page 6 mentioned this \$361 billion for debt relief and related costs. What does that mean?

Mr. KOSIAK. Well, part of it is foreign debt owed by Iraq. Part of it is.

Mr. SCOTT. Owed by Iraq to who?

Mr. KOSIAK. I am not sure to who in particular. To various countries.

Mr. SCOTT. If we were to satisfy that item, would we have to pay or would we just cancel what they owe us?

Mr. KOSIAK. Well, one option would be canceling what they owe us, if it is owed to us. If it is owed to other countries, hopefully they would cancel it. Another thing is to refinance the debt so they would ultimately still have to pay it back, but of course, that may be difficult if you—again, it depends on part on what your real goals are for the country, and how much you want to give them a boost.

So you wouldn't necessarily have to pay those costs, certainly, but you might want to pay at least some of those costs to give them an economic boost.

Some of the other costs, that is the last category, and it is, by far and away, the most speculative of those categories, I don't want to suggest that we would necessarily have to cover the costs of anything like \$360 billion. A lot of that may be debt that we can refinance and not necessarily forgive, for example. And it is not all debt by any means. Some of it, as I say, are reparations owed to Iraq—to Kuwait based on the—

Mr. SCOTT. What are the prospects that we can get other countries to contribute some of the costs?

Mr. KOSIAK. I think in terms of the direct military costs, both the peacekeeping aspect and the cost of the war itself, I think they are very limited. In 1991, of course, allies through cash and in-kind contributions covered 90 percent of the incremental cost of that war. There is no chance that that is going to happen. There is no indication that that is going to happen this time. We are going to have to cover the direct military costs of both the war and the peacekeeping.

But where we might be able to get assistance in having, hopefully we would be getting allies and friends to help contribute peacekeeping forces, and then also to hopefully take a lead in, or at least to contribute to some of these reconstruction and other costs.

Mr. SCOTT. Well, if these expenses, we are going to pay those expense, this is the Budget Committee, we are already running up a deficit, what—how are we going to pay for it? Do we add it to the bottom line debt? Is there any proposal that we have to cut something or raise revenues or what, or just add it to debt?

Mr. KOSIAK. Well, I certainly—

Mr. SCOTT. From a budget perspective, what is going on here?

Mr. KOSIAK. I have not heard any proposals to finance it in any way other than—I think the hope is that we will get allies to contribute and friends to contribute to some of it. But other than that, I have not seen any indication from the administration that they are proposing any kind of—certainly a tax increase or anything to cover the cost. So I guess it would add to the debt. That is the short answer.

Mr. SCOTT. Missile defense. Where is that in the budget? And where should it be in priorities?

Mr. KOSIAK. Well, I think, you know, I think there is some strong bipartisan support for some level of research and development, and probably deployment of a ballistic missile defense program.

I think, my own concern is that we not lose sight of some of the other important priorities. One of things I pointed out this afternoon was that we are spending—we have only had a modest 10-percent increase in S&T funding overall, which could have enormous impact on military capabilities down the road, but we have dramatically increased funding for ballistic missile defense development.

And I think that may indicate too much of an emphasis, and perhaps going too fast in that area. I think clearly a robust R&D program supporting missile defense should be a priority, whether we need to be spending as much as we are now is more questionable.

Mr. SCOTT. Navy and priority of ship-building, especially aircraft carriers.

Mr. KOSIAK. Well, I think the—you know, maintaining an adequate ship-building production rate is a real challenge for this administration. Over the long term, I think one hope is that we will be able to get by with a smaller Navy than we have today. I think it is inevitable if you look at the administration's plans. I think it is not necessarily a bad thing. If we can—you know, as we get new and better ships, we should be able to get by with a smaller Navy.

In terms of aircraft carrier production, I think going ahead with the new generation of aircraft carriers probably makes sense. But, over the longer term, I have real concern about the vulnerability of aircraft carriers and the ability to operate and project power in an efficient way in different regions of the world.

So I am not sure. I think we need to look for alternative solutions over the longer term.

Mr. SCOTT. Except those are what we actually use as opposed to some of the other stuff that we spend a lot of money on. And, particularly, in light of the fact that we are having trouble trying to find bases to locate on, it is the only way that we can project power.

Mr. KOSIAK. Absolutely. And having a sizeable aircraft carrier fleet today is critically important today, no question about that. And it gets back to this point of transformation and how transformation occurs. I would certainly not suggest, I think we will have carriers in the fleet, a large number of carriers in our fleet for years to come.

My point is only that we need to spend some time and money investigating some alternatives. One of things I think the administration has done right is to finance the funding of—the conversion of four Trident ballistic missile submarines to carry Tomahawk

cruise missiles. I think more efforts along those lines could, over the long term, yield some capabilities that could supplement aircraft carriers.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentleman for his question. Mr. Kosiak, I thank you for your patience. I thank you for your very intelligent answers and for your contribution to the committee's work. Thank you.

Mr. KOSIAK. Thank you.

[Whereupon, at 4:45 p.m., the committee was adjourned.]

