

BUDGETING FOR WAR COSTS

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED TENTH CONGRESS FIRST SESSION

HEARING HELD IN WASHINGTON, DC, JANUARY 18, 2007

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BUDGETING FOR WAR COSTS

THURSDAY, JANUARY 18, 2007

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

The committee met, pursuant to call, at 1:53 p.m., in room 210, Cannon House Office Building, Hon. John M. Spratt, Jr. (Chairman of the committee) presiding.

Present: Representatives Spratt, DeLauro, Cooper, Schwartz, Kaptur, Becerra, Doggett, Berry, Boyd, McGovern, Sutton, Scott, Etheridge, Baird, Moore, Bishop, Andrews, Edwards, Blumenauer, Hooley, Allen, Ryan, Barrett, Bonner, Garrett, Hensarling, Mack, Porter, Alexander, Smith, Conaway, Diaz-Balart, Lungren, Tiberi, and Simpson.

Chairman SPRATT. We now will proceed with our Hearing on Budgeting for War Costs.

Our first panel consists of Secretary Gordon England. Is Secretary England here? Here he is.

Secretary England, Admiral Giambastiani, Under Secretary Jonas, thanks for coming today, not only coming, but coming on fairly short notice and nearly two and a half weeks before the President's budget will arrive.

It is a bit unusual to hold budget hearings before submission of the President's budget, but it is necessary in our case because we are on a tight schedule to bring a budget resolution to the floor with due diligence.

I also want to thank our second panel, which is on deck following you, Steve Kosiak of the Center for Strategic and Budgetary Assessments and Robert Sunshine of the Congressional Budget Office.

Defense spending is substantial and always topical, even more so this year because there will be three pieces of defense spending in the mill, totaling between six and seven hundred billion dollars.

These include the regular the 2008 defense budget request at approximately \$480 billion; a 2007 war supplemental reported to be nearly \$100 billion; a 2008 war supplemental, which the Administration estimated last July in the mid-session review to be \$50 billion.

The size of these requests individually and together compel us to understand how expenditures of this kind, which are called emergency and are exempt from the usual budget strictures, should be treated in our base budget.

The purpose of this hearing is not to press our witnesses for details of what will be in the 2007 supplemental or the budget request for 2008. We understand that the President's budget is not

yet finalized, but we would like to get a better grasp of the cost of the Iraqi War, the Global War on Terrorism, a way of accounting for costs to date, and projecting costs to come.

We want to explore ways to budget these costs to avoid, if we can, recurring supplementals and the usual dispensations that we accord emergency spending which complicate our efforts to balance the budget.

We need to know how to project these costs over time, and we know that is difficult, but we typically run our budgets out five and ten years, and defense spending is a major element. So we need to know how our defense spending is likely to unfold over at least a five-year period of time.

I would ask my colleagues, however, in accordance with our understanding with Secretary England, to avoid from asking details, programmatic details or dollar details about the supplementals and the budget still to come because, as I have said, it is still not officially released by OMB.

Since 2001, by our calculation, we have provided more than \$500 billion for military and reconstruction operations in Iraq and Afghanistan. Virtually all of that \$500 billion was provided through supplemental and emergency funding measures.

Using supplemental appropriations has been a problem for several reasons. One, it has required the military to divert funds from regular accounts to pay for war costs until a supplemental is enacted with adverse effects on revenues.

And, two, it has allowed the Administration and the Congress to circumvent tough choices in the budget by keeping emergency spending effectively off budget. The result, larger deficits.

During the past fiscal year, the federal government ran a deficit of \$248 billion. The prospects of bringing that budget back to balance are bleak. But a first step is to better account for the cost of the wars in Iraq and Afghanistan by including those costs in the regular budget.

The costs of our operations in Iraq and the Global War on Terrorism increased from \$96 billion in 2004 to \$122 billion in 2006, and reports indicate that 2007 war costs could increase further to as high as \$170 billion. We need to account for the impact of these operations on the budget's bottom line obviously.

This Committee is not alone in advocating the inclusion of war costs in the regular budget. Congress enacted the 2007 Defense Authorization Bill requiring the President to include war costs in his regular budget starting in fiscal 2008.

Likewise, the Iraq study group stated that after six years, it is past time that we budget for war costs in the annual base budget.

The cost of war beyond the budget year will also be significant and should be considered, we think, in the budget process because, as I said, we typically run out our budgets five to ten years.

So far, the Administration has resisted cost projections because of the uncertainty of future deployments. Clearly there is some uncertainty about future deployments, but there is one thing we know and know with certainty, future costs will not be zero.

For example, regardless of future deployments, even if the Iraq deployment would end next month, there will still be considerable costs to reset equipment, to fix, repair, refurbish, and replace

equipment that has been damaged or destroyed in the harsh operating atmosphere of the Persian Gulf desert.

Last year, the Army and Marine Corps estimated a need for fifteen to twenty billion dollars a year to repair, replace, refurbish equipment which is being worn out at the current rate of operations. And for two or three years after the operations cease, they still anticipate the same sort of outlay to return their equipment back to its operating status.

There are also significant costs that need to be captured in any inclusive summary of the cost of the war. Thus far, over 3,000 service men and women have died in Iraq. Twenty-three thousand have been injured or wounded in action. The cost summaries seldom include veterans' healthcare and disability benefits, but they are a directly related cost and they are substantial.

Yesterday Rob Portman, the Director of OMB, indicated that the President's budget request will include the base budget for 2008 along with supplementals for war funding in 2007 and 2008, plus, if I understood him correctly, projected war spending in 2009, but not beyond.

This is an encouraging sign, the first time that the President's regular budget will recognize costs beyond the budget year, but the Administration's budget, we believe, I believe, should go further and take into that our commitments are not likely to end in 2009 and the projections should go forward, further out.

If the President's budget purports to bring the budget back to balance by 2012, and that is what he says, it has to include a realistic projection of our enormous efforts abroad which will not end after 2008 or, for that matter, 2009.

Mr. Secretary, Admiral Giambastiani, Under Secretary Jonas, we thank you for coming to help us understand the past and current cost of wars in Iraq and Afghanistan and what future costs may be, and we look forward to your testimony.

But, first, I yield to Mr. Ryan for a statement on his part.

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET

I open this hearing with a gavel given to me by our former chairman, Jim Nussle, and with a pledge to wield it with the same fairness and comity that he brought to the chair of this committee. In that spirit, I want to thank the Republican members of the Committee, particularly the Ranking Member, Mr. Ryan, for allowing us to hold this hearing without the customary seven-day notification.

I also want to thank our witnesses, Secretary England, Admiral Giambastiani, and Under Secretary Jonas for coming today to discuss a highly topical subject—the cost of our military operations in Iraq, Afghanistan, and the global war on terrorism in general. Thank you for coming not only on short notice, but nearly two and a half weeks before the President's budget will arrive. While it is a bit unusual to hold budget hearings before submission of the President's budget, it is necessary because we are on a tight schedule to bring a budget resolution to the floor, with due diligence.

I likewise want to thank our second panel, Steve Koziak of the Center for Strategic and Budgetary Assessments, and Robert Sunshine of the Congressional Budget Office.

Defense spending is substantial and always topical, but more so this year, because there will be three pieces of defense spending in the mill, totaling between \$600 and \$700 billion. These include the regular 2008 defense budget, at approximately \$480 billion; a 2007 war supplemental, reported to be nearly \$100 billion; and a 2008 war supplemental, which the Administration estimated to be \$50 billion in its Mid-Session Review last July. The size of these three requests compels us to understand

how expenditures of this kind, which are called emergency and are exempt from the usual budget strictures, should be treated in our base budget.

The purpose of this hearing is not to press our witnesses for details of what will be in the 2007 supplemental or the Administration's budget request for 2008. We understand that the President's budget is not yet finalized. But we would like to get a better grasp of the cost of the Iraq war and the global war on terrorism—a way of accounting of costs to date and projecting costs to come. We want to explore ways to budget these costs to avoid recurring supplementals and the usual dispensations for “emergency spending” that complicate our efforts to balance the budget. We also want to know how to project these costs over time, because we typically run our budgets out five and ten years, and defense spending is major element. I would ask my colleagues to keep their questions in this realm and to refrain from questions that probe into details of the upcoming supplemental and budget requests.

Since 2001, Congress has provided more than \$500 billion for military and reconstruction operations in Iraq and Afghanistan. Virtually all of that \$500 billion was provided through supplemental and emergency funding measures. Using supplemental appropriations has been a problem for several reasons: one, it has required the military to divert funds from regular accounts to pay for war costs until a supplemental is enacted, with adverse effects on readiness; and two, it has allowed the Administration and Congress to circumvent tough choices in the budget by keeping emergency spending effectively “off-budget.” The result is larger deficits.

During the past fiscal year, the federal government ran a deficit of \$248 billion, and prospects are bleak for bringing the budget back to balance. A first step is to account for the costs of the wars in Iraq and Afghanistan by including those costs in the regular budget. The costs of our operations in Iraq and the global war on terrorism increased from \$96 billion in 2004 to \$122 billion in 2006. Reports indicate that 2007 war costs could increase further to as high as \$170 billion. We have to account for the impact of these operations on the budget's bottom line.

This committee is not alone in advocating inclusion of war costs in the regular budget. Congress enacted the 2007 defense authorization bill, which requires the President to include war costs in its regular budget starting in 2008. Likewise, the non-partisan Iraq Study Group stated that after six years, it is past time that we budgeted for war costs in our annual base budget.

The cost of war beyond the budget year will also be significant and should be considered during the budget process. So far, the Administration has resisted cost projections because of the uncertainty of future deployments. Clearly there is some uncertainty about future deployments. But there is one projection that we know with certainty: future costs will not be zero. For example, regardless of future deployments, there will be considerable costs to “reset,” to fix and replace worn-out Army and Marine Corps equipment. Last year, the Army and Marine Corps estimated a need for \$15–20 billion a year to repair, replace, and refurbish equipment at the current rate of operations and for two to three years after war operations ended. In addition, we have maintained a steady deployment in Afghanistan over the last six years, at a cost of \$1 billion or more per month, and that cost is likely to continue.

There are also ancillary costs that need to be captured in any inclusive summary. Thus far, over 3,000 servicemen and women have died in Iraq. 23,000 have been injured or wounded in action. The cost summaries seldom include veterans health care and disability benefits, although they are a directly related cost.

Yesterday, Rob Portman, the director of OMB, indicated that the President's budget request will include the base budget for 2008, along with supplementals for war funding in 2007 and 2008, plus projected war spending in 2009. This is an encouraging sign and the first time that the President's regular budget will recognize costs beyond the budget year. However, the Administration's budget should go further and take into account that our commitments are likely to extend well beyond 2009.

If the President's budget purports to bring the budget back to balance by 2012, it has to include a realistic cost projection of our enormous military efforts abroad, which will not end after 2008 or 2009.

Mr. Secretary, Admiral Giambastiani, Under Secretary Jonas, we thank you for coming to help us understand the past and current cost of the wars in Iraq and Afghanistan, and what future costs might be. We look forward to your testimony.

Mr. RYAN. I thank the Chairman for yielding and for holding this hearing. I cannot think of a more appropriate way for this Committee to begin the 110th Congress than to take a good look at the

way we have and the way we will budget for the Global War on Terror.

Clearly we are at a turning point in Iraq. And when you give it some thought, as both Congress and the President have acknowledged, we have a lot to do.

Last week, the President laid out his plan for proceeding in Iraq with increasing troop levels as one of the key components. Members from both sides have expressed strong opinions both for and against that plan. But whether or not you agree or disagree with the President, there are still large bills that need to be paid to support our troops both at war and here at home.

And it is the responsibility of this Committee to help make the choices and determine the plan on how we are going to pay those bills. I hope we are at a turning point on this front.

The attacks of September 11 are now more than five years behind us. The liberation of the Iraqi people from Saddam Hussein is nearly four years behind us. Yet, we still find ourselves largely funding the War on Terror through emergency supplementals.

Several years ago, this Committee took the lead to correct this by including in our budget a funding place-holder for the war. To their credit, the Administration last year began to follow suit, a trend I fully expect to see repeated and hopefully built upon in the budget the President sends to Congress next month.

This Committee is also taking the lead in cleaning up the emergency war supplementals. This is an issue I expect to go into more in questioning. I think the chart kind of speaks for itself. By including in our fiscal year 2007 budget language, a clear definition of what constitute an actual emergency and what must go through the regular checks of the budget process.

The whole idea here is real emergencies ought to go in the supplemental and the things that should normally be in the base budget should be in the base budget.

I understand that some members may want to choose to use this hearing as a forum to voice their thoughts on war policy. Clearly that is one of the most critical debates in Congress we are going to have this year. But funding this war piecemeal serves neither our soldiers nor the taxpayers. And it is the obligation of this Committee to build on the progress we have made in responsibly funding for the war. I hope we can take this opportunity today to work toward that end.

And I thank the Chairman for yielding.

Chairman SPRATT. Mr. Secretary, thank you again for coming. The floor is yours. And any prepared statements you or Admiral Giambastiani or Secretary Jonas has will be made without objection part of the record.

STATEMENT OF HON. GORDON ENGLAND, DEPUTY SECRETARY OF DEFENSE, AND HON. TINA W. JONAS, UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Mr. ENGLAND. So, Mr. Chairman and Representative Ryan and members of the Committee, it is a pleasure to be here today. I appreciate the opportunity to be here early. As you commented, it is still a couple weeks before the budget is submitted, so this is highly unusual.

And Admiral Ed Giambastiani and Tina Jonas, who is the Comptroller, are not in a position to talk detailed numbers of the budget because the budget is not approved yet and we will not know that for certain ourselves until the President ax the ax.

But as the Chairman commented in his letter to me, he wanted to stage, so it would be helpful, frankly, not only to this Committee but also the Congress, that when you get the budget, it will be better understood how we have put the budget together, what the parameters are, what the theory is in terms of how we have proceeded. So hopefully this will be helpful to you today.

And, of course, we are always pleased to come back when we have detailed numbers and talk about the detail, and we will be pleased to do that a later date after the President has submitted his budget.

I will make just a comment or two about the base budget and supplemental, so at least you understand where we have been in terms of the base and the supplemental. And I appreciate everybody's views on this because there are some conflicting requirements in terms of the budgeting.

First, the base budget. What we have in our base budget is the cost to "man, organize, train, and equip." And that is what is in our base budget. We do that for all of our Armed Forces, so all the services, all of our agencies are in that budget. And we balance in that. We make the tradeoffs throughout the year of sustaining the force and the investment for the future. So that is what we do every day in the base budget.

By the way, the base budget, we have working all of 2006 preparing the 2008 budget. It gets turned in here early February of 2007. It then is debated in the Congress, hopefully is passed late in the year, and we spend that money then in 2008. So it is prepared in 2006, debated and approved in 2007, and spent in 2008. So by definition, it is looking ahead somewhere between one and two years.

So it is an estimate because we are looking ahead. But since we have been doing the base budget, we actually have a pretty good feel for what those costs are and we can project those reasonably well in the base budget.

Regarding the size of the budget, the budget is very large. I mean, defense spends a lot of money. We understand that, and we also understand that we have a fiduciary responsibility, as you do, to spend it wisely. And all this money is earned by our fellow workers, all of you, all of us paying our taxes every day. And so we take that very, very seriously as you do.

I do want to comment on defense as a percent of GDP. Defense is expensive, no question about it. It costs a lot to protect and defend our country and our way of life.

In World War II, defense was about 35 percent of the budget. In Korea, it was about 12 percent of the budget. In Vietnam, approximately nine percent of the budget. Desert Storm, about four and a half percent of the budget. During the Reagan buildup, it was about six percent of GDP. And today, it is about 3.9 percent including the supplemental war cost.

So as a percent of GDP, we are actually considerably lower than we have been in any other conflict of modern times in the country.

So, fortunately, frankly, the economy has grown to the point that while defense is expensive, it is also more affordable in terms of our national capital.

Now, supplementals. The supplementals are financed in the ongoing costs of the contingency operation and our Global War on Terror, and the vast majority is Iraq and Afghanistan. That is where most of the money goes, for those two war efforts.

Now, this is fundamental question you raise, Mr. Chairman, is sort of the crux of this. That is, the supplementals have a much shorter time-line. So that is when we turn in the supplemental, it is more real-time. I mean, we actually know equipment damaged, equipment to be replaced. We know how many troops have been deployed. We know what our rate is every month.

So when it comes to the war cost, we actually have a much higher degree of fidelity doing that in the supplemental than if we tried to project a year ahead. I mean, sort of by definition, we are always better projecting something nearer term than you are trying to look into the future, particularly a war. And that has always been the tradeoff.

Now, frankly, that is not our decision. I mean, we do not make that decision at the DoD. That is a decision between the Congress and OMB in terms of how to package that. But it is always the question of greater fidelity in terms of supporting the numbers versus a projection of the numbers further into the future. So there is less fidelity the longer you go out, better fidelity closer in. And that is, frankly, the tradeoff between supplementals and what goes in the base budget.

That said, all of our costs are transparent. I mean, the DoD is extraordinarily professional. We are open. We are transparent. We provide all the data to the Congress, and we are pleased to discuss it in all detail. And whatever detail anyone requires, the books are open and available, and we send reports regularly to the Congress. And I will let Tina Jonas address that in more detail.

I do want to comment regarding the budget. We do have a lot of active programs within the Department of Defense to continuously improve our processes and methods within the Department. I mean, we do want a full accounting of costs. We do want to make sure money is spent wisely.

Obviously, it is not a perfect process because this is an extraordinarily large and complex enterprise, but we do work every single day to make that better and we are making considerable progress within the Department of having better, more timely, more accurate data.

So with that, we are pleased to take your questions. We do have a written statement, one written statement for the three of us, Mr. Chairman. But we are pleased to help you in any way we can to prepare your Committee for receipt of the President's budget here in early February.

[The prepared statement of Gordon England follows:]

PREPARED STATEMENT OF HON. GORDON ENGLAND, DEPUTY SECRETARY OF DEFENSE,
AND HON. TINA W. JONAS, UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Chairman Spratt, Representative Ryan, Members of the House Budget Committee, good afternoon. I do thank you for the invitation to appear before you today. Hopefully today's hearing will help set the stage for the Congress's review of the

President's Budget Request for the Department of Defense for Fiscal Year 2008 and the Supplemental Request for Fiscal Year 2007 that will be forwarded to Congress at the beginning of February.

With me today are Vice Chairman of the Joint Chiefs of Staff Admiral Giambastiani, and Under Secretary of Defense (Comptroller) Ms. Jonas. We will be pleased to provide for you an accounting of war costs to date, and to discuss the approach, the processes, and the categories the Department has used in putting together both the FY 2007 Supplemental Request and FY 2008 Budget Request.

War costs do add another dimension of complexity to the budget, but be assured that this Department will continue to be professional, open, and transparent regarding our processes and detailed costs. We therefore appreciate having this early opportunity to clarify for you the rationale the Department has used in our budget work.

Of course, as I commented to you in my letter dated January 11, 2007, this hearing is being held unusually early, prior to the President's budget submittal to the Congress. Since the President has not yet approved a budget, the Department of Defense is not yet in a position to discuss specific budget numbers.

Ever since the Department made the first supplemental request for the current war effort, shortly after 9/11, for Operation Enduring Freedom, there has been a fundamental debate about methodology. At the end of the day, there's a trade-off involved. The usual budget process is deliberate—it requires looking one to two years out into the future. Conversely, supplemental requests allow much greater fidelity. With the shorter supplemental timeline, the Department has much greater certainty about the changing situation on the ground and our own requirements.

In the Department's view, the supplemental approach has been helpful because it provides clarity. Of course, the Department will follow whatever approach is agreed on by the Congress and OMB.

By any measure, America's defense budget is large—about the size of the entire GDP of some of our close partners, like the Netherlands. So it is important and most appropriate that Congress and the American people seek a better understanding of how that money is spent. Since September 11th, 2001, when terrorists killed almost 3,000 innocent people of 60 different nationalities, including military personnel and civilian employees of the Department of Defense, America has been a nation at war. Since 2001, the Department of Defense—military and civilian—has been operating on a wartime footing, while simultaneously transforming the Department itself to meet the full array of 21st Century national security challenges. In practice, the Department has been carrying out military operations in Afghanistan and Iraq, prosecuting the global war against terrorist extremists around the world, working with partners to respond to major natural disasters in the United States and abroad, transforming the force to better engage in new types of warfare, and modernizing the force to deter and, if necessary, defeat future conventional threats.

The Department's strong transformation agenda draws on the President's National Security Strategy, and is reflected in two key documents published by the Department since 2001, the National Defense Strategy, and the 2006 Quadrennial Defense Review.

The Department's scope and pace of change since 2001, based on this strategic vision, have been extensive.

For example, just considering Combatant Commands, the Department has updated and strengthened the command structure of the force. US Northern Command—charged with protecting and defending the homeland—was created in 2002. The mission and responsibilities of Joint Forces Command, charged with leading the transformation of the force, have been strengthened. Strategic Command was merged with the former Space Command to create a new unified command that provides integrated protection against strategic threats of all kinds. Special Operations Command was assigned the mission to lead the war on terror effort, as well as a new Marine Corps component—MARSOC.

Geographically, the Department is transforming America's global defense posture from one designed to fight the Cold War to one that enables our forces to respond quickly to meet unexpected threats, anywhere in the world. Practically—to give just a few examples—the Army, while continuing to be heavily engaged in new, irregular forms of warfare in Iraq and Afghanistan, is simultaneously undergoing the most significant modernization in a generation, transforming its garrisoned forces into agile, expeditionary Brigade Combat Teams. And, after decades of development, ballistic missile defense has moved from concept to reality—including fielding an integrated missile defense capability that continues to get stronger and more effective.

At the end of the day, the defense budget is about deterring potential adversaries and, when necessary, winning the Nation's wars; preparing prudently for future challenges; helping bring our friends and allies into the fight; and supporting the

brave men and women in uniform who protect and defend America and their families.

Protecting and defending America's people, territory, and way of life is expensive—and more expensive than it used to be, since the array of threats we face is greater than ever before. The Department takes very seriously our fiduciary responsibility to spend every tax dollar wisely. The leadership is especially cognizant that all the dollars the Department spends have been earned by fellow, hard-working citizens.

Because this nation is blessed with such a strong economy, defense expenditures are a relatively small part of the nation's GDP—indeed, today they constitute the smallest proportion of GDP ever spent on defense during war time.

By way of comparison, in 1945, the Department's budget as a percentage of GDP was 34.5%. During the Korean conflict, it was 11.7%; in Vietnam—8.9%; and in Desert Storm—4.6%. Even during the Reagan build-up in the 1980's, the defense budget was 6% of GDP. In 2006, defense spending, including base budget and all supplementals, was 3.9% of GDP, and is projected to be about the same in 2007. That is not an unreasonable investment to make, to protect and defend our nation.

By way of process, the base budget funds the Department's mission to "man, organize, train and equip" America's armed forces. The base budget captures and balances the costs of sustaining the force with investing in the capabilities needed to meet future security challenges. So today, for example, the base budget is supporting transformation toward a more expeditionary force, with greater irregular warfare capabilities. And it's supporting the procurement of joint warfighting capabilities. In broad terms, the breakout of expenditures in the base budget, for FY 2007, is as follows: military pay, healthcare and housing 34%; readiness and support 30%; investment in future warfighting capability 36%.

One major challenge the Department faces, looking out into the future, is that the average age of equipment is rising. In FY 2006, the average age of nuclear attack submarines was about 18 years; of the Air Force's tactical fighters—20 years; of strategic airlift -15 years; of tactical airlift—26 years; and of tankers—44 years.

It's important to recognize that the Department is at minimum replacement levels for much of its capital assets. For example, the Department is building one submarine per year, one new aircraft carrier every five years, and one destroyer each year, and it has only one multi-role fighter in development.

Supplemental budgets are financing the ongoing costs of contingency operations and related costs of the global war on terror. Iraq and Afghanistan account for the vast majority of supplemental funding.

In FY 2007, some war costs are being covered by the \$70 billion provided by Congress in the FY 2007 DoD Appropriations Act. War costs for the remainder of FY 2007 will be addressed in a separate request from the Department, to be submitted along with the FY 2008 base budget and the FY 2008 war request. It is vitally important to the Department that the FY 2007 spring supplemental be approved by the Congress in a timely manner. By mid-April, the Department will need to begin reprogramming other funds, with associated disruptions, if the supplemental is not approved.

Despite the difficulties of predicting the costs of the fight against terror, the Department has continued to make every effort to provide Congress with a transparent view of its stewardship of taxpayer dollars in this most critically important effort—particularly in our regular Cost of War Reports.

In November 2006, the Department delivered to Congress its most recent Cost of War report, with a full accounting of war costs to date. That Report shows that, since September 11, 2001, Congress has appropriated \$452 billion in supplemental funding for the global war on terror. As of the end of November 2006, the Department had obligated \$372 billion—\$276 billion for Operation Iraqi Freedom; \$69 billion for Operation Enduring Freedom; and \$27 billion for Operation Noble Eagle. The Report also includes, as required by Congress, detailed information by Component, appropriation or funding source, budget activity, and type of cost.

Some have suggested that the Department cannot accurately account for the cost of the global war on terror because its financial books cannot be independently audited. While the Department is not undergoing an independent audit of the cost of the global war on terror, the reports are compiled and analyzed by a team of experienced accountants who carefully scrutinize the data, conduct variance analyses to identify and correct errors, and footnote sources.

The results to date have been positive—in its most recent report on DoD war-related costs, the Government Accountability Office did not identify any duplicative or unnecessary war spending. There is, however, always room for improvement. Accordingly, in the cost reports, expenses are now being grouped into more easily un-

derstood categories, with an increased level of detail. Department efforts to clarify and further improve the process are ongoing.

The Department's good stewardship of taxpayer dollars requires the soundest possible financial management procedures. While such internal reforms rarely make the headlines, improving the financial management and audit readiness of the Department has been a "main effort" since 2001—with concrete results.

These initiatives are part of a broader effort to reform the defense enterprise itself—to make the Department function as effectively, and thereby as efficiently, as possible. Reforming the enterprise has meant taking a hard look at, and updating, everything from decision-making processes to the full array of business practices used to run the Department.

One major spur toward change is the Department's Financial Improvement and Audit Readiness (FIAR) Plan, which lays out an incremental approach to Department-wide audit readiness. The Plan is designed both to prepare the Department for audit, and to institutionalize the systems that get us there—in order to achieve clean audit opinions now and in the future. The Plan is working.

As of December 2006, the Department had achieved 84% of all the key milestones in the FIAR Plan. As a result, 15% of all DoD assets (\$215 billion) and 49% of its liabilities (\$967 billion), received a "clean"—independently-verified—audit opinion.

By plan, 72% of the Department's assets and 79% of its liabilities will receive "clean" audit opinions by 2010. While that may seem like a long time, the DoD asset base is larger than those of IBM, Wal-Mart, Ford, and Exxon/Mobil combined. [DoD: over \$1 trillion; Theirs: \$746B. Source: their annual reports.]

In addition, for the first time, the Army Corps of Engineers is undergoing an audit of its 2006 financial statement, and a favorable opinion is expected next month.

To help institutionalize these improved approaches, the Department created, and is implementing, the Enterprise Transition Plan. As Chairman of the Defense Business Systems Modernization Committee, I monitor this crucial piece of our strategy, and I can tell you it is working. As of December 2006, the Department had achieved 77% of the Transition Plan's milestones.

The Department also continues to improve financial operations—for example, the Defense Finance and Accounting Service (DFAS) has dramatically increased productivity and improved service while reducing costs.

I do thank this Committee for the opportunity to engage in this important, clarifying discussion. I thank you for your close cooperation with the Department of Defense in our shared efforts to protect and defend America. And I thank each of you for your support for our brave men and women who wear the cloth of this nation.

Chairman SPRATT. Okay. Mr. Secretary, let me open up with some charts, if you will.

Defense Increases During Bush Administration

National Defense Discretionary Budget Authority in Billions of Dollars

	2002- 2004	2005	2006	2007	2008	2009	2010	2011	2002- 2011
CBO January Baseline 2001	991.0	347.4	356.3	365.5	374.9	384.6	394.5	404.9	3619.0
Policy Increases Excluding War Funding	120.2	71.1	82.7	94.2	107.2	117.6	117.8	118.2	829.1
Iraq/Afghanistan/ Noble Eagle	190.2	79.4	117.6	110.0	90.0	65.0	40.0	32.0	724.2
Cost Risk	-	-	-	24.1	29.4	26.2	32.0	43.4	155.2
Total Increase	310.4	150.5	200.3	228.3	226.6	208.9	189.8	193.7	1,708.5
Total Bush Defense Program	1301.5	497.9	556.6	593.8	601.5	593.4	584.3	598.5	5,327.5

Prepared by the House Budget Committee

12/12/06

Chairman SPRATT. We have got electronics now. We are high tech in our Committee room now. The first chart is a chart of cost of defense spending over a ten-year period of time, namely 2002 through 2011, which will be the budgetary period that was mostly determined by policy decisions made within the Bush Administration.

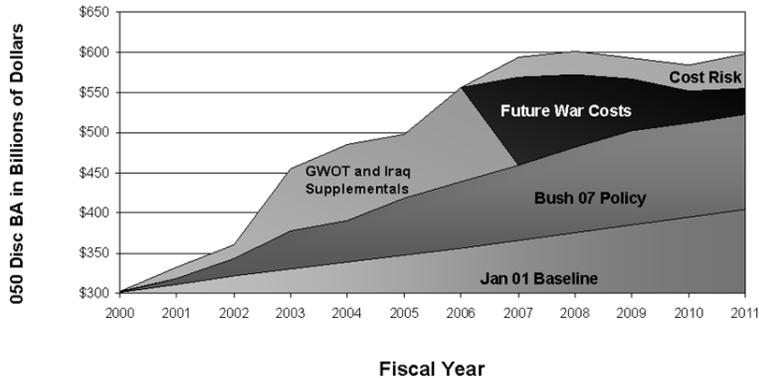
As you can see from the top line, if you took the CBO baseline for defense spending, 050 as we call it, out ten years from 2002 through 2011, the baseline in 2001 when the Bush Administration came to office was about \$3.6 trillion over that ten-year period of time.

If you adjust it for policy increases, for war funding, for cost risk, and other things using the CBO analysis of what traditional cost risk has been, particularly on procurement and R&D, the total increment over that ten-year period of time is \$1,708,000,000,000.

So that makes defense spending, it is imperative, compulsory. We have got to defend the nation. That is the first responsibility of the government. But, still, a \$1.7 trillion increase has to be of concern to those of us who put together budgets and try to make them balance.

Increased Cost of Defense Under Bush Administration

With Estimate of Future Contingency Costs



Prepared by the House Budget Committee

12/12/06

Chairman SPRATT. The next chart is a layer chart, a layer graph which shows you the different components in a layered form of the budget we are talking about. And as you can see, the increased cost of defense over the period 2000 through 2011 has gone from about \$300 billion to about \$600 billion. I believe those are in nominal dollars. It is a substantial increase to accommodate in our budget that you are trying to put back in balance.

War Funding Provided To Date Totals More than \$500 Billion

Operation Iraqi Freedom	\$379 Billion
Operation Enduring Freedom	\$98 Billion
Operation Noble Eagle	\$26 Million

Prepared by the House Budget Committee

Source: CRS

12/12/06

Chairman SPRATT. Now, one of the factors, if you look at the next chart, accounting for that increase, it is shown here future war

costs in the dark layer, the upper end of this particular chart, of the cost of Iraqi Freedom, Enduring Freedom, and Afghanistan, the Noble Eagle, which is North America, and enhanced security since 2001.

As you can see, Iraqi Freedom, Operation Iraqi Freedom by our calculation—and one question I want to put to you is, does this comport with your calculation of what has been appropriated and provided—to date is \$379 billion. We do not know for sure what the coming supplemental will be, but this includes the 70. It does not include the balance to come. We will guess then that Operation Iraqi Freedom at the end of next year will be well above \$400 billion. It has been an expensive venture.

War Costs Have Increased Each Year

2003	\$75 Billion
2004	\$96 Billion
2005	\$108 Billion
2006	\$122 Billion
2007	\$170 Billion ?

Prepared by the House Budget Committee

Source: CRS

12/12/06

Chairman SPRATT. In addition to that, if we can have the next chart, the cost has gone up. In 2003, we were fighting a war. Not for a long time, but at least for a significant period of time, and at a high level of intensity. And, still, the cost in 2003 was \$75 billion. It went up the next year, the next year, the next year, and could go up to \$170 billion in 2007.

We would like to ask why the big jump in apparent outlays between 2006 and 2007, and how do you account for the fact that the cost of the war keeps going up and up and up, even though the intensity of it has varied over time and even though we actually have fewer troops there than we did two years ago by about 20,000, I believe?

And then finally, CBO, Congressional Budget Office, in projecting likely expenditures has typically in the past had to carry forward any supplemental as if it were being reenacted, reenacted, reenacted, which is unrealistic, but that is where the conventional rules call for them to extrapolate from their baseline.

They finally said we need a better way to do it for the cost of the War in Iraq. And what they did was they came up with a set of assumptions that next year, the next fiscal year, 2008, we will

begin to reduce our troops such that over a five-year period of time, we will go from where we are to 55,000 troops in Iraq, the theater, and Afghanistan, the theater, not necessarily in country.

They assumed a gradual build-down to that steady state of 55,000 troops for the next five years. Over that ten-year period of time, they estimated future war costs at \$413 billion. And if we have to accommodate \$413 billion in the next five years of our budget, the next ten years of our budget, it is going to be that much harder to bring it to balance.

And what we are asking today is, would you take a look at these numbers and tell us if they comport with your experience, your accounting, your records, and, if so, are we basically on the right track in what we have estimated is the task before us?

Would you care to comment upon any of these charts or these cost projections?

Mr. ENGLAND. Mr. Chairman, the chart where the costs are going up and why is the cost going up, I can just give you one input, and perhaps my associates can provide more clarity.

But it was not until 2005, frankly, that we started putting in the supplemental what we call the reset cost. That is, until that period, I think it was just sort of agreement in the past that supplementals did not have procurement cost, procurement cost meaning to buy equipment to replace equipment that had been lost in combat.

Chairman SPRATT. Well, in your October the 25th memorandum, did you redefine and expand the definition of what is emergency then to include procurement even though the procurement items might not be directly related to the theater of operations?

Mr. ENGLAND. Two subjects, if I can.

Chairman SPRATT. Mr. Scott.

Mr. SCOTT. These are the total costs, supplemental and regular.

Chairman SPRATT. That is supplemental.

Mr. SCOTT. Just supplemental?

Chairman SPRATT. Yeah.

Mr. ENGLAND. Excuse me, sir. If I can address those, I believe there are two separate issues. If I could address them, I will for you, Mr. Chairman.

Chairman SPRATT. Please do.

Mr. ENGLAND. In this case on the cost, the war cost, until 2005, we were not pricing in the supplemental. That is, war cost, the replacement of equipment damaged, worn out, accelerated wear was not showing up in the budget. So we were accumulating basically a cost.

And, by the way, we were also accumulating equipment back then because it was not getting replaced and it was not getting repaired until the 2005 supplemental. So we literally have a backlog that we have been putting in the budget in terms of our repair and replacement.

And so you are seeing an increase, and some of that increase is a reflection of the fact that it was not costed early on in the early cost of war. So it was not until 2005 we started. And you are still seeing, I believe, some of that in the cost.

Chairman SPRATT. The last appropriation bill supplemental, we put \$23 billion for reset, and I think some of that was added by

the Appropriation's Committee. It was not done just on your initiative. It was done on their initiative too.

Mr. ENGLAND. No. That is correct.

Chairman SPRATT. Do you expect that level of cost to be recurring for some period of time?

Mr. ENGLAND. Yes. There will still be costs for resetting equipment, worn out and destroyed equipment. You will continue to see that for some time.

And as you commented, once the war ends, the expectation is, whenever that war ends, there will still be equipment that is on the battlefield to be replaced and/or repaired, either come back for repair or replacement, that is buy new assets to replace the old assets.

So, yes, I expect that will continue. And when the war is over, there will be a residual tail of some amount of dollars to take care of that equipment.

Chairman SPRATT. There are others here who have questions to ask. I do not want to hog the time. Just one last question.

Does the Department of Defense have models like the model that CBO did of what different scenarios would cost so that that could be factored into the decision-making processes, what is our next step and our final steps in dealing with Iraq? Do you have anything like the model, back-of-the-envelope model that CBO has developed of what different scenarios might cost?

Mr. ENGLAND. If I can have Tina address that, please, our Comptroller.

Ms. JONAS. Okay. Thank you, Mr. Chairman.

In order to project our war costs and what we are providing to our oversight committees and supplementals, et cetera, we do have a cost model that we use. We plug in the actual deployment orders, which is what the Deputy alluded to. They are more accurate.

We are less sophisticated with respect to the types of scenario building that CBO might do. In fact, obviously we are going to have to do some projections for what we are going to present in 2008.

Chairman SPRATT. Well, I understand you have a system called COST, acronym, C-O-S-T.

Ms. JONAS. Yes, sir. That is our system, sir, yes.

Chairman SPRATT. And there is some variation between DoD and CBO? Is CBO privy to COST? Does it have access to the software?

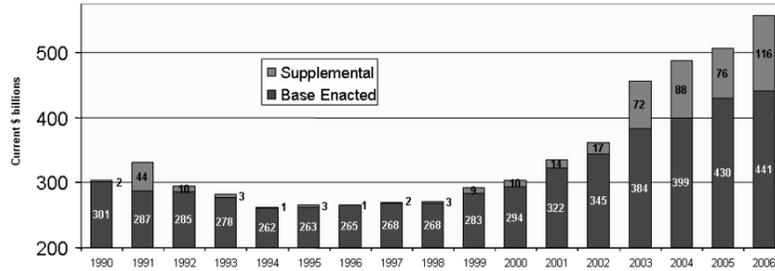
Ms. JONAS. I am not sure, but I believe that we briefed many people on the COST modeling system. And so we have that available, yes, sir.

Chairman SPRATT. Thank you.

Mr. Ryan.

Mr. RYAN. I thank the Chair.

National Defense (050) BA (Discretionary and Mandatory)



**National Defense funding increased 37 percent
from 2001-2006 not including war funding.**

*2006 estimate
Source: OMB, CRS, CBO

Mr. RYAN. If I could go to chart number one among our charts. If you recall, last year in our budget resolution, our fiscal year 2007 budget resolution, House Con Resolution 376, for the first time, we put new emergency spending definitions and rules and processes in place.

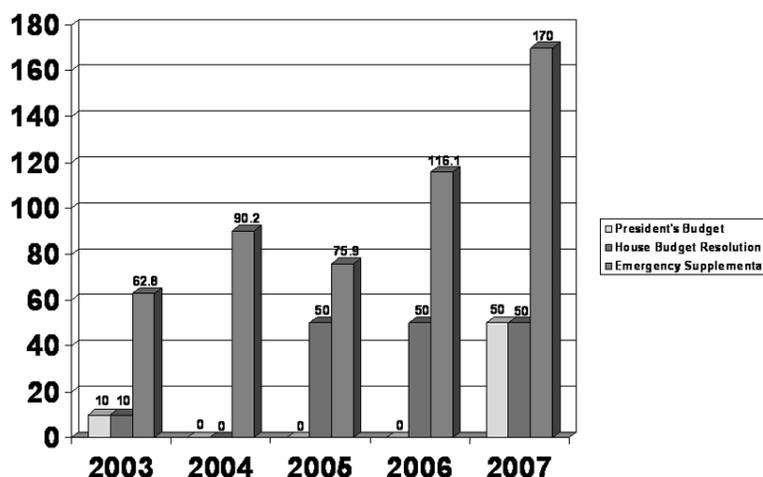
We refined the designation for any spending outside the regular budget, and we distinguished between defense emergency spending and nonemergency defense spending by stating that, "Contingency operations directly related to the Global War on Terrorism and other unanticipated defense operations are appropriate for overseas contingency operations."

Secretary England, take a look at the chart. As you can see, early 1990s, we had a couple supplementals and then we had sort of what I guess I would call the peace dividend and then we ramped up, especially, you know, after 9/11. But take a look at how big the supplementals grew, you know, particularly after the actual invasion of Iraq.

And the Administration sent us a number of budgets that seemed to continue putting nonemergency items into the supplementals. And we saw a growing trend of nonemergency spending items creeping into these supplementals.

It is obviously no way to run a railroad. It is no way to predict things. But now, you know, we are a number of years into this.

**Budgeting for the War on Terrorism
National Defense (050)**
\$ Billions



Source: CBO

Mr. RYAN. If you could go to chart number two, please, my question is basically this. We started to try and put plugs in our budget resolutions here in the House. I guess it takes a second for these charts to come up, but there we go.

Take a look at in 2003. You know, we put aside in our budget \$10 billion. The Administration put \$10 billion. Supplemental was 62. Then we did nothing in 2004. Then in 2005, the Administration did nothing. We on the Budget Committee did 50 and we kept doing 50. Last year for the first time, the OMB actually, you know, matched us and put 50, but our supplemental was \$170 billion.

The question I want to know is this. Did you look at our designation of emergencies or definition of what emergencies were in our last year budget resolution? This definition is now—I think you carried this rule over, number one.

Number two, what controls and processes do you have in place to make sure that nonemergency stuff do not creep into these supplementals? For instance, you know, if a helicopter goes down in a combat environment, you need a new helicopter and that is probably unforeseen and you need that for an emergency. But if you were already planning on buying a bunch of helicopters, why would you put those in, you know, emergency supplementals?

What assurances can we get and what controls do you have in place to prevent these things from creeping into these emergencies from now on prospectively? We pretty much know what we need. And what is the new budget going to look like in that regard?

Mr. ENGLAND. Mr. Ryan, what we do is the supplemental is the war cost. I mean, literally it is the war cost. That is what we put in the supplemental. I mean, that is the only differentiator we have is the cost of war is what goes in the supplemental.

And in the cost of war, you are right, if a helicopter goes down and that is a combat loss, then that is paid for out of the war cost because our regular budget is based on normal usage and the normal sort of attrition and training and things of that sort.

So if we have accelerated wear-out, damage, if our vehicles are blown up or whatever, then that becomes a war cost. It is a war cost to recycle them. So they have to be refurbished. Because they have been on the front lines, they get refurbished.

Mr. RYAN. But a lot of these war costs, you know about already. You know what you are going to spend on the war next year in so many of these categories. You do not know what helicopters are going to go down, but you know how many helicopters you are going to need to begin with. You know a lot of these things ahead of time.

So what is going to distinguish between unanticipated true emergency spending needs and anticipated war costs? Where do you draw that line and are you drawing that line?

Mr. ENGLAND. Again, I thought I was pretty clear. Whatever is a war cost is in the supplemental. I mean, if it is directly associated with the war, it is in the supplemental. That has been the practice the whole time to have those in the supplemental. And we provide with our supplemental all the supporting detail.

Now, it can go into base budget, but here again is my comment.

Mr. RYAN. Okay. The base budget.

Mr. ENGLAND. But here is my comment. Today when we turn in a supplemental, you get, the Congress gets very detailed supporting data because we actually know a helicopter went down. So we know that helicopter went down and that replacement cost is in the budget.

If you look out a year, then we estimate what is going to happen. And, remember, we have been putting the budgets together, the base budget, during 2006, and we actually have expenditures in 2008. So we are really looking ahead by somewhere between one and two years to estimate what is going to happen in the future, and that has just been very hard to predict.

Now, you can do that. But when we turn the numbers in, you will have less certainty and support for the numbers because it will be an estimate in the future as opposed to a war cost that we can quantify quite precisely. And that has been the tradeoff.

And a decision has been made, by the way, between the Congress and OMB in the past to keep that in the supplemental, and that is how we have been doing it. So that is how we differentiate it.

Mr. RYAN. I see my time is up. I have some follow-ups, but maybe second round.

Chairman SPRATT. Go ahead if you—

Mr. RYAN. No. That is okay. I do not want to take up—

Chairman SPRATT. I will now go to Mr. Cooper and pass over Mr. Edwards because Mr. Edwards is having an operation on his voice. He is having some polyps removed from his vocal cord.

Mr. ENGLAND. That is an occupational hazard there.

Chairman SPRATT. Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman.

In a bipartisan spirit, let me follow-up on my colleague, Mr. Ryan's excellent questions.

Mr. Secretary, I think you put a very good face on a very murky situation. I do not know anyone in Congress, Democrat or Republican, who really feels that the Pentagon is a transparent institution, that we know where you stand financially.

Take, for example, the head of the General Accounting Office. He repeatedly year after year points out that the Pentagon is the single biggest offender in not having auditable numbers. Being the largest federal agency, that is really opaque, untransparent.

Now, I know in your testimony, you point out that you are large and that in a few years' time, you will do a better job. But those of us who have been around this institution for a long time have heard that for so many decades, we get tired of waiting. And I know you are as big as IBM, Wal-Mart, and Exxon put together. But the rest of the federal government is even bigger. And 18 of 24 agencies are auditable.

Now, we want to give you slack during wartime. But even in peacetime, it seems like distressingly little progress is being made. So I do not want to hurt morale or slow Tina's wonderful efforts, but this really needs to get done so that we know where the numbers are.

And Paul's question about what is an emergency expenditure or what is not, none of us knows what is going to be in this year's emergency supplemental, but the newspaper rumors are there are going to be two joint strike fighters, which are not even going to be fielded for years, so how is that an emergency?

Sixty-two million for ballistic missiles, which are fine, but they are not going to be used in Afghanistan or Iraq. Three point four billion for new and repaired Navy aircraft when we really do not face an air threat, at least so far, in Iraq.

It is amazing what gets added into these bills. And there is a great deal of bipartisan suspicion that the Pentagon has been playing fast and loose with the definition of emergency.

So can you give us some reassurance?

Mr. ENGLAND. I would be pleased to. First of all, a clean balance sheet, I mean, it has been an issue. It has been an issue for a long time. And I can just tell you that this management team has been working very hard. We have teams in place and we are making progress. And we do have milestones and we measure against them, so we are making progress, and we will get to a clean balance sheet.

It takes a long time, but we are working it and we are working aggressively and we take it seriously, so we will get there. And it is something you just cannot fix overnight, but there is a process and a methodology and people dedicated to the task and in my judgment are doing a good job, and we review it periodically with them to see where they are.

In the meantime, however, that is a clean balance sheet. We do know how our money is spent every year, and we do send those reports regularly to the Congress. So all the money spent every year, that is open and is transparent. And if there are questions about them, we are pleased, more than pleased to discuss those with the members of Congress.

Let us see. The last question. Oh, I know, about the airplanes. So here is again the theory of this, and I do not know if all those

things you mentioned—there has been a lot of things in the press about all sorts of things, and I would rather wait until the budget comes out and then we can talk the particulars.

But let me talk about the theory of the case. The theory of the case is if we lose an airplane, the airplane goes down in Iraq and we lose that airplane, then there is a value of money associated with that airplane that we recapture. I mean, it is a loss we recapture.

Depending on the model of the airplane, we do not go back and buy an old airplane. We buy whatever airplane is then being bought for the military. It would make no sense to go buy something old.

So, for example, in our combat vehicles and our Humvees that were not protected early, the old model Humvee, if we lose one today, we buy an up armor Humvee, one appropriate to the future fight, but we recapture that cost.

So if you think about it as an accelerated depreciation, if we are wearing something out very quickly, we recover the cost, like an accelerated depreciation, we recover the cost and then we apply it to whatever it is that we are buying in the future.

So it is not a question of what we are buying. It is a question of recovering the cost of equipment that is being worn out or damaged and then we apply it to whatever the future product is.

But I do not think the issue, Congressman, is what we are buying. I think the issue is from a budgeting point of view, how do we recover the cost and are we doing that accurately. And I believe we are doing that accurately in terms of recovering the cost.

So that is what we do. That is how we do it. And, again, it is very transparent, and we are pleased. When those numbers come out and all that detail is available, we will be happy to sit down and go through that with anyone on the Committee.

Mr. COOPER. Mr. Secretary, again, you say it is transparent. The head of GAO says it is not auditable and almost offensively so. So if it is not auditable, it is not transparent.

Mr. ENGLAND. No. But, again, we do not have what I call a clean balance sheet. That is different than knowing what our expenditures are every year. So one is a balance sheet issue. The other is expenditures. And we do have reports of expenditures regularly to the Congress. So that is available and that is auditable. In fact, we audit it and I expect it is audited by the Congress.

Tina, you want to comment?

Ms. JONAS. Yeah.

Thank you, Mr. Cooper.

I think one of the more difficult points for people to understand, our accounting systems, which have been in place for many, many years, are based on the appropriation's account structure, which, of course, is based in law.

And in 1990, the Congress passed through a "Chief Financial Officer's Act" which then required us to have clean statements according to the GAAP principles, the generally accepted accounting principles.

So you have got two different types of reporting going on. But as the Deputy said, we do have accounting reports, they are known as 10-02 reports, that are tied to appropriation's account, expendi-

tures according to them, commitments, obligations, expenditures. And so we do have those.

But I appreciate your interest, Mr. Cooper, because we have been working very hard to try to do the work that is necessary both on process side and on systems side to be able to allow us to account for the expenditures of the Department of Defense according to GAAP.

And I think we are making some progress. Right now we have a clean opinion on 15 percent of our assets and 49 percent of our liabilities, close to a trillion dollars. But it is important work and we appreciate the support and interest of the Congress.

Mr. BARRETT. Mr. Chairman.

Chairman SPRATT. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

Gentlemen and lady, thank you for being here today.

And continuing to build on the bipartisanship with Mr. Cooper, I hope you can sense that there is a growing angst about these supplementals that are coming in.

I specifically remember last year in one of them, there were base improvements, brick and mortar improvements for bases in the United States. Now, granted, somebody knew that a long time ago that we needed to do that. But to slip that into a supplemental or put it into a supplemental, either way you want to look at it, I think, is not keeping with the true spirit of a supplemental.

So take a look at that and just know that there are some of us that are very concerned about that. I do not want to beat you up anymore about that.

Accountability, Mr. Secretary. You talked about different ways that you are accountable. Name a couple of specific areas of what you are doing for oversight to make sure that you guys are spending the tax dollar wisely. That is question one.

Question two, there has been a lot of talk about the troop surge, the troop increase, whatever you want to call it. And I think there is room for agreement and disagreement on the number, whether it is something we need, something we do not need. But I have heard a lot of my colleagues, Republicans and Democrats, talk about the overall force size. And I am talking about Army, Navy, Air Force, Marines, increasing the size of the active forces.

We have been relying on our National Guard, Army Reservists and other areas also on our citizen soldiers, and I think we are almost to the stretching point.

What would be the cost of increasing the size of the active forces and what would be the cost of not increasing the size of our active forces?

Mr. ENGLAND. Tina?

Ms. JONAS. Sir, I will let the Deputy answer the second part of that question. The cost of increasing the forces is about \$5.6 billion. Okay? And that breaks out into deployed forces, operations, fuel, spare parts, and supplies.

Mr. BARRETT. Okay. Now, that is the surge cost, correct?

Ms. JONAS. Yes.

Mr. BARRETT. Okay. And maybe I did not quite make myself clear. Take that out. What I am talking about is the overall forces if you take the surge cost out. A lot of the experts are saying we

do not have enough men and women under arms, active service men and women to carry out the missions we have worldwide.

And my question is, you know, if that is true, what are the costs of increasing the size of the active Armed Forces and what are the costs of not increasing the size of the active Armed Forces?

Mr. ENGLAND. I do not understand the second half of the question. If this cost had not—

Mr. BARRETT. Yeah. I mean, you know, if we say we need more—

Mr. RYAN. Will the gentleman yield?

Mr. BARRETT. Yes.

Mr. RYAN. I think what we are getting at is, what is the cost of permanent higher number of volunteer forces versus calling more Guard and Reserves up over the years to fill what you think you need in more permanent voluntary forces? How do you juxtapose the two? What are the cost differences?

Mr. BARRETT. Thank you. Exactly.

Mr. ENGLAND. Okay. Part of it is cost. Part of it is just having forces available. When we bring up our Guard and Reserve, the Secretary just announced he wanted to go to a one in five. That is one year or one period, you serve five at home so that there is a recuperation period and so that people can count on a fixed rotation.

So given that, there is a limited size in terms of how many people you can pull out of the Reserves and the Guard on that sort of rotation basis. And, in fact, you would have to grow the Guard and Reserve obviously by a reasonable amount because you only get them one out of every five as opposed to the active force, the policy is in theater one and home for two years, which, of course, we do not have today.

So that was a policy that Secretary Gates has announced so that people can plan for a certain, you know, time at home and time in theater. And to do that based on the requirements of the combattant commanders going forward looking worldwide at all the future potential threats we have, the objective was to have a number of brigade combat teams, which is how we measure the combat force, adequate to that mission.

And to do that, it would have required either a very large increase of the Reserve components or it would have required 7,000 active-duty Army and, I believe, 5,000 active-duty buildup of the Marine Corps for a total increase of 92,000 people including some of which are already in the supplemental.

But you would have had basically a full-time equivalent growth of 92,000 people, and that was based on satisfying the projections of the combattant commanders for the troops. The decision was made based on the demand schedule and recruiting and all those to increase the active force by the seven and five thousand over the next five years.

Mr. BARRETT. And I know my time is up, Mr. Chairman.

But with the 12,000, what is the discrepancy between the 12 that you are talking about and the 92?

Admiral GIAMBASTIANI. It is 7,000 a year for five years for the Army and 5,000 a year approximately for five years for the Marine Corps.

Mr. BARRETT. Got you.

Admiral GIAMBASTIANI. This is over the all-volunteer force, and we think that we can add those numbers above the base that we are recruiting for the active component right now. And that is based on the Army and the Marine Corps coming in and telling us what they believe is doable on an annual basis for recruiting.

Mr. BARRETT. Thank you, Mr. Chairman.

Chairman SPRATT. And the incremental cost of that is about \$10 billion at its peak?

Admiral GIAMBASTIANI. The best way to estimate this is for about 10,000 troops in the active component, it is about \$1.2 billion per 10,000.

Chairman SPRATT. Ms. Schwartz.

Admiral GIAMBASTIANI. Now, there is equipping costs above and beyond that, but those are for the troops, the salaries, and the rest of it.

Chairman SPRATT. Ms. Schwartz.

Ms. SCHWARTZ. Thank you, and appreciate this hearing. I was interested that both sides of the aisle are being pretty articulate, I think, about the fact that we are all deeply concerned about transparency, about the way the war funding has been requested in supplementals and continue to be.

You said a few things, so I would like to have short answers, if you could, because I have a couple things I would like to get through.

But one thing you said is that there will be transparency as there always has been. Now, I had heard from the Administration just recently—I will not mention who said it—I am not sure it was in a public situation—is that the Administration has heard that we are concerned about the lack of transparency and that this next supplemental will actually have more specifics in it in helping us understand and be more public about the cost of this war, how the money is anticipated to be spent.

Your testimony and answers have suggested that you are not going to do it any differently than you have done it for the last four years, that you believe there is full transparency and there is no need for more specificity.

So is what I heard from someone fairly high up in the Administration that we will see greater specificity, in fact, not true, that we will see just the general kind of information we have seen before in this new supplemental?

Mr. ENGLAND. I mean, there is always room for improvement. I mean, I am not being defensive about this and I do not think anybody should be. Look, it is open and transparent and there is always more and more detail that can be provided. And so as people want more and more detail, we will take the time and energy to do that if it is useful. I mean, at some point, it does not become useful.

But the information is there. I mean, we do turn in extensive reports. I do not know how many pages, but, you know, huge numbers. Maybe Tina knows. But to the extent that people require more information, we will provide to whatever depth anyone requests.

Ms. SCHWARTZ. All right. Well, I am sure the Chairman may be helpful then in communicating requests for more information.

I think there is also some concern, following up on the previous question, about the need for oversight after the fact. So it is not only when you make the request. It is afterwards.

I think many of us feel we have not gotten the kind of information about how the money was spent other than the fact savings from some of the previous supplementals because, again, "it is emergency funding." You cannot anticipate exactly.

Have you actually not spent all of the money in the previous supplementals and, therefore, there is some excess there we might be able to put going forward or have you used that in some other way?

Mr. ENGLAND. So, Tina, I will let you answer the question first about the report and what we do.

Ms. JONAS. I appreciate your concerns. Let me just talk to the justification material. We requested \$50 billion last year. Of course, the Congress added to that amount. We did provide to our oversight committees about 500 pages, a book of 500 pages of detail justification.

I agree that for those who are in budgeting, unless those things are really designed for the Committee staffs, and so as a result of that, we are taking steps this year to make sure that it is more easily understood to the public and to the broader membership of the Congress as well. So we are taking steps there.

And we do provide monthly cost reporting to the GAO and we provide quarterly reports to the Congress, and we will continue to do that.

Ms. SCHWARTZ. Okay. Just in the time remaining, you also said that some of the supplemental you anticipate, almost one for one replacements, that if you lose a helicopter, you put the cost in there. I guess that is understandable.

But one of the questions I have is, going forward, we have heard and expect that there will be going forward when this war is concluded that there will be high cost in just replacement of what we have lost.

Are you saying there will not be any need for additional cost for the Department of Defense because, in fact, you have already accounted for all of the replacement for equipment and for vehicles and for—so we will not anticipate any additional costs going forward? That is already built into the supplementals?

Mr. ENGLAND. No. I thought I said just the opposite. I said that when the war is over, there would be a tail for the reset cost. So there is a cost. Once the war ends, there will be a tail for probably two years because the equipment gets damaged right up to the very end of the war. I mean, there is obviously some lag of this whole system.

Ms. SCHWARTZ. So you are doing it as you go along? You are doing it also as you go along?

Mr. ENGLAND. As we go along, right. So every year, the cost shows up in terms of reset cost, operation cost, personnel cost, et cetera. And when the war is over, there would still be some reset cost. So I am sorry if I confused you on that, but I really meant to say the opposite.

Ms. SCHWARTZ. That is helpful to know, although I think we would all want to know how much that will be as soon as you can project it out. But some others questions, but obviously I will move on. My time is up. Thank you.

Mr. ENGLAND. Okay. Thank you.

Chairman SPRATT. Mr. Garrett.

Mr. GARRETT. Thank you, Mr. Chairman.

And I thank the gentlemen, the gentle lady for your testimony today and also in the previous years as well that you came before this Committee.

And I am going to follow on the line of questioning and the two areas that you have been questioned on today starting with Mr. Ryan's and Mr. Spratt's comments and also Mr. Cooper's comments.

And these are comments that come not only as a member of the Budget Committee, quite candidly, but these are questions that originate for me back from my district when we have town hall meetings and what have you, from members of the service and what have you. They raise these questions in one framework or another.

Specifically on the first area, on the supplemental, like Mr. Ryan indicated, I am pleased by the fact that we have at least begun the process of adding these dollars into the overall budget process. Back in, as he indicated, the 2007 process, we had what we call a bridge fund to try to carry us over through that period.

But the interesting thing during that period of time is even though as we were going through the regular order process of that here in this House and the Senate, there was already news reports out that the Administration was in the works of preparing their next supplemental to come down the line just a few months after we would be completed.

Now, I understand what you are saying, the normal bureaucratic elements of things and the time, that you are looking at 2006 moving to 2007 or 2008 actually, the spending. And I understand also that you get a better feel for the matter as to how much money you are going to spend when it is right next to actually when the dollars are going out the door.

But if we carry that to the next degree, I guess, we should do supplementals after the fact and then we would know exactly how much money we spent and now we just have to reimburse those accounts. That is not the way we want to do it. We want to do it like every other line of this government and also like every other business.

I serve on the Financial Services Committee as well and we are just debating the entire SOX issue and what we require major public companies to have to go through. And I fear whether or not anyone in this Administration and the DoD would be willing to have to sign off with the same legal penalties that we require of our top CEOs and financial officers for what we are requiring them there.

So I ask you to comment on that. And, secondly, and specifically as to whether as we go through this regular order of the budget cycle, what we should potentially anticipate as far as supplemental, when and where down the line.

And, secondly, in following Mr. Cooper's question and the issue of the 1990 "Chief Financial Officer's Act," which is what prompted the GAO to say that because of weak accounting controls and mismanagement, they had not as of last year been able to do a report for certified statements for over eight years.

I sent a letter to the Secretary earlier last year, in 2006, asking specifically what was going on as far as trying to expedite this matter and move things along.

And as it says in your written testimony and as you testified here after the fact, you have made some progress. And you were looking at the numbers of accountability as around 16 percent and 48 percent. The numbers were a little bit different from the Secretary. It was around 15 and 49 percent. But it is still in the ballpark there.

But, again, the Secretary's comment was is it going to occur in 2009. Your comment it is going to be 2010. But even then, we are only at 69 and 80 some odd percent there.

Now, 69 percent accountability, you know, if we were grading this on "No Child Left Behind" or any education format, that would not be a passing grade for anyone. Eighty percent is pretty good. And that is even going to be 20 years post 1990 "Chief Financial Act." So 20 year post the law of the responsibility laid on maybe you and your predecessors, we are still not going to be up to 100 percent accountability.

So my question is, why is it taking so long and when we will get actually to the point of full accountability that the law of 1990 that Congress passed required of the Department?

Mr. ENGLAND. So I guess my comment is I have been the Deputy for a year and a half and I cannot account for all those years before being the Deputy. I can only tell you that since I have been the Deputy, and I think before that, since at least Tina, there has been a concerted effort to have, you know, balance sheets, auditable balance sheets.

So, look, I cannot comment on the past. I can only tell you what we are doing now. And we are working. We do have professional people working this as their full-time job. And it takes time to do it.

So I guess we go through this. We do have regular meetings on this subject. We do review this progress, the people doing it. I will tell you they are highly professional. We have hired professional accountants. We have beefed up the staff.

So my view is, you know, we have done all those things prudent to do as management of the Department, and we are doing that.

I will ask Tina to comment that people actually work for the Comptroller. But I will tell you there are magnificent people working this. And I am very proud of what they are doing and they will get there, but I do not know how to shorten that time.

Ms. JONAS. So thank you for the question.

If you break down our problems, and I alluded to some of the problems with the systems, but if you took a look at the material weaknesses that we have, you would find that there are material weaknesses because of business process and there are material weaknesses because of systems.

And we have an approach that has two plans, and these have been briefed to Congress, and we have specific milestones on each. But the plan that addresses the process issues of the material weakness is called the Financial Improvement and Audit Readiness Plan. It takes a very methodical approach.

Rather than throwing an army of auditors at the Department and finding out that we could not pass an audit, what we have done is broken the problem down and have got a business set of rules that will make sure that we are actually ready for audit. And it involves senior-level management, and so I think that is good.

On the system piece, there is a plan for the Department to improve its overall business systems implementation, which is a big problem for the financial community. And that is called the Enterprise Transition Plan.

And as of last month, our FIAR Plan was 96 percent on milestone. We are a little bit lagging on the Enterprise Transition Plan. But that is all critical to get this done. It is an enormous job.

Mr. GARRETT. Thank you.

Chairman SPRATT. Ms. Kaptur.

Ms. KAPTUR. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I imagine we will be seeing you in another subcommittee at some point along the way.

I wanted to just go back to make sure I heard you correctly. On page three in your testimony, you state in fiscal year 2007 some war costs are being covered by the 70 billion provided by Congress in the fiscal year 2007 regular appropriation's act for DoD. But war costs for the remainder of 2007 will be addressed in a separate request from the Department to be submitted along with the fiscal year 2008 base budget and the fiscal year 2008 war request.

How do you describe that separate request? What are you going to call that separate request?

Mr. ENGLAND. I believe the name is the fiscal year 2007 spring supplemental. I am not sure if that is exactly right, but there is a supplemental to distinguish it from what was last fall. So there is a spring supplemental.

So the Congress this year, I think as the Chairman commented at the beginning, this year, the Congress will receive the fiscal year 2007 spring supplemental, the fiscal year 2008 budget, base budget itself, and the projection of the fiscal year 2008 full-year war cost.

So in 2008, there is not a plan to have any other supplementals. In 2008, you will get the base budget. Along with the base budget, you will get the projection to the best we can project a year ahead of time. And then on February 5, in addition to those two, there is also the spring supplemental. So there are really three different requests coming to the Congress on February the 5th.

Ms. KAPTUR. All right. And what would be a part of that supplemental and why is it not in the base budget? Based on the supplementary funding you reference in here, or the supplementary funding we passed last year to cover the cost of the war, will that supplemental just be not in the base budget?

Mr. ENGLAND. The money that was allocated last fall will run out this spring. And so the remainder of the year for the conduct of the war will be included in the fiscal year 2007 spring supplemental. So the money that was approved by the Congress last year, the \$70

billion, does not get the Department of Defense through the year in terms of the cost of the war. And so on February 5, there will be another request to the Congress to carry the Department through until there is an appropriation fiscal year 2008 on October the 1st.

Ms. KAPTUR. Do you anticipate that the rate of increase of spending is greater than had been projected last year for or against your supplemental, I mean? Is that one of the reasons that you are requesting an additional supplemental? Has the rate increased beyond what was anticipated last year?

Mr. ENGLAND. Well, we are requesting it not because of any rate increase or decrease, just because we have run out of money. I mean, we will run out of money. This supplemental is very important that we have approval sometime in the April time period or, as the Chairman said, what happened to us last year when we ran out of money, and then we have to start reprogramming.

When we start reprogramming, we have to start that early because we also cannot get in a deficit position because of the "Anti-Deficiency Act." So we are required early to start taking measures. And so about the April time period, things start getting very difficult.

Ms. KAPTUR. All right. Mr. Secretary, I only have one more minute, and I wanted to ask you, OMB gives each department a discretionary number that they can use in their budget development. OMB has given DoD a specific number upon, or has OMB given DoD a specific number upon which you base your Iraq, Afghanistan requests or do they make you absorb it within the total discretionary request and, if so, what are you giving up for that money?

Mr. ENGLAND. We generally go back to OMB and we tell them what our requests are. Obviously they scrub it with us and we come to an agreement on what our actual costs are, what we need to run the war.

So the number starts with us. Then we provide that number to OMB in terms of here's what we feel our cost of war is. So it originates with us and then reviewed by OMB and reviewed by us, and that finding then becomes the number that we submit to the Congress.

Ms. KAPTUR. Thank you very much.

Thanks, Mr. Chairman.

Chairman SPRATT. Mr. Hensarling.

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. Secretary, I am not sure I heard you correctly. Would you please repeat for me what you said the Administration's intentions were as far as the fiscal year 2008 annual regular appropriation request? Did I understand you to say that it was the intent to now fund the war through that?

Mr. ENGLAND. No, sir. What I said was we would have a fiscal year 2008 regular budget and then we would have a fiscal year 2008 war cost. Now, I do not know how the Administration will package that. I can just tell you what the Department of Defense has.

We have estimated for all of fiscal year 2008 what we feel the war costs will be. Now, I will have to say this. Since we do not

know what the situation will be in 2008, and a few months ago, we did not know what the situation would today in Iraq, so basically not knowing if that is going to be up or down, we basically just straight-lined into 2008 because we do not know what it will be because, again, you have to estimate well into the future. But we do have a number in addition to the base budget for all of 2008.

Mr. HENSARLING. Mr. Secretary, I would like to harken back to an earlier question of Mr. Ryan because I do not think I heard an answer to his question. And I think if I understood the question properly, it was how do you draw the line of demarcation between what goes into the annual appropriation request and what is defined as something that goes into the emergency supplemental request. I think Mr. Ryan was using the example of helicopters.

And, again, as history is our guide, we have funded previous wars with some combination through the annual appropriation process and supplementals. And I think your answer was consistently the supplemental is the cost of the war. But the question now is, what do you define is the cost of the war?

Mr. ENGLAND. How do we define the cost of war? It is all the costs associated with the conduct of the war. So it is the gas we burn. It is the equipment we use. It is the equipment that is destroyed. It is the cost to get our troops there. It is cost to bring them back. I mean, it is—

Mr. HENSARLING. Well, I do not mean to be flip, but is a sergeant ordering a pizza back at the Pentagon who is in communication with somebody on the front lines, is that a cost of the war?

Mr. ENGLAND. No, that is not a cost of the war. People deployed in the war is Iraq, Afghanistan. There is a cost in Somalia which is part of the war.

So, Tina, I do not know. You want to explain that?

Mr. HENSARLING. I was hoping it would be a better definition than the cost of the war is the cost of the war.

Ms. JONAS. If I could clarify a little bit, because I know there has been a little bit of conversation here about concern.

My staff does a pretty significant scrub. When the services ask for supplemental requests, we throw out a good portion of money. And we do a pretty tough scrub on things that belong in the base. I mean, for example, we would not put the future combat system in the supplemental. I mean, we do have some real bright lines on it.

Sometimes there are concerns and there is judgment involved on what is a cost of the war. And the Secretary was just discussing, and a big portion of our discussion internally has been what procurement would we ask the Congress to put into the supplemental.

And our rule set has provided that if it is a documented combat loss or there is accelerated depreciation associated with that item being used in theater, then that is acceptable and the Congress then passes—

Mr. HENSARLING. I see I have a minute remaining of my time. I would like to slip in one more question, but perhaps greater detail could follow in writing.

The next question I have is, we on this Committee and we in Congress have a number of responsibilities. We understand your

responsibility, albeit the greatest responsibility that the republic has, and that is to make sure that the people are secure.

But we have other responsibilities and what little budget discipline that we have around this place is evaded any time you stamp emergency onto a supplemental request.

And so my question is this. How does it impact the Pentagon's war fighting ability if we were to do the majority of the war funding through the annual appropriation and budgeting process through supplementals? How does it adversely impact your war fighting capability?

Mr. ENGLAND. Okay. Let me let Admiral—but I would like to comment on it after Admiral Giambastiani comments, because it is a question of timing.

But go ahead, Ed. I will let you.

Admiral GIAMBASTIANI. I was just going to say, first of all, in the operations and maintenance area, let us just say fuel and maintenance costs, for example, we can estimate how many miles, for example, that vehicles are going to drive and how often maintenance can get done and how much fuel they will consume. We have to make an estimate in the annual budgeting process.

If those estimates are wrong, then what happens is we start cash flowing from other programs and the budget stability of other programs changes substantially if we get those early future estimates when they are further out incorrect.

For example, we may not understand exactly how many troops we have to support. So you wind up getting into a stability issue on the rest of your budget, what happens to procurement programs and then costs start spiraling and those types of things. You must stop work in other areas.

So one of the reasons why if you cannot estimate because it is so far in advance accurately, you create a tremendous amount of churn in the rest of the budget. That is just in a very simple term. And for us, it creates quite a bit of problems with regard to how we do business.

Mr. HENSARLING. I am out of time. Thank you, Mr. Chairman.

Mr. ENGLAND. But, Mr. Congressman, if I can just comment. I mean, look, as long as there was adequate money, there is no problem. But if you estimate low, then it causes us a huge problem because we cannot pay our bills, you cannot—I mean, so what you would like to do is get the right number. The way you get the right number is the closer you are in time, the closer you can get to the right number.

I mean, this is a dilemma. It is not an issue in my mind of emergency and base budget. It is a question of having greater precision with the numbers so that you know that you can indeed pay the bills. You actually do not want any overage, you do not want any under. The closer you are to the point in time.

One Congressman said that after the fact, you know exactly, and that is true. But, of course, then you do not have money to pay the bills. So, look, this is the conundrum. And I mean, we can deal with whatever, you know, the Congress or everybody decides, but there is a tradeoff here.

Chairman SPRATT. But the Pentagon does do and has for years a FYDP, a Future Years' Defense Plan program, which is the cur-

rent fiscal year and five more fiscal years. So your custom is to advance the cost, project the cost of all your systems out over a five-year period of time. That is sort of what we are seeking right now is a five-year projection of what the deployment in Iraq and Afghanistan is likely to be.

Mr. ENGLAND. But that is the difference, Mr. Chairman. In the base budget, there are pretty well predictable costs, whereas the war is much less predictable and much more dynamic. And so that is the only issue. I mean, look, you are absolutely right, but there is a different dynamic in the war than there is in the peacetime budget.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. Let me just throw it out there one more time and try and give you an idea of what we are all trying to ask of you.

We have the impression that you are putting regular base spending items in these emergency supplemental bills. And we can go back and set a whole bunch of examples. But the question is, are you demarking or are you defining what is really an emergency that is unforeseen, put that in the supplemental, and are you saying this is something we know is going to happen, we have been fighting this war for three or four years, we know we are going to need this next year, we know we are going to need this the last year, we are putting that in the base budget, or are you doing the opposite and putting stuff that ought to belong in the base budget in these emergency supplementals?

Where do you define the differences? What is your protocol? Have you looked at the definition of an emergency that we adopted in the last Congress and that the new Democratic Majority continued which has a much clearer definition in statute, in our House rules, on what is and what is not an emergency? That is basically what we are trying to get from you.

Mr. ENGLAND. Okay. Congressman, we may have to have further discussion on this. I am not sure I am at that degree of precision.

I am at the degree of precision to say that we do know that what we put in the supplemental is associated directly with the war and we have—at the Comptroller's level, we go through all of that and we make sure to the best of our ability that they are not items that should be in the base budget, that they are items that actually are associated with the war, something damaged, equipment worn out that we recapture the cost. It is reviewed again at my level. Then it is reviewed with Secretary Rumsfeld for this budget because it was on his watch. So we go through a successive series of reviews to make sure that we abide by that ground rule.

So I can just tell you to the best of our ability, we are not doing what you indicate which is your belief that we have long-term base budget items in the supplemental. To the best of our ability and judgment, what is in the supplemental is war-related costs separate from what we normally do in our base budget.

Chairman SPRATT. Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you very much, and it is a pleasure to be able to serve on the Committee.

To the witnesses, thank you very much for your testimony.

Mr. ENGLAND. You are welcome.

Mr. BECERRA. Mr. Secretary, let me pursue that a little bit more. You are saying that items must be directly associated with the war in order to be included in the supplemental.

Would funding for two joint strike force fighters which will not be operational for several years be considered items associated with the Iraq War?

Mr. ENGLAND. Sir, again, let me try this. If we lose two airplanes in Iraq, we need to replace two airplanes, otherwise, at some point in the future, we are short, right? So when we would lose two airplanes, we recover the cost of those airplanes.

Then we make a decision what should we buy to replace the airplanes. We do not go back and buy old model airplanes. I mean, it would make no sense to do that. We actually buy whatever is in development or production for our forces.

Mr. BECERRA. Does that mean that you are going to have that joint strike force fighter available next month?

Mr. ENGLAND. No. Well, it means that—

Mr. BECERRA. Will you have it available within a year?

Mr. ENGLAND. No. But what it means is we have to recover the cost of what was damaged—

Mr. BECERRA. Mr. Secretary, I understand that.

Mr. ENGLAND. Okay. And then—

Mr. BECERRA. But let me pursue this. How long do you expect this war in Iraq to last? My understanding is that the joint strike force fighter will not be available for several years.

If you are putting money into the joint strike force fighter because you are trying to replace an aircraft, you are giving money to put in force or in operation an aircraft that we will not have for several years, and either you are telling us that we are still going to be in Iraq or Afghanistan fighting several years from now or you are telling me that you are putting money into a plane that we will need. Congress has already allocated funding for it, but it will not be available to help our troops who are fighting right now in Iraq or Afghanistan.

Mr. ENGLAND. So think about it this way, Congressman. When the war is over, there is a reset cost because equipment has been damaged on the battle field. By definition, when the war is over, I have equipment damaged on the battle field which I will replace. That replacement of equipment will not be used to fight in Iraq.

Mr. BECERRA. That is a great conversation to have when we are talking about your regular budgeting process, when you are asking us what the Pentagon needs in the future.

Right now we are talking about a supplemental appropriation, which is an emergency appropriation, off budget, which does not have the typical oversight of Congress to go through in detail what you are doing with the money that you say you need now.

I do not think that the men and women in uniform from my district who are in Iraq today will see anything out of the billions that you are putting into the joint strike force fighter through the supplemental. I think they would rather see a plane over their heads today or next month. But it is not going to help them to have money which may be well spent, but not through the supplemental.

Let me ask on ballistic missiles, ballistic missiles, which are—unless you are telling me you are going to change the Pentagon's pol-

icy and you are going to start using ballistic missiles in Iraq. Do ballistic missiles have a role in the supplemental emergency appropriation for Iraq and Afghanistan activities?

Mr. ENGLAND. I do not know what you are talking about.

Mr. BECERRA. Well, would ballistic missiles, funding for ballistic missiles be something appropriate for this supplemental appropriations?

Admiral GIAMBASTIANI. There are different types of ballistic missiles. If you are talking about submarine launched or ICBMs, the answer is no, they would not be in there. But if they are Army tackems, for example, which are short range, if they are MLRS ballistic weapons, which we use in Afghanistan and Iraq, then the answer is yes.

Mr. BECERRA. Admiral, good point. Let me ask you this. Can you tell us today that you are going to limit any request in this supplemental emergency appropriation which will not go through the regular oversight of this Congress to those types of ballistic missiles that are necessary and are being used today in Afghanistan or in Iraq?

Admiral GIAMBASTIANI. The only purchases——

Mr. BECERRA. I think that only required a yes or no.

Admiral GIAMBASTIANI. The answer is the only ballistic missiles that I am aware of that we would buy in a supplemental are the types I just described to you.

Mr. ENGLAND. But we have——

Mr. BECERRA. Wait. Let me make sure, Mr. Secretary. I want to make sure I hear the Admiral correct because we do not want to find that later on money was expended for ballistic missiles that you are not going to use in Iraq or Afghanistan that is necessary to protect our forces.

You are saying, Admiral, that we will limit in this supplemental, the Administration will limit in this supplemental any request related to ballistic missiles that are related to the operations in Iraq and Afghanistan that you are in need now for the battle field to protect our troops?

Mr. ENGLAND. I have to answer this. No, I am going to answer. Since the Admiral works for me, I am going to preempt him. Okay?

Mr. BECERRA. Okay. It is above his pay grade, huh?

Mr. ENGLAND. The problem we have is a fundamental issue here about recovering costs of the war. Now, look, this is——

Mr. BECERRA. My time has expired and I know where you are going, and I agree with you. You have got to recoup your costs. But you do not do that through a supplemental emergency funding request. We cannot go through and ask you in detail about all these issues because in a supplemental, we have only a short amount of time to try to determine whether we are yea or nay on giving the troops money.

Mr. ENGLAND. Mr. Congressman, look——

Mr. BECERRA. Mr. Secretary, if I could finish. I know where you are heading. I do not disagree with what you are talking about in terms of long-term costs and long-term funding of our missions. But you are not talking about long term. You are talking about replacing equipment and soldiers today.

Our troops are not interested in knowing what it will be in the horizon five years from now. They want to know what is going to be on the ground helping them today. And the joint strike force fighter may be a great aircraft, but it will not help the troops that are there serving their tour of duty today.

And so I think what we are trying to figure out is why are some of these items in these emergency supplemental requests that do not go through the regular oversight process when we need to get back the fiscal discipline so we are not spending so much money? If it is legitimate, you will get it, but not through this emergency supplemental process.

Mr. ENGLAND. Mr. Congressman, listen. I mean, we are ambivalent. We do not write the rules about supplementals. I mean, that is Congress and OMB made agreements in the past. We have a methodology to recover cost.

As long as we agree on some methodology to recover the war cost, we are completely satisfied. The rules to this point have been war costs are recovered in the supplemental. And so that is how we have costed this to recover the supplemental.

Mr. BECERRA. I hear you telling me—

Mr. ENGLAND. What is most important to our military, not just those fighting today, but those who will be in the future protecting our nation, is to be able to recover the cost, so we can replace equipment.

Mr. BECERRA. Mr. Secretary, I hear you sounding a red alert that you are going to be including things that are not appropriate to this emergency supplemental with that response.

Thank you, Mr. Chairman.

Chairman SPRATT. Time to move on. Mr. Simpson.

Mr. SIMPSON. Thank you, Mr. Chairman.

Thank you all for the job you do. I appreciate you being here today. It is fun; is it not?

Mr. ENGLAND. It is delightful.

Mr. SIMPSON. Let me see if I can get something straight because it seems to be I have heard one thing and then another thing.

The question that we keep asking is whether we should be funding the war through supplementals or through the regular process obviously.

I seem to have heard you say that in 2008, you are going to request the funding for the war effort up front instead of through supplementals and that you expect—I think your words were that you did not expect a supplemental to the 2008 budget, even though we all know there will be one because it is a prediction of how much is going to be spent.

Mr. ENGLAND. Thank you.

Mr. SIMPSON. But you are going to request the funding up front, the majority of it?

Mr. ENGLAND. For the entire year recognizing, as you just said, and thank you, Mr. Congressman, you are absolutely right, we will estimate it the very best we can. But I can assure you a year from now we will know a lot better and the costs will be either up or down depending on what the circumstances are on the ground and what the situation of the war is.

Mr. SIMPSON. And how good your estimates are and, you know, how true those follow through would depend on the size of a supplemental and that you may have overestimated and there may be money left over?

Mr. ENGLAND. I mean, we do not know what it will be. We do not know what it will be in 2008. But you are right. We are going to turn in our best—and as I said before, since you do not know if the number is up or down, which you normally do, my experience is you sort of straight line it because you do not know anything else to do. So you do your best estimate, you straight line.

But I can assure you you are absolutely right. A year from now, we will know much more and it could be up or it could be down. And so it will have to be revised as we get closer to the 2008 time period.

Mr. SIMPSON. It seems the debate is over. I mean, that is what we really wanted, is to put the costs up front so that we have some—I mean, the estimated costs up front so it is in the budget base because one of the things you do not realize is that when you are doing it all through supplemental rather than through the regular appropriation process and putting it into the budget base is the effect that it has on the overall budget and consequently the budgets of every other agency that we have to deal with when we are looking at those types of supplementals instead of anticipating up front what those costs might be.

Let me mention a memo and have you respond to it, if you would, that my good friend from Texas here just gave me, a memo of October 25th, 2006.

Subject: Ground rules—just a second. I need to get my glasses on. Ground rules and process for fiscal year 2007 spring supplemental. I like the fact that we now have seasonal supplementals. By this memo, the ground rules for the fiscal year 2007 spring supplemental are being expanded to include the Department's overall efforts to expand the Global War on Terror and not strictly limit it to Operation Enduring Freedom and Operation Iraqi Freedom.

Are we expanding what the definition is in the 2007 budget to include everything under the sun that we consider in the Global War on Terrorism?

Mr. ENGLAND. There are a few costs, and I say a few costs, that will show up in the spring supplemental as specific needs identified by the combattant commanders that otherwise are not covered.

So the vast majority is still Iraq and Afghanistan, but there are a few items that are in the 2007 spring supplemental identified by combattant commanders for the broader War on Terror because we do have expenses obviously in the broader War on Terror.

We actually operate in places other than just Afghanistan and Iraq. So some of those costs as a way of again recouping those costs are included in the spring supplemental.

Mr. SIMPSON. Could you tell me what some of those might be, where some of those might be occurring?

Mr. ENGLAND. I would rather have that discussion when we actually have the budget and details, and it will be better to do at that point, sir. If I can do that at that time, we can quantify and be much more precise.

Mr. SIMPSON. Thank you. I appreciate again the job you all do.

Mr. ENGLAND. And by the way, I am pleased to come back and chat with you on that subject or any member of the Committee.

Mr. SIMPSON. Okay. Thank you.

Chairman SPRATT. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

Mr. Secretary, we all know that the most important cost of this War in Iraq is paid in blood. But in looking at the dollars, I want to be sure that the figures that we have here and what is called the burn rate or the monthly spend-out rate are correct, that they begin at about \$4.4 billion per month in Iraq in 2003. They were up to about \$8 billion per month last year. And now that we have the first quarter in on this year, they have already soared to about \$9.7 billion.

Do those sound about right? I think they pretty much match what we saw on the board.

Mr. ENGLAND. Tina.

Ms. JONAS. Yes, sir, that is right.

Mr. DOGGETT. All right. You would expect that they would continue to grow at about the same rate that they have grown in past years?

Mr. ENGLAND. A proviso. Again, early on, we did not have reset costs in the budget, and so we have some deferred cost that has been in the budgets and eventually that catches up. And so you are looking at some prior cost that is in current budgets, and I expect that distorts it. I do not know how much it does, but that is the distortion.

Mr. DOGGETT. Let us talk then about the President's new escalation plan and what it costs. We have had figures given of \$5.6 billion for the cost of the troop increase of which 2.4 billion is for the Navy.

Does that sound about right?

Mr. ENGLAND. The Department of Navy, I believe that is right. So that is Navy and Marine Corps for Department of the Navy.

And, Tina, I think that is the right number.

Ms. JONAS. That is correct.

Mr. DOGGETT. The escalation and widening of the war with the 21, 22,000 additional troops, we believe that the cost of that is about \$3.2 billion for the year?

Ms. JONAS. Sir, that is approximately correct, yes.

Mr. DOGGETT. Thank you.

Now, there has been some lack of clarity as to whether the Department thinks it already has the money to pay for those troops to be there for a year or that will be included in the supplemental or in some other form.

What is the position of the Administration as to whether whatever the will of Congress and the American people it has the money to dispatch those 21,500 troops to Iraq and keep them there for a year? Do you have that money in the existing budget or do you need further action from Congress to do it?

Mr. ENGLAND. Well, we do have money in the budget, but obviously it runs out in the spring. So, the spring supplemental will include the cost of war including those costs through the rest of this fiscal year. So, those costs and those costs otherwise not covered in the fall will be in the spring supplemental.

Mr. DOGGETT. All right. So another supplemental is coming?

Mr. ENGLAND. Yes. Again, the fiscal year 2007 spring supplemental. And, again, I think the Chairman said that at the very beginning.

Mr. DOGGETT. I hope to get into that with you in a second, but I want to be sure I am clear. As far as the cost of maintaining these 21,500 troops for the President's escalation plan in Iraq, it is about \$3.2 billion, and the Department feels that it needs that \$3.2 billion in order to be able to have those troops added this next year?

Mr. ENGLAND. Well, we are already paying whatever the front end of that bill. I mean, as that goes on, we will pay that bill. I mean, we do not differentiate. Those dollars are not different from other dollars that are spent on other troops. I mean, those troops are not differentiated from troops, other troops that we have.

So we are spending that money and we will continue to spend that money as part of the total war effort. And that money in total will run out sometime May or June.

Mr. DOGGETT. Is further action from Congress necessary for you to fund this escalation?

Mr. ENGLAND. Further money, yes, but it will be required not just for this escalation, but just for the entire war cost. I mean, again, it is all part of just one category of cost.

Mr. DOGGETT. With regard to the last appropriation's bill that this Congress passed, I know you are fully familiar with Section 1008 and the responsibilities that it imposes on the Pentagon to come forward with the justification to incorporate these war expenses into the budget.

Is the Pentagon fully and completely compliant with Section 1008 of the "John Warner National Defense Authorization Act"?

Ms. JONAS. Sir, we will comply with that, yes.

Mr. DOGGETT. You will? So we will get that justification for all of the war spending in the budget we are about to get?

Ms. JONAS. That's the intent. Yes, sir.

Mr. DOGGETT. And as far as future costs of the war, in fiscal year 2009, you are unable to give us any projection at all on that?

Mr. ENGLAND. As far as I know, we have no projection for 2009. Again, we have projected 2008 as just a straight line from 2007, but I do not believe we have done anything for 2009. I mean, that is a long way in the future to be predicting war costs.

Mr. DOGGETT. Well, it is next year, right?

Mr. ENGLAND. Two thousand nine?

Mr. DOGGETT. Yeah. The next time you will be coming here will be on the 2009 fiscal year after the current one.

Mr. ENGLAND. You are right, but again—

Mr. DOGGETT. What we mark up this year, you will be back again next year, and you do not have any estimates internally of what the costs of the war are likely to be even a year from now?

Mr. ENGLAND. No, I do not. As far as I know, we have done no projection for 2009.

Mr. DOGGETT. Thank you.

Chairman SPRATT. Mr. Conaway.

Mr. CONAWAY. Thank you.

Mr. Secretary, Admiral, Tina, thank you all for coming here today.

This has already been discussed in my absence. I was over testifying on the House Resolution 6 Confiscation Bill. And if it has been covered, please, I apologize.

We heard a presentation this morning from a very bright, intelligent young woman, who talked to us about Jihadists and that this is a Global War on Jihadists and that these elements could be all over the globe and that they are a threat and will continue to be a threat to Americans and American interests around the world.

As we look at how we fight those folks, that is a small unit, a close hand-to-hand combat kind of thing, not the kind of a sweeping war that some of our other platforms are there.

Then we have got an emerging nation 20 years down the road that we are going to have to protect this nation or nation from, so you have got—and I hesitate to mention any particular platform because it gets that contingent group all fired up and excited.

But as an example, huge carriers are not necessary to fight hand to hand in the streets of Baghdad. And so you guys have this tension between how do you continue to fight this fight over the next four or five years, ten or whatever it is, as well as to prepare, continue to prepare and continue to bring on-line at an orderly pace those platforms that will be needed to protect this nation from another nation state of equivalent might or power.

Can you talk to us a little bit about how you go about that kind of a 10,000 foot look at the tensions between the two, because there is not going to be enough money to do everything?

In spite of the small percentage of GDP that is being spent currently, I do not know that that is—we are going to go back to the World War II era or even the Korean levels. Can you talk to us how you look at this conflict between a big iron and people on the ground?

Mr. ENGLAND. Well, it is the debate we have literally throughout the year, Congressman, because it is a tension we have. Your aircraft carrier, you mentioned. But, of course, we had three of them in the Gulf early in Afghanistan, you know. So you are right.

I mean, once in a while, people say, gosh, we have this cold war, you know, we are still wedded to the old cold war. It turns out, of course, we use mostly all that equipment. And in addition, we do have an objective to deter threats against America, not just to fight enemies, but to deter future threats, which is really what we obviously all prefer to do.

We do have that tension, and I will tell you sometimes that is very difficult. So I will give you a thought. The joint strike fighter was mentioned. It turns out, I mean, that is the only fighter airplane, multi-role fighter airplane we have under development in the United States of America. And there are some people who say, well, gosh, why do we need a new airplane.

First of all, we use it for the future, but also it is the only industrial base we have, and I am not sure we want to shut down the only fighter industrial base in the entire nation.

We build one submarine a year. We used to have 60 some and we are going down to 48 submarines, which is sort of the minimum level. We build one aircraft carrier every five years. And we have

actually reduced our aircrafts the last couple years. So we keep coming down in sort of that long-range asset base. And, of course, what compounds it is as we come down, actually things get more expensive for us, right, because we buy less.

By the way, we are buying one destroyer a year, half of one in each yard. So it is not that we are buying a lot in terms of long term. Everything is pretty much aging that we have. So that is a tough tradeoff we have. It is not easy, but that is how we make the money accomplish what we need to.

Mr. CONAWAY. Do you as a department project those unmet needs? In other words, we in Congress ought to be able to help make that decision as to whether or not we are sacrificing future defense of this country, future deterrents for short-term protections. Is there anything that you can help us with in that regard?

Mr. ENGLAND. Well, I will say this. I mean, since 2001, of course, the Administration and the Congress have been very generous in terms of increasing our base budget, which has at least helped us, you know, address some of those needs. So we have had increased dollars available.

I will also tell you that with the help of Admiral Giambastiani and the joint staff and a lot of other people, we have gone back and rescrubbed requirements, so we have changed our processes so we can reduce our costs and be more effective and all those things.

We have actually reduced the size of the Navy, as you know. We are now reducing the size of the Air Force while we are increasing the size of, you know, the Army and the Marine Corps.

So these are tradeoffs we make every day between what are our current needs and what is the future including our research and development. There is no magic to this. This is people of good faith who have a lot of knowledge, background, and experience.

We have a forum in the Pentagon where we debate and discuss openly with our military and civilians and we jointly together make all these decisions across the Department.

Mr. CONAWAY. Thank you, Mr. Secretary.

Chairman SPRATT. Mr. Berry.

Mr. BERRY. Thank you, Mr. Chairman.

And I thank all of you for being here today.

I do not think there are any simple answers to this, and I am sure you concluded that a long time before I mentioned it.

Mr. ENGLAND. Thank you.

Mr. BERRY. My question is, we are told over and over again that our active military units in the states are not ready, that they do not have the equipment and the training that they need to be deployed if it was necessary for them to be deployed, and that our National Guard and Reserve units are not ready.

And I know that a brigade that was deployed from my State, after they returned from Iraq, they still have not had their equipment replaced and they have got some significant needs that have not been met.

Is this because of the lag time between the supplementals and the regular reset that is put in the budget or are we not putting enough money in there? Does it just take that long to get that equipment built and put back?

Mr. ENGLAND. It is both. And I will turn it over to the Admiral Giambastiani. But I would say, Congressman, it is really both. That is, we did not ask for the money, I think because there was sort of an understanding not to put that kind of money in the supplemental. So for a long time, we did not and we built up a backlog.

Then once we started getting the funding, it took a while literally to fill the pipeline. So now we do have all the depots to sort of fill up and we have the funding and things, but there is a time lag now to get it out of the system.

So part of it is, you know, shame on all of us who did not get the money early enough and then there is a time lag to get it, but it will come out the pipeline, and that will help the situation, I think, considerably.

On the other side of this, and here is the question, we have all this equipment deployed to fight the war, so does everybody else get a full set of equipment while they are home? I mean, that is sort of a fundamental question because you can go over and fall in on the equipment.

And also, frankly, as we have learned, the requirements have gone up on our military in terms of their needs, so their readiness has been a moving target because we learned and we equip them differently and more fully. And so that is also part of the issue.

I mean, this is not a static environment. It is a very dynamic change in environment and we try to manage this in a dynamic way. And so you are right. There are no sort of simple answers to all this. Every one of them is a complex issue. And, again, I will tell you people of good faith do the best job they can with the best judgment and experience to arrive at those decisions.

Admiral, if you would make a comment.

Admiral GIAMBASTIANI. Sure.

Congressman Berry, I think the Deputy said it pretty darn well. If you try to look at the replacement time for a Humvee, for example, just an up armor Humvee, it is not as short as we would like it to be, although we have ramped up production rates tremendously with the great support we are getting here.

But if you look at also the time to replace a helicopter, we have lost some Chinooks, we have lost CH47 Sea Knights, you look at these types of things, it takes a while to get them.

Now, some of these units that you are talking about simply did not have all of their equipment in the first place. Okay? They just simply did not have it all in the first place. And so we are, in fact, putting in—we have got the funding in for that equipment and it just takes a period of time to get it in there.

We have also used preposition stocks. Some are afloat, some are ashore. We are now replacing those. So what I would say to you is that we are getting our training done because we know what type of equipment we need, but not every unit will be full-up and it is just going to take some time to get them replaced.

Mr. BERRY. But I can tell my Guardsmen that they are going to have it?

Admiral GIAMBASTIANI. Yes, sir. Yes, sir. That is a fact.

Mr. BERRY. Thank you.

Chairman SPRATT. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman, and thank you all for being here.

This is just a little follow-up on Mr. Simpson's thing, but I think we talked about the rules. You talked about the rules, Mr. Secretary, for supplementals and otherwise. Supplementals are supposed to be for things that are unanticipated. I mean, that is one of the primary uses of a supplemental.

I think a bunch of us on this side for fiscal reasons not just related to defense, but are worried about abuse of the supplemental process by using it for things which are not unanticipated.

And clearly the last supplemental, defense supplemental had things in it which I think were not either urgent or unanticipated or both. And these should be things that are urgent and unanticipated.

What I think I heard you say to Mr. Simpson is that in fiscal 2008, at least, because we anticipate that we will probably be in Iraq through fiscal 2008, we anticipate that we will have a presence in Afghanistan through fiscal 2008.

The President has said that the War on Terror is likely to last for a period of time, so fighting the War on Terror at some level in various theaters is not unanticipated going through fiscal 2008.

So just wanted to ask again and clarify that in fiscal 2008, you are going to try and put in the budget all the costs for the War on Terror that are anticipated. Now, if a new theater opens up or something flares up that we do not expect or whatever, obviously that is appropriate use.

But to basically continue the prosecution of hostilities in which we are currently engaged, I think, does not meet the thresholds of either unanticipated or urgent. Does that—

Mr. ENGLAND. Well, just one comment. I mean, the other year, the price of oil went up dramatically, \$70.00 a barrel, and that cost us how many billion dollars, Tina?

Ms. JONAS. At least a couple billion dollars.

Mr. ENGLAND. So you got a couple billion dollars just bang, right? I mean, it happened almost instantly to us. And so if I had tried to handle that a year ahead of time, I could not have operated ships, the military could not have flown our airplanes because we would not have had the money to buy fuel.

So things actually happen over a period of time that changes those estimates, and that is my only point. Again, we can do it. Look, it is fine, however we can do it.

The only thing I would caution is when we do that estimate a year in advance, when circumstances change, the war heats up or the war goes down or equipment gets damaged, whatever it is, there needs to be a mechanism. I mean, otherwise, it is not fair to our men and women that we are putting out there to defend our nation. That is all.

So we just need a mechanism. If we estimate ahead, with certainty, some things will change in those estimates, and we need a mechanism to handle it as late in time as we can.

Mr. CAMPBELL. And I understand. I obviously understand the gravity. The example you gave, I am not sure is a real good one because arguably every department in government uses fuel and had to anticipate the same fuel costs. And I—

Mr. ENGLAND. But they are not operating combat airplanes with troops on the ground. I mean, we have an obligation to people we put in harm's way. So it is different than other departments, frankly. It is not just trucks running around the country. I mean, we actually use this to save lives and prosecute the war. Look, again, as long as there is a mechanism that we can adjust the estimates, it all works.

Mr. CAMPBELL. Thank you.

I will yield back, Mr. Chairman.

Chairman SPRATT. Mr. Boyd.

Mr. BOYD. Thank you, Mr. Chairman.

Mr. Secretary.

Mr. ENGLAND. Mr. Boyd, how are you, sir?

Mr. BOYD. Mr. Secretary, you said earlier you have been in your job one and a half years?

Mr. ENGLAND. As the Deputy. I believe it has been one and a half.

Mr. BOYD. You obviously did not make the decision to fund the war through supplementals, did you?

Mr. ENGLAND. No, sir. I don't get to make that decision.

Mr. BOYD. You tried today with mixed success, I suppose, to defend that decision. But I want to tell you I am a new member of this Committee and I am a little frustrated and I am shocked by what I have heard today.

And I guess I should not be surprised that our Defense Department has so many accountability problems and issues based on the answers that I have heard today. And I want to express my feelings, if I could, Mr. Chairman, very briefly.

In spite of the fact that we have a big, huge team in the Pentagon of deputy secretaries and under secretaries and comptrollers and accountants and war planners and field generals, you are telling us that we cannot, a \$500 billion operation which has been doing the same thing for 200 years and many of the people in that have spent their whole careers in it, cannot plan their activities and what it will cost one year out. I am telling you, Mr. Secretary, it is——

Mr. ENGLAND. Well, that is not the case. Nobody said that, sir. We project five years out.

Mr. BOYD. Well, I thought you said that you could not put the estimated costs of the war in an annual budget because it was a such moving target, you just could not do it.

Mr. ENGLAND. No. I said if you do it, you do it with less precision than if you do it nearer term. So anything in life that you estimate far in advance is not as good as something that you do nearer term.

So you can certainly do it, but war is dynamic. It is actually not totally under our control. It turns out, you know, the people we fight have a say in that. So what they do does cause a dynamic environment and that tends to affect cost.

Mr. BOYD. Mr. Secretary, I have got a very limited amount of time. I think most of these members here heard what you said about that, and the justification was that if you wait and ask for a supplemental putting zero in annual budget, you more likely hit the number closer.

I do not follow that justification, but I want to ask you a specific question about some of the things you said.

One of the charts that was shown earlier showed the number from 2003 to 2007 of the supplemental request or the supplemental appropriations. And in 2005, you saw a pretty large jump. And there was a question asked, I think by Mr. Ryan, about what caused that, or maybe it was the Chairman. And your answer was that it had to do with reset cost, that when you lost equipment in the war, that you had to replace it at some point in time.

Why would you not plan for those reset costs ahead of time? You know it is going to happen, particularly given the fact that your generals now and your chiefs are telling us that that severely impacted readiness and the mission capability of our units with the number of our units moving from C1 to C3 or 4 having increased significantly.

Mr. ENGLAND. So let me clarify. I did not mean to mislead you. First of all, I did not say zero in the future. I said we have taken a straight line of 2007 and estimated in 2008 because that is the best we have. So we are estimating 2008. We are not zero estimating in 2008.

And what I tried to explain, and I am sorry if I was not clear on this, 2005, prior to 2005, it was, at least my understanding, it was sort of accepted policy that you did not put reset cost into the supplemental, so no one did. And then that caused a backlog.

Mr. BOYD. We did not put them in the regular budget either? We did not them in either?

Mr. ENGLAND. In either. So it did not show up. And so the first time that was actually addressed was in 2005. So in 2005, we started to address the reset cost and that then built a backlog, and we have been working off that backlog.

And as we just had the conversation before with Congressman Berry, as that works off, then equipment becomes available and helps the troops who are here in the United States in terms of their training, et cetera.

Mr. BOYD. Well, I do not know what the intent was, but the effect of that is that the cost of the war has been hidden from the public, and I think that is why many of us are very happy to know that now when you make your budget presentation for 2008, you will include all of the costs for 2008. Now, it might be in a separate document, but nevertheless we will know at that time.

And I assume from that then that your 2007 supplemental will only include 2007 costs, not any 2008 costs. Is that a fair assumption?

Mr. ENGLAND. That is correct. The 2007 supplemental will be the rest of year 2007 and then 2008 will cover the year fiscal year 2008. That is correct.

Mr. BOYD. Thank you, Mr. Chairman.

Thank you, Mr. England.

Mr. ENGLAND. You bet. You are welcome, sir.

Chairman SPRATT. Mr. Porter.

Mr. PORTER. Thank you, Mr. Chairman.

And I thank you for your testimony. It is good to see you again, Mr. Secretary.

I am a new member of the Committee, so bear with me as I ask some questions possibly in the past.

I was looking at the chart that we had earlier. I think it was chart one. And it showed national defense discretionary and mandatory, and there was a period of seven or eight years, from 1993 through early 2000, where there was a substantial reduction in the discretionary and mandatory spending.

Having said that and looking at the substantial increase after 2001, because of, I am sure, 9/11, could we guesstimate how much of this budget from 2001 on was just to catch up in getting our equipment back to state-of-the-art?

My understanding is during that era of time, if you were to take a hundred airplanes at Nellis Air Force Base, you would need fifty of them for parts and tires. And that may be folklore, but I did hear that periodically.

So looking at that frame of time, again that eight years in the mid 1990s to catching up, how much of this budget through the last three or four years has been just to catch up to get us back in state-of-the-art?

Mr. ENGLAND. Mr. Congressman, I do not know if I can give you exact numbers, but I can tell you I am not sure we ever caught up and I am not sure we ever will with the budgets we have.

You know, there was "the procurement holiday." The Army's estimate, I know General Pete Schumaker has said that the Army was \$100 billion short and when this war started, they were \$56 billion in the hole. And that is part of what the Admiral just said about, you know, the units were not equipped and so we had a lot of "hollow" particularly Guard and Reserve units when we went into this.

So there is a major effort and major dollars to fill in those holes and to recover from, you know, the budgets of the 1990s. So that has kept us in a significant deficit position.

I am not sure we have ever caught up and I am not sure we ever will, but also I am not sure anybody can come out with detailed factual numbers, but the Army feels like they pretty much understand. I know that the General has testified that in his procurement accounts, he started in the hole by \$56 billion. It takes a long time to make up that kind of a deficit.

Mr. PORTER. I think it is important that that be a part of the discussions looking at the overall cost.

My next question, of our budget, what percentage is salaries, benefits, and just taking care of the troops?

Mr. ENGLAND. Tina, I will let you answer that.

Ms. JONAS. Sure.

Probably about two-thirds, about 30 percent for readiness and support, another 30 percent for medical and pay, which, as this Committee has heard before, we are very concerned about the increasing cost of healthcare. We spend \$39 billion annually, which is about the entire defense budget of Germany, on healthcare. So that is an important piece. And then we spend another four percent on housing and the balance, about 36 percent on procurement and investment, R&D accounts.

Mr. PORTER. While we are on that subject, and I have a little bit of time left, are there some areas that we should be addressing in the budget for the families and our men and women in uniform?

I know we have done an excellent job trying to catch up with some of our bases, with housing. But is there some other areas that we need to really concentrate on to help these families?

Mr. ENGLAND. My judgment at this point, we are in pretty good shape, and I think our people feel that they are being well treated. We have done a lot for our housing. We have done a lot for healthcare, a lot for salaries, a lot for retirement. So I think we have done a lot, and we are in a pretty good position at this point.

I will just, if I can, add one comment, and I keep hearing this discussion about a continuing resolution. You know, we do have an appropriations for 2007. There is a companion bill to that which is our mil con and it is not just—

Ms. JONAS. Quality of life.

Mr. ENGLAND. And quality of life, and there are hugely important dollars in that bill that if it is not passed as a 2007 bill would be extraordinarily detrimental to our men and women in uniform. So we have been working very hard with the Congress in that regard because that is a case where it would be harmful to our military if we did not pass the 2007 bill for—

Admiral GIAMBASTIANI. Mil con and quality of life.

Mr. ENGLAND [continuing]. For mil con and quality of life as a companion to our appropriations bill. So I will make a comment. That is one place that if anyone has influence in that regard, I would like to make that comment.

Ms. JONAS. Could I just add, there will be about a billion dollar shortfall if we do not in the healthcare area and housing area, which if any of these members—many of you understand the no out-of-pocket costs which we have worked so hard with for the military families who are living off base. They would be affected by this. And another four billion, a big portion of that affecting the Army and troops coming home from overseas. So we would appreciate any help you can give us.

Mr. PORTER. Thank you very much, Gordon.

Chairman SPRATT. Mr. McGovern?

Mr. MCGOVERN. Thank you very much, Mr. Chairman. I want to thank you for being here today and I'm new, too. So you're now getting the rookies who are now going to ask questions. Let me say something that I haven't said in a long time and that is I agree with all my colleagues, Republicans too. And the other committee I serve on is the Rules Committee. We don't even agree on what the correct time is, so this is a new experience for me to actually be in agreement with everybody.

And I think what you hear is unanimity in terms of our frustration over the way this process has been unfolding the last few years. And maybe this is not your impression, but I kind of get the impression that following kind of the regular budget process is being painted as something that is extraordinary or is almost impossible to do. Yet, it's not the first time that administrations or presidents have done that. I mean, Harry Truman included funds for the Korean War in the regular budget in the first year of that conflict. President Johnson did. President Clinton included Bosnia in the second year of that deployment. So I think for some of us it's a little difficult to figure out why Iraq and Afghanistan have to be so different. And it's difficult too because we're getting lots

of questions about, you know, whether we're spending our money properly, how we're spending our money from our constituents. And under this kind of process it's very difficult to be able to have any input or to be able to say that we're holding people accountable.

And so I will say this. My prediction is that things are going to dramatically change. Not just by appeals from this Committee but I think by other members of Congress on other committees I think are going to demand a change.

Mr. ENGLAND. Well, it is changed. I mean, fiscal year 2008's—

Mr. MCGOVERN. Well, I know, but as you explained the fiscal year 2008 I'm not totally convinced that really things do change. I mean, what you kind of said is that we're basically going to make a request but, you know, we'll probably have another supplemental as a result of that.

But I want to go back to a point that you alluded to in a response to a question by Mr. Barrett a while ago and that was with regard to the January 11 DOD announced several policy changes in the deployment rules for the National Guard and Reserves in the country. And you mentioned one of the most controversial changes, which seeks to circumvent existing limitations on deployments of the Guard. And under the current rules members of the Guard can be mobilized for one year and then demobilized for five years. The Pentagon says that this one to five ratio will continue to be its "policy objective." But, and I further quote, "today's global demands will require a number of selective Guard/Reserve units to be remobilized sooner than the current policy goal."

But what you didn't mention were some of the kind of other deployment rules changes which I think have a budgetary impact. I mean, deploying reserve forces by unit rather than on a person to person basis; reducing the maximum mobilization time for reservists from the current eighteen months to one year; provide compensation to members of the active or reserve components who are required to mobilize or deploy ahead of their normal schedule, or whose service is extended beyond their normal rotation; and require a review of the hardship waiver programs for personnel facing deployments. My question is this: I mean, aren't you concerned, one that remobilizing our units will negatively affect the availability of members of the Guard and Reserve to respond to crises here at home like Hurricane Katrina? And then the other question is what will be the budgetary impact of these policy changes, especially the provision to compensate active or reserve units whose service is extended beyond their normal rotations?

Admiral GIAMBASTIANI. I think I can take a couple of those. In each case, when we look at the active and reserve component we've got a balance here. Also in this policy set of announcements we've said that we'd like to have our active component deployed for one deployment, one unit, one year, six months, whatever it is, and then be home for at least twice that amount of time that they were deployed. Today, for example, most of our ground combat units are on a one to one deployment/home/deployment/home. In the Navy we call that port and starboard. Long term, that has a very detrimental effect. In fact, Mr. Barrett asked a question earlier, what is the cost when you balance these off on how you do it between

active and reserve components and how often you do these? At some point when you put heavy deployments on folks, they tend to vote with their feet. Right now, fortunately, we have record enlistments and record reenlistments across all four services.

So what we've tried to do is add in strength force structure in the active component side to get those deployment ratios into a better balance of one to two, for example, as opposed to one to one as it is right now.

What we'd like to do on the Reserve component side, for those that deploy in units to be one to five. But we may have to take certain units, go down to one to four. We would like not to break that any further down than one to four. So we look at those deployments, if you will, in that type of balance. We make these judgments constantly.

The rest of those incentives, for example, are to recognize that if we've told somebody, "typically we want to deploy you for a certain set of time" and we extend you for some period, we like to reimburse them to recognize their service.

Mr. MCGOVERN. No, and I'm not objecting. I'm just curious about what the budgetary impact is going to be. And my other question was about, you know, whether this change in policy, you know, is going to impact our ability to respond to crises here at home?

Admiral GIAMBASTIANI. Well actually, I think that the change, for example, in the Reserve component side will actually make it better for us to respond. Because we are taking entire units as opposed to trying to form a unit out of thirty different states and maybe thirty different units. That is very difficult because it not only impacts the unit that you're trying to put together, but it impacts all of those other units, too. So then when you have to use them for either something in the United States or something overseas you have to wind up getting people from many other states. And that takes time to deploy those units. We'd rather do this in a unit basis.

And this is one that, frankly, the Army and the Marine Corps have been very, very positive on. And frankly, talking to all our National Guard leaders, for example, Lieutenant General Steve Blum, the National Guard Director, went through a recent conference with governors, adjutant generals, and senior leadership throughout the National Guard. And they are uniformly, across the board, very, very positive on doing unit deployments for units as opposed to trying to do this mix and match across the board. So I think we're going to get some real positives out of this. And we've gotten good positive feedback.

Mr. MCGOVERN. My time is up. Thank you.

Admiral GIAMBASTIANI. Yes, sir.

Chairman SPRATT. Mr. Smith?

[No response.]

Chairman SPRATT. Mr. Scott?

Mr. SCOTT. Thank you, thank you, Mr. Chairman. I think that a lot of the questions that I had have already been asked. And I think Mr. Campbell and Mr. Boyd kind of fleshed out the misunderstanding we had to begin with. Because it appeared at the beginning that we'd be doing the supplemental war thing kind of indefinitely. And I think what I'm hearing is you're going to take

your best shot in getting all of the Defense Department expenditures in next year's budget, war and otherwise, and take your best shot at estimating them.

Mr. ENGLAND. That's correct. That's correct, Mr. Scott.

Mr. SCOTT. So we won't have to have this—

Mr. ENGLAND [continuing]. Discussion again, hopefully.

Mr. SCOTT. Now, one of the problems we had a couple of years ago when this thing started is that the estimates for the costs were so far off. I think where this Committee was instructed, in fact, not even to bother about budgeting the war because you didn't budget the revenues from the oil, so don't budget the costs. What have we done to try to get the estimates a little closer to reality?

Mr. ENGLAND. Well, Mr. Scott, right now, I mean, the estimates, everything to date is pretty much actual cost. I mean, we know how many troops are deployed. We know how many steaming hours, flying hours, operating hours of our vehicles, we know equipment damage, destroyed, replacement costs, etcetera. So at this point, you're pretty much real time in terms of actual cost. And so, again, supplementals pretty much capture the reality of warfare and that's what we try to do as we go along. And you'll see some more of that this spring. And then we'll project it for 2008. But at this point my best judgment is you're pretty close to what we know the costs to be. And if it was badly estimated in the beginning, I mean people just didn't, you know, capture this as part of the whole effort of trying to look way ahead during warfare.

Mr. SCOTT. The 2008 budget, will that be, are we going to do a five-year budget or a ten-year budget this year?

Mr. ENGLAND. No, we do five-year.

Mr. SCOTT. Just five?

Mr. ENGLAND. Five years.

Mr. SCOTT. Do you have, and you didn't want to get into details, but will there be an assumption on troop levels for the entire five years?

Mr. ENGLAND. Mr. Scott, it is only, I believe, 2008. As far as I know, we do not have a projection 2009 and on. Right Tina? It's only 2008?

Ms. JONAS. 2008, sir.

Mr. ENGLAND. And that is literally, as best I recall, it's a straight line for what we're doing in 2007.

Mr. SCOTT. For the whole five years?

Mr. ENGLAND. No, just for 2008. I mean, we're only providing a 2008—at this point that is my understanding.

Mr. SCOTT. Will the 2009 and 2010 budgets reflect the fact that we are going to still be there?

Mr. ENGLAND. I would feel that we would still be there. I mean, some degree. Certainly we'll have some presence I would expect in both of those countries during that period of time. But I don't know at this time of an estimate that we have for 2009 and on. Now, there may be. I mean, I am just unclear about this. I do know 2008 we took a straight line out of 2007 to do 2008. That was our input into the system.

Mr. SCOTT. Well, you've got five years. I mean—

Mr. ENGLAND. I mean, like you we'll have to wait for the budget to come out. So you may be ahead of us in this discussion.

Mr. SCOTT. Okay, well I would hope since you are not giving any details and we will see it when it comes that you are going to have adequate healthcare for your injured troops, including mental health?

Mr. ENGLAND. Yes.

Mr. SCOTT. And an adequate ship building budget.

Mr. ENGLAND. We will let you talk to the Navy about that.

Mr. SCOTT. Do what you can. I guess the other question I had, as you know some of us are not particular about this escalation. Is there anything that this Committee can do to affect, to disrupt the projected escalation in troop levels? Is there anything this Committee could do?

Mr. ENGLAND. I don't know how to answer that question. I mean, I don't know what you mean, "what this Committee can do." So I—

Mr. SCOTT. Well, is there anything that the administration would respond to that this Committee could do to let you know that we don't support the escalation?

Mr. ENGLAND. Mr. Scott, the plus up in the troops, we are funding that right now. I mean, it doesn't require special authorization. I mean, we can fund those troops. So this is just another added cost to the war. And it gets all mixed in with all the other costs of the war. So the 2007 supplemental will have money to cover this. But we are burning that money right now. I mean, we are actually burning that money. So it's all part of just a total war cost. There is no differentiation. I mean, these troops are no different from any other troops in terms of the budget itself. So 2007, I mean we will start to run out of money in terms of the total war effort and sometime in April we will need approval of the Congress of the spring supplemental to continue the total war effort. And so that's, I mean that's where we're going to be. And the reason it's the middle of April, because we have to have lead time away from, you know, if you think you are going to run out of money in June you actually have to start taking measures much earlier. So we would then have to reprogramming, moving money.

Last year, I will tell you, we had to literally take all the salary money from the fourth quarter and move it forward. I mean, we took all the money forward out of the base budget to fund the war because the supplemental was late. And that was highly, highly disruptive and very costly to the Department of Defense to move all these monies, stop programs, etcetera, then get it all back on track again. So what I would encourage is the other side of this. Rather than thinking about how you may disrupt it, I would encourage this Committee and all the committees to timely, to have a timely approval of the spring supplemental so we don't have costly disruption as we go forward.

Chairman SPRATT. Ms. Hooley?

Ms. HOOLEY. Thank you, Mr. Chair. I have some questions and I apologize because I was at another meeting, why I came in late. So if you have answered these please accept my apologies. I also used to serve on this Committee, I have been off of it for a couple of years. One of the issues earlier when I served on this before was auditing. And have we, the military, been about to make it through an audit yet? One question, I have got several. You talk about a

spring supplemental. Are we expecting to see a fall supplemental and a winter supplemental? What has so far been the actual cost of the war? Can we break down into categories, for example, what has, what have we spent on trying to rebuild infrastructure there versus personnel and equipment, and cost for replacing equipment, housing? Can we break it down into categories? I have other questions, but you can start on those.

Mr. ENGLAND. So if you take the first one I'll take the second one because that is easiest.

Ms. JONAS. Okay. You had a question about auditing?

Mr. ENGLAND. Audits.

Ms. HOOLEY. Right.

Ms. JONAS. The Army, for example, none of the services have been able to undergo a full independent audit. And so we are working with that. I explained earlier to the Committee we have a Financial Improvement and Audit Readiness Plan. We have, between our assets and our liabilities we have got about a trillion dollars that can receive a clean opinion. We are working on the systems that will make a Department-wide audit available to us, and so we work that. But as you know, the Department conducts a lot of audits in general. We have plenty of auditors. And for example, I have the Defense Contract Audit Agency. They do 35,610 audits they did last year, and they reviewed about \$346 billion of the Department's funds, saved over \$2.3 billion in cost recovery. So we do pay attention to that and we appreciate your interest in that area.

With respect to the break down of the costs for the war, we've spent so far about \$372 billion; \$276 billion for Iraq and \$69 billion for OEF, which is the Enduring Freedom or Afghanistan, and \$27 billion for Operation Noble Eagle. As we submit our reports to the Congress, and we do that on a quarterly basis, we submit to GAO the cost reports monthly, those are all broken down by categories and so those are available.

Mr. ENGLAND. And the other question dealt with do we expect to have a fall and next winter supplemental, and the answer to that is no. That is not planned, although there is sort of this proviso, it would depend on how well we estimated. But the plan is to have that in the base budget next year.

Ms. HOOLEY. I asked if we can break it down into categories, and you said yes, so we know how much we've spent for rebuilding costs, or trying to rebuild infrastructure there?

Ms. JONAS. I don't have them off the top of my head, but they are available in our quarterly reports that the Congress receives. It's broken down into quite a bit of detail. It lists all that, yes, ma'am.

Ms. HOOLEY. Do you further break it down, for example, as we are adding a surge of another 21,500 soldiers, can you break it down into what it costs per soldier?

Ms. JONAS. We could certainly do that for you. I don't have that right now, but our average costs are about \$121,000 in that. But we are having additional costs. The Admiral alluded to some of the equipment, etcetera.

Ms. HOOLEY. Have we received any money, we talked about when we went into this war that some of the costs, the burden would be paid for by recouping some of the oil, and that they would

repay us back money as they got their oil wells up and running. Has any of that happened?

Mr. ENGLAND. Well, perhaps indirectly, that is they actually fund some of their own operations. But, I mean we are basically funding the training and equipping of Iraqi and Afghan forces. So their money, as far as I know we will have to, again, verify with you, but I do not believe that they are actually paying our bills. I mean, they are paying their bills and in addition we are paying bills to help train and equip their forces which obviously we want to do as soon as we can because that is how our troops eventually leave, is to have their troops able to do the fight. But we have money in the budget to do that. So there is train and equip money in the budget to train and equip both Afghan forces and Iraqi forces.

Ms. HOOLEY. You use the word "reset" for replacing the equipment that is broken down there. Is that the right word?

Mr. ENGLAND. Yes, it is either to replace or repair.

Ms. HOOLEY. All right. And do we do that for the Iraqi Army as well? Or is it just for our troops?

Admiral GIAMBASTIANI. Do we include some equipping costs?

Ms. HOOLEY. Right. I mean, do we, for example, as we are involved with the Iraqi Army—

Admiral GIAMBASTIANI. Yes, ma'am. If I could?

Ms. HOOLEY. Okay.

Admiral GIAMBASTIANI. The Iraqi Army, for example, and the Afghan Army fund, and Iraqi police forces, fund a lot of what they are doing. However, in the supplemental to accelerate, for example, their equipping so that they can be more independent, we have included dollars for purchase to assist them in becoming more capable. But the base funding comes out of the Iraqi budget, for example.

Ms. HOOLEY. And when you talk about "base funding," what are we talking about? What percentage are we talking about that we pay for versus what they pay for?

Admiral GIAMBASTIANI. I could not estimate. We could get back to you on that, but I could not estimate that for you off the top of my head.

Ms. HOOLEY. Thank you very much. Thanks.

Admiral GIAMBASTIANI. Yes, ma'am.

Ms. HOOLEY. Thanks. Thank you, Mr. Chair.

Chairman SPRATT. Mr. Allen?

Mr. ALLEN. Thank you, Mr. Chairman. And I may be hard to see but thank you all for being here through this process. I do have a couple of questions, Mr. Secretary, and you can kick them off to either of your colleagues if you wish. The President's proposal to increase the number of troops by 21,000 is not the only policy option on the board, obviously. And therefore I am curious about alternatives in terms of the impending budget request. For example, could you provide to the Committee an estimate for what it would cost to fund the war in Iraq through the end of 2007 including an estimate for the cost of withdrawing our forces by the end of 2007?

Mr. ENGLAND. We do not have any such estimate in work, Mr. Allen. So, I mean, there is no effort underway. We have no planning to do that. As far as I know there are no operational plans to go fund, so to do that, I mean, there would have to be scenarios

and everything laid out and I don't know of any of those that exist within the Department. I mean, there is no planning to do that within the Department of Defense.

Mr. ALLEN. So, but let me put it this way. It is within the capacity of the Department to do that kind of planning and come up with that kind of number, I would assume?

Mr. ENGLAND. I am sure there is. But I do not know of any effort, again, because it takes the Joint Chiefs and everyone who are all sort of fighting the war, rather than deciding not to. So whether that is doable or not is a different question that does not fit within the framework.

Mr. ALLEN. Well, let me make the request. I would like that information. I think it would be helpful to this Committee and to the Congress to have that information. We talk about withdrawing our forces. We know we are not going to be in Iraq, I believe, most of us believe we are not going to be there indefinitely. And therefore, in order to have a healthy fact-based debate about leaving, it would seem to me helpful to have that information. So I would make the request.

Mr. ENGLAND. I have your request.

Mr. ALLEN. Thank you. Thank you. Now, this may have been asked before but I do not, you know, unfortunately I have been in and out of here today so stop me if it has been asked. But I understand that information obtained from DOD has shown that through October, 2006 the Department has obligated only \$362 billion of the \$471 billion appropriated to DOD by Congress. And those, I understand, are CRS numbers. If that is true that would mean there is more than \$100 billion in unobligated balances still available to finance military operations and reset. So my question is, can you explain why this money has not yet been obligated, much less unspent, when there are obviously continuing needs? And secondly, if this number is right, doesn't that call into question the need for such a large supplemental request?

Ms. JONAS. Sir, I can answer the question. The actual figure I just quoted to the Congresswoman is \$372 billion. That is the more updated figure. Remember, included in defense budgets are things, including intelligence, that is not necessarily our own. So there are those pieces there. And there are other things that are included in some of these estimates. You know, the \$70 billion that we have been talking about that was appropriated last year. There were things in it, including nine additional C-17s which we would not necessarily classify as cost of the war. So our understanding at this moment, my staff tells me that is about \$50 billion that is unobligated so far. And that will get us, you know, four or five months down the road. I do not have the specific break out of the operations, but a good portion of that, of course, is going to be procurement funding.

Mr. ALLEN. Okay, and when you drop the number from \$100 billion to \$50 billion, are you taking out the C-17s and those kinds of—

Ms. JONAS. Yes. Yes.

Mr. ALLEN [continuing]. Things that really aren't related to Iraq directly?

Ms. JONAS. Yes, sir.

Mr. ALLEN. But still were part of the supplemental, or not?

Ms. JONAS. They were part of the supplemental, the \$70 billion.

Mr. ALLEN. Past supplementals?

Ms. JONAS. Yes.

Mr. ALLEN. As I recall, about two years ago the Special Inspector General for Iraq indicated that \$8.8 billion that the Coalition Provisional Authority had given to Iraq ministries could not be accounted for and was not adequately tracked. Supposedly a lot of it went to ghost employees. I guess wealthy ghost employees, if that is true. What if anything did the Department do to account for that large discrepancy? And what steps did it take in response to ensure that such untracked spending would not occur again?

Ms. JONAS. My understanding of the situation was that that was Iraqi money. That was no Department money. I do not have all the facts and figures, but I understand also that there were some, and I may be incorrect on this, I need to correct the record on it if I am not right, but there were prosecutions. I am sure that the auditors that did their work, and I know that there was some attention to that at the time, but it was Iraqi money as I recall.

Mr. ALLEN. That is my recollection. Now that you mention that, that is my recollection as well. I see my time has expired. Thank you all.

Chairman SPRATT. Mr. Etheridge?

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. Let me approach this a little different, a question that's probably already been asked in different ways. But I think you can appreciate, you know, we talk about supplementals and whether it is in or out, etcetera. But let me tell you what I hear from my constituents. And I come to it differently having been in the education side for a number of years as State Superintendent. And my guess is, if I had shown up with a supplemental without justifying the budget they would have given me my head and sent me back.

Now, it's different and I recognize that because we are defending the country, etcetera. But for the average person on the street that doesn't have any insurance, and a host of the other needs of this country, they are, I think one of the problems we have, they're getting awfully weary of Congress not, as you have heard from my colleagues on both sides of the aisle today, trying to ask the question, you know, how do we get our arms around these supplementals that we do not have time to talk about.

And that is really where we are. I think that is in a nutshell what we are talking about. We are just sort of sliding around it and not getting to it because all of these other needs are closing in on us. And every supplemental, and I think part of the reason we have not gotten them in the budget is it shows how much we are spending. And all of the supplementals are outside the budget so that we do not see the total cost of the budget all in one piece. You may not want to comment on that, but I think that is really the issue that we face as members of Congress when we talk with our constituents. So help me with that one, how do we explain that issue and what we have got to deal with?

Mr. ENGLAND. Well, Congressman it seems to me that, I mean I come down on the other side. I mean, all of the war cost is in

the supplemental. We know exactly what the war cost is. By having a supplemental, you just total up the supplementals, that is the cost of the war. If it is in the budget then I think it is much harder to understand what the cost of the war is. So we have a base budget. Man, train, and equip our forces in the base budget and that is long term. And then we have another category called cost of war and that is——

Mr. ETHERIDGE. Yes. My point is, though, that you do not get to talk about it, and it has been talked about it in different ways here. Your point is, we get to talk about it after the fact.

Mr. ENGLAND. No, sir.

Mr. ETHERIDGE. But it does not go through the process.

Mr. ENGLAND. But it can. I mean, that is not our determination. That is the Congress that decides to do that. The Congress can do it. We turn in all the data. The fact is, there is more data, and the Congress can put it through their committees. I mean, they decide not to. But my understanding is that is a congressional determination, not our determination.

Mr. ETHERIDGE. Well, I was not on the Committee so please understand. But I think what they are trying to get to is it comes through the authorizing side then goes to the appropriating side. What is happening is, it is going straight to the appropriating side and a lot of folks on the authorizing side do not get a chance to get number one the understanding and number two the input.

Mr. ENGLAND. But understand, that is a rule of the Congress. I mean, the Congress decides that.

Mr. ETHERIDGE. I think they are in the process of trying to change that.

Mr. ENGLAND. Okay, and I mean I understand that. But, again, I do not get my——

Mr. ETHERIDGE. No, I understand where you come from out there. But I am trying to share with you what I think I see.

Mr. ENGLAND. Okay.

Mr. ETHERIDGE. From the frustration of the members today on this Committee, anyway.

Mr. ENGLAND. Okay, I understand. And again, Congressmen and Mr. Chairman, we literally came here to be helpful today and I hope we have been helpful. And we understand your issues and concerns. I mean at the end of the day it would seem to me that what is most important is that we do have correct numbers and everybody understands what the money is being spent for and we can account for it. And then, frankly, how you categorize it, that is sort of what I call what bucket you put it in, the base budget or the supplemental, I mean that is of interest and that is really your determination how we do that. My interest is to make sure we identify the costs, we capture the costs, so that we get reimbursed for the cost of war. And if we do that openly and as transparent as we can and as factually as we can, then I think we serve the country and frankly if it is in a supplemental or the base budget I mean that is not an issue with us. We just want to be able to capture the costs and recover the costs.

Mr. ETHERIDGE. Well, I see my time has expired, Mr. Chairman. I think part of that gets to the issue of what people read in the paper are the huge open ended contracts.

Mr. ENGLAND. I understand.

Mr. ETHERIDGE. And then we have to try and defend them, and we have not had a chance to look at them. And then I meet with my people at Fort Bragg and Pope and my National Guard and Reserve folks who do not have the equipment and necessary stuff they need. And we have not had a chance to go through the process and raise those issues. Now, hopefully that will come and I hope you understand.

Mr. ENGLAND. No, I understand. And sir, we will be as supportive as we can with you and with the Committee.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I yield back.

Chairman SPRATT. Secretary England, Secretary Jonas, Admiral Giambastiani, thank you very much indeed for coming. Thanks for your patience and forbearance and your willingness to take on our questions. We will probably have some for the record which we will be sending to you, and we would appreciate your assistance with those.

Mr. ENGLAND. No, absolutely. And this has been very helpful and we appreciate the opportunity to have the dialogue, Mr. Chairman.

Chairman SPRATT. Thank you again for coming.

Mr. ENGLAND. Thank you.

Admiral GIAMBASTIANI. Thank you, Mr. Chairman.

Chairman SPRATT. Our next panel, if they will come forward now? Robert Sunshine and Steve Kosiak. Gentlemen, thank you for your patience and your forbearance also. I think you have testified on the Hill before and you realize that the schedules slip like this. Number one, we appreciate your coming. Number two, we appreciate the quality of your work, your insights and observations. And number three, we open the floor to you. You can proceed in any manner you wish. If you have prepared statements that we make part of the record you can summarize them, or you can read them in their completion. I am told we have votes at 5:30 so we have a little time ahead of it. Thank you again for coming. Mr. Kosiak, thank you for coming. And Bob, let's start with you.

STATEMENTS OF ROBERT A. SUNSHINE, ASSISTANT DIRECTOR, CONGRESSIONAL BUDGET OFFICE; ACCOMPANIED BY STEVEN M. KOSIAK, DIRECTOR OF BUDGETS STUDIES, CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS

STATEMENT OF MR. SUNSHINE

Mr. SUNSHINE. I appreciate the opportunity to be here with you today and I will just summarize some of the important points in my statement. CBO estimates that since September, 2001 the Congress has appropriated \$503 billion for military operations and other activities related to the war on terrorism. We estimate that of these amounts, about \$344 billion has been appropriated specifically for operations in Iraq. And there are some other appropriations, for example for classified activities, some of which may be related to Iraq but that is not in the \$344 billion number. Almost all of these appropriations have been exempted in one way or another from the normal constraints of the congressional budgeting process.

We estimate that in fiscal year 2006, the U.S. spent about \$100 billion, that is an outlay figure, about \$100 billion for its operations

in Iraq and elsewhere in the war on terrorism. In 2007 that figure will approach \$120 billion, roughly \$10 billion a month. That means we are now spending on these activities more than twenty percent of the Defense Department's budget, and more than ten percent of all of the government's discretionary outlays. Those amounts obviously merit a great deal of attention and care in the budgeting process.

CBO has been asked on a number of occasions to estimate the future costs of operations in Iraq and in the war on terrorism. Last year, for example, CBO prepared for Mr. Spratt an estimate of the costs of two scenarios that he specified. Those estimates were too low. When we release our baseline projections at various points in the year, we also offer some alternative scenarios that differ from the simple inflation numbers that appear in the baseline. And we will be releasing our annual outlook report next week and we will have some alternative scenarios in that report.

But estimating the costs of war is always difficult because there is so much that is uncertain about the pace and scale of future military operations. And in this case it is much more difficult, because we really have very little information and data on which to base our estimates.

Let me give a few examples. First, the DOD supplemental budget requests have typically been accompanied by much less data and much less justification than its regular requests. The \$33 billion requested for operations and maintenance as part of the 2006 supplemental was accompanied by only five pages of justification. The 2007 request for a total of \$50 billion had much more detail, but not enough and not in the form that would enable analysts to understand how DOD develops its budget requests.

Second, DOD's monthly obligation reports provide limited information. About one-quarter of the amounts obligated in fiscal year 2006, about \$23 billion, was allocated for purposes that the reports describe as "other." With such little information it is difficult to estimate whether such costs would be incurred in future years. And those reports also do not include obligations for classified activities, which probably have cost at least \$25 billion to date. The reports also would be much more useful if they contained information on operations along with the obligations: troop levels, flying hours, vehicle miles, in each month. And that would help us and others to understand the relationship between the costs that are being incurred and the nature of the military operations.

Third, funds for Iraq and the war on terrorism are largely recorded in the same appropriations accounts that the regular non-war budget spending is recorded in. This makes it difficult to sort out how much is actually spent on war related activities. The use of separate appropriations accounts for war related spending might be helpful.

Fourth, CBO frequently has difficulty obtaining the monthly reports on war obligations and other data. We often receive information months after data are officially approved for release. This could be addressed by establishing a standard and much more comprehensive distribution list for war obligation reports and other data. We would also like to have access to the COST model, the Contingency Operations and Support Tool that the Chairman re-

ferred to earlier, that DOD uses to formulate its supplemental requests, or at least the data and the methodology underlying it so we can better relate force levels, operation levels, to the costs.

A final broader issue involves the timing of budget requests and the Committee has discussed that extensively today. Whether it would be worthwhile for DOD to include the entire fiscal year's cost of activities in Iraq and the war on terrorism in its regular budget request, and apparently they are taking some steps in that direction. That approach would have some positive and negative consequences. On the positive side, including war costs in the regular request would give the Congress more time to debate and discuss and evaluate those costs and to weigh them against other priorities. It would give the budget committees more time and better information to use in crafting a budget resolution. And it would avoid the problem of potential funding issues that arise if enactment of the supplemental is delayed during the course of the year. On the other hand, budgeting for activities in Iraq and the war on terrorism combined with the regular budget runs the risk of providing less clarity about which funds are for the war and which funds are for the regular activities. And as Mr. England pointed out, submitting the request with the regular budget could lead to less accurate cost projections given the long lead times involved. It would certainly necessitate modifications as the year went on, perhaps very significant ones, before or during the budget year as conditions change, as strategies evolved. And both the Department and the Congress would obviously have to be flexible as the situation evolved if the appropriations were provided for a full year in advance.

Thank you, Mr. Chairman. That summarizes my main points and I would be happy to answer any questions.

[The prepared statement of Robert A. Sunshine follows:]

PREPARED STATEMENT OF ROBERT A. SUNSHINE, ASSISTANT DIRECTOR,
CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, Congressman Ryan, and Members of the Committee, I appreciate the invitation to appear before you today to discuss budgeting for operations in Iraq and the war on terrorism. My statement is based on the Congressional Budget Office's (CBO's) analyses of and research on that issue over the past few years. CBO has been asked, on a number of occasions, to determine how much has been spent and how much might be spent in the future for those activities.

This testimony will briefly discuss appropriations and obligations to date for operations in Iraq and the war on terrorism. It will also offer an overview of budgeting and reporting issues.

APPROPRIATIONS AND OBLIGATIONS TO DATE

Since September 2001, by CBO's reckoning, the Congress has appropriated \$503 billion for military operations and other activities related to Iraq and the war on terrorism (see Table 1).¹ Little of the funding used to finance the war has been subject to the budgetary constraints imposed on regular appropriations. Rather, such funding has been exempted from normal budget procedures in several ways. One method has been to designate it as an emergency requirement, and a second has been to deem it for "overseas contingency operations related to the global war on terrorism"—both of which have allowed for exemption under provisions of the budget resolutions in effect during that period. A third method has been to provide a

¹The \$503 billion figure shown here differs slightly from amounts estimated by the Congressional Research Service and the Government Accountability Office, mainly because of differences in how to count certain transfers from DoD's budget for activities besides the war.

specific allocation in the budget resolution and authorize an adjustment to that limit to accommodate additional spending if necessary.

About \$463 billion of the \$503 billion was allocated to the Department of Defense (DoD), including about \$448 billion for U.S. military operations and other defense activities and about \$15 billion for support of indigenous security forces.² Because some of those funds are designated for classified purposes, about which little information is publicly available, CBO cannot provide a precise estimate of how much has been obligated to date. However, of the funds appropriated through fiscal year 2006, about \$393 billion, CBO estimates that at least 85 percent—\$335 billion—had been obligated through November 2006. That judgment is based on an analysis of obligation reports provided by DoD.³ For fiscal year 2007, \$70 billion has been appropriated thus far, as part of the Department of Defense Appropriations Act, 2007 (Public Law 109-289). DoD obligation reports indicate that about \$16 billion of that amount had been obligated as of November 2006, bringing the department's total obligations to more than \$350 billion.

TABLE 1.—ESTIMATED APPROPRIATIONS PROVIDED FOR OPERATIONS IN IRAQ AND THE WAR ON TERRORISM, 2001 TO 2007

[By fiscal year, in billions of dollars]

	2001	2002	2003	2004	2005	2006	2007 ^a	Total, 2001– 2007
Military Operations and Other Defense Activities:								
Iraq ^b	0	0	46	68	53	87	52	306
Other ^c	14	18	34	21	18	24	14	142
Subtotal	14	18	80	88	70	111	67	448
Indigenous Security Forces:^d								
Iraq	0	0	0	5	6	3	2	16
Afghanistan	0	0	0	0	1	2	2	5
Subtotal	0	0	0	5	7	5	3	20
Diplomatic Operations and Foreign Aid:								
Iraq	0	0	3	15	1	3	0	22
Other	*	2	5	2	2	1	0	12
Subtotal	*	2	8	17	3	4	0	34
Total	14	19	88	111	81	120	70	503

Source: Congressional Budget Office.

Notes: Details may not add up to totals because of rounding.

* = between zero and \$500 million.

^a At the current rate of military operations, the funding provided to date in 2007 will not be sufficient to pay for all costs that will be incurred this fiscal year. Consequently, additional appropriations will probably be provided in 2007.

^b The Congressional Budget Office estimated funding provided for Operation Iraqi Freedom by allocating funds on the basis of obligations reported by the Department of Defense (DoD). For more information about funding for Operation Iraqi Freedom, see Congressional Budget Office, Estimated Costs of U.S. Operations in Iraq Under Two Specified Scenarios (July 13, 2006).

^c Includes Operation Enduring Freedom (involving operations in and around Afghanistan), Operation Noble Eagle (for homeland security missions, such as combat air patrols, in the United States), the restructuring of Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, and other operations. (For fiscal years 2005 through 2007, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table because it cannot be identified separately.)

^d Funding for indigenous security forces, which was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004 and in accounts for defense (budget function 050) since 2005, is used to train and equip local military and police units in Iraq and Afghanistan.

Because most appropriations for operations in Iraq and the war on terrorism appear in the same budget accounts with appropriations for DoD's other activities, determining what has actually been spent is difficult. However, CBO estimates that appropriations to DoD for Iraq and the war on terrorism increased total federal outlays by about \$310 billion through fiscal year 2006. About \$95 billion of those outlays occurred in fiscal year 2006, CBO estimates. For fiscal year 2007, CBO estimates that funding for operations in Iraq and the war on terrorism will add between

² Funding for indigenous security forces is used to train and equip local military and police units in Iraq and Afghanistan. Since 2005, those funds have been appropriated to the Department of Defense, whereas before that, they were appropriated to the Executive Office of the President.

³ The most recent reports provided by DoD cover obligations through November 2006.

\$115 billion to \$120 billion to total outlays, assuming that additional appropriations are provided during the course of the year.

In addition to funding for military operations, the Congress has appropriated about \$40 billion for diplomatic operations in and aid to Iraq, Afghanistan, and other countries assisting the United States in Iraq and in the war on terrorism, including about \$5 billion in 2004 for support to indigenous Iraqi security forces. About half of the \$40 billion total (\$21 billion) has been appropriated for the Iraq Relief and Reconstruction Fund, almost all of which has been obligated to date. On the basis of information from the Department of State, CBO estimates that most of the remaining \$19 billion has also been obligated.

Of the funds appropriated to the Iraq Relief and Reconstruction Fund, CBO estimates that about \$16 billion has been spent. But CBO does not have enough information to determine how much of the remaining \$19 billion has been expended.

ESTIMATING THE COSTS OF MILITARY OPERATIONS

DoD estimates the future costs of the war using a combination of cost models, surveys of damaged and destroyed equipment, and analyses of actual costs incurred to date. The department's principal model for estimating war costs is the Contingency Operations Support Tool (COST), which was developed by the Institute for Defense Analyses.⁴ That model uses cost factors derived from actual expenditures for prior operations to estimate operation and support costs for deploying units. In addition to those estimates, each military service produces separate estimates of the cost of repairing or replacing damaged or destroyed equipment and the amounts necessary to restore units and materiel to predeployment conditions. The services also estimate costs associated with the reorganization and modernization of the armed forces. Those sums, when added together, have provided the basis for DoD's budget requests related to the war.

The actual obligations incurred for military operations in Iraq and the war on terrorism are tracked by the Defense Finance and Accounting Service, which issues monthly reports on financial obligations for each of the major ongoing operations (Iraqi Freedom, Enduring Freedom, and Noble Eagle).⁵ The reports show obligations by the year in which the funds were appropriated and by military service.

BUDGETING AND REPORTING ISSUES

CBO has been asked by the Congress on several occasions to estimate the future costs of operations in Iraq and the war on terrorism. Estimating war costs is always difficult because of uncertainty about the pace and scale of future military operations. However, better estimates could be provided to the Congress if more information was available on the costs incurred to date. In particular, CBO has identified four main concerns regarding the current process of budgeting and cost reporting for operations in Iraq and the war on terrorism.

The Timing of Budget Requests

Since fiscal year 2001, funding for activities in Iraq and the war on terrorism has been provided through a combination of partial-year appropriations (sometimes referred to as bridge appropriations), which are enacted near the beginning of the fiscal year, and midyear supplemental appropriations. If the bridge appropriations run out before enactment of the midyear appropriations, DoD can pay for war-related expenses using funds meant for its regular activities, which are then reimbursed upon enactment of the midyear supplemental. In the event that the midyear appropriations are delayed and funds for DoD's regular activities begin to run out, the department has some options. One option is to use its authority to transfer funds among various appropriation accounts (for instance, from procurement accounts to operation and maintenance accounts), although that authority is limited. In addition, DoD can invoke the Feed and Forage Act (41 U.S.C. 11), which allows the President to obligate funds without an appropriation for the purpose of sustaining troops in the field. That authority was invoked immediately after the terrorist at-

⁴ According to 10 U.S.C. 101(a)(13), a "contingency operation" is one in which members of the armed forces are or may become involved in military actions, operations, or hostilities against an enemy of the United States. It can also be an operation in which reserve-component members are called to active status or any other national emergency declared by the President or the Congress.

⁵ Operation Enduring Freedom includes military operations in and around Afghanistan and other overseas counterterrorism activities. Operation Noble Eagle refers to homeland security missions, such as combat air patrols over major metropolitan areas, undertaken by DoD in response to the terrorist attacks of September 11, 2001.

tacks on September 11, 2001, although ultimately it was not used because the Congress quickly provided the necessary appropriations.⁶

Some policymakers and analysts have suggested that, to better assist in planning future defense budgets, DoD should include the entire fiscal year's cost of operations in Iraq and the war on terrorism in its regular budget request. That approach would have both positive and negative consequences. On the positive side, including war costs in the regular request would give the Congress more time to debate and modify the budget request for those activities. It would also give the budget committees more information about potential budgetary effects that they may wish to consider in crafting a budget resolution. Further, fully funding those operations at the beginning of the fiscal year would help DoD avoid any potential funding issues that might arise from a delay in enacting midyear supplemental appropriations. On the negative side, budgeting for activities in Iraq and the war on terrorism in combination with the regular request could result in less clarity about which funds would go to war-related operations and which were intended strictly for other activities, unless separate budget accounts were established to distinguish the two purposes. In addition, submitting the request at the beginning of the fiscal year could lead to less accurate cost projections because the budget must be submitted in February (eight months prior to the start of the fiscal year).⁷

Supplemental Budget Requests

DoD's supplemental budget requests often do not provide enough detail to determine how the department develops its budget requests. The amount of justification material that DoD provides in its regular budget for activities besides the war and the documentation that it submits for war-related operations differ substantially. The \$440 billion requested by DoD for its regular activities in fiscal year 2007 was supported by very detailed justification documents. By contrast, DoD's funding requests related to the war have been accompanied by relatively little backup material. For instance, the backup material for the department's original 2006 supplemental request, which totaled about \$68 billion, included only five pages on operation and maintenance costs, even though those costs constituted almost half (about \$33 billion) of the request.

In June 2006, DoD provided the appropriations committees a package of information on the \$50 billion that the Administration had requested for war-related activities for fiscal year 2007. Compared with previous submissions, that material provided more detail on the request, although not enough to enable analysts to understand how the costs were estimated or to explain how the funding requirements compared with those of previous periods.

Tracking Actual War-Related Obligations and Outlays

Regardless of when the funds for operations in Iraq and for the war on terrorism are provided, they are generally recorded in the same appropriation accounts that fund DoD's other activities, making it difficult to sort out how much is ultimately spent on the war.

For fiscal year 2006, the Congress appropriated about \$218 billion to DoD's operation and maintenance accounts. Of that amount, about \$72 billion was appropriated for war-related activities and about \$146 billion was appropriated for DoD's regular operating costs. But the standard budget execution reports submitted to the Office of Management and Budget do not distinguish between those war and nonwar expenditures, making it difficult to determine how much has actually been spent for activities related to Iraq and the war on terrorism.

The Defense Finance and Accounting Service issues monthly reports that track war-related obligations, but they provide limited information. According to those reports, about \$98 billion was obligated for military operations in Iraq and the war on terrorism in fiscal year 2006. Of that amount, almost 25 percent (\$23 billion) was allocated for purposes described as "other." Little information was provided to suggest how those "other" funds were obligated. Without a better understanding of those expenditures, determining whether such costs will be incurred in future years is difficult. Moreover, the extent to which the reports capture obligations for classified activities is not clear. Relying on conference reports for various supplemental appropriation acts, CBO estimates that at least \$25 billion has been appropriated for classified activities since 2001. In addition, the obligation reports have not contained information on the pace of operations—such as troop levels, flying hours, or

⁶The authority of the Feed and Forage Act is limited to obligations for items meant to sustain troops in the field, such as subsistence clothing, fuel, quarters, transportation, and medical supplies. It cannot be used to purchase additional weapons or to support military hardware.

⁷Much of agencies' budget preparation occurs long before the February budget submission.

vehicle miles—in each month. Such information would be useful in analyzing cost variations, which CBO and other government analysts could use to better estimate future spending on the war.

Setting up separate budget accounts might help in tracking the obligations and outlays of war-related appropriations, but implementation of such an accounting structure might be difficult. For instance, it would necessitate distinguishing between the basic pay of troops (which is part of the regular defense budget) and their additional combat-related pay (which is attributable to the war).

The Distribution of Data and Information

CBO frequently has difficulty obtaining monthly reports on war obligations and other data. Often the agency receives that information months after the data are officially approved for release. That problem could be addressed by establishing a standard, more-comprehensive distribution list for the war obligation reports and other data. Having access to the COST model that DoD uses to formulate its supplemental requests or to the data and methodology underlying the model would also be helpful. In November 2003, this Committee formally requested that DoD provide CBO access to the COST model, but the department has not yet done so.

Chairman SPRATT. Thank you very much. Mr. Kosiak?

STATEMENT OF MR. KOSIAK

Mr. KOSIAK. Well, first I want to thank Chairman Spratt and the rest of the Committee for inviting me to testify today on this important subject. I want to focus on the process used to fund military operations and to recommend three improvements in that process.

My first recommendation is that the wars in Iraq and Afghanistan should be funded through a separate account or separate accounts attached to the annual Defense Appropriations Act. And that is something that I think the Department seems to be moving in that direction. Certainly many members of Congress, including the Chairman, have been pushing them in that direction. I think we are long past a point really now where we should be funding these operations as supplementals. At this point, you know, if you go to a similar point in the Vietnam and Korean Wars, which are the best other examples of fairly long wars for the U.S., we were already at this point paying for the vast majority of the costs through regular appropriations.

One reason that I think we have to do this, one reason it is important, is that if you do not include projected costs for ongoing military operations in the regular annual budget request you are providing a misleading and overly optimistic picture, I think, for the coming fiscal year in terms of how much federal spending will be required. And that was not such a big deal a few years ago or in the 1990's at least when we were talking about \$1 or \$2 billion dollars a year, something like that, but now we are talking about annual war costs of over \$100 billion, potentially approaching \$200 billion a year. So this is a big gap in the budget not to include it.

One of the most important things in good budgeting is to have a budgeting process that forces decision makers to recognize the true cost of the policy choices they are making. And I think continuing to rely on supplementals obscures those costs rather than highlighting them.

The second problem which people have discussed a little bit already today here is the problem with, and I know the Congress and this Committee is concerned, what is a lack of oversight. Secretary England suggested that part of the problem is a congressional decision to have money in supplementals or supplemental requests go directly to appropriators and not go through the budget committees

and the authorizers. But I think that really oversimplifies things because it is not just an arbitrary rule to have it go to the appropriators. The fact of the matter is, there is no time available. I mean, there is just not time enough when the authorizers and the appropriators and everyone else is trying to look at the regular annual budget. There is no real time to focus on supplementals. And again, that is not such a big deal when we are talking about \$1 or \$2 or \$5, \$10 billion dollars a year in supplementals. But when we are talking about \$100 billion or more it is a very big deal.

I also, I guess, would add one other point in terms of the use of supplementals. I think, again, Secretary England suggested that there is a trade off between using supplementals, in which case you can get accurate information, and not using supplementals, in which case you would have more time to consider if the information is not as good. And that is certainly true. But I think it is really kind of a false choice because no one is suggesting that you cannot do supplementals later in the year if you have it. The fact of the matter is, for a lot of the costs associated with military operations they are actually quite well known and quite easy to estimate. We know roughly how many troops we are going to have there. We have had roughly the same number for quite a long time, now. There are a lot of costs in there that you can accurately estimate quite far in advance. So the question is not whether you have supplementals or do not have supplementals, because you may have to have supplementals because those estimates are not going to be perfectly accurate. You may later in the year have to have a supplemental. But if it is a \$10 billion, \$5 billion supplemental that is going to be a lot easier for Congress to deal with than a \$100 billion a year supplemental.

My second recommendation is that the cost, whether it is funded through the supplementals or whether it is funded, as I would prefer and I think everyone would prefer, through the Annual Defense Appropriations Act, that those costs be limited pretty much to, with perhaps a few exceptions, to costs directly related to military operations which currently means operations in Iraq and Afghanistan. Over the past several years the administration has combined funding for Iraq and Afghanistan into supplementals under the name the Global War on Terror, or GWOT. Each of these supplementals has also included some amount of funding for activities and programs that are unrelated to ongoing military operations, like Army modularity and some other programs. But from what we can tell, and I think CBO's efforts to go through these costs supports this, from what we can tell the vast majority of the funding provided so far really has been related pretty directly to costs actually incurred in these military operations.

Unfortunately there is reason to believe that this imperfect, but at least relatively disciplined approach, to generating GWOT appropriations requests is going to disappear. For 2007 currently the OMB is considering a \$100 billion request by the services for supplemental for 2007. This comes on top of, of course, the \$70 billion which Congress has already provided for 2007 so bringing the total to \$170 billion. Now that is a lot more than was anticipated by OMB only a few months ago. If you look at the mid-session review, they were anticipating total costs for 2007 for the GWOT of about

\$110 billion. It is also much higher than what was provided this year, which was about \$117, \$118 billion, was provided for 2006. So there is \$50 or \$60 billion more here than I think most people anticipated would be required as short a time as a few months ago.

Chairman SPRATT. Steve, where was \$110 billion estimated?

Mr. KOSIAK. The \$110 billion was when they, in their mid-session review they said that they, obviously as a plug in the 2007 request they included \$50 billion for 2007. But in their mid-session review they said that they would need a supplemental and they anticipated that total funding for 2007 would be about \$110 billion.

The best explanation for this, I think, why we see this jump, is because DOD has really expanded broadly its definition of what can be included in these supplementals, what can and should be included in GWOT supplementals, or GWOT appropriations, whether in supplementals or not perhaps, rather than through the services base line defense budgets. And this gets back to Secretary England's memo to the services in October where he said that the ground rules were being expanded for the 2007 spring supplemental to include the Department's efforts in the Global War on Terror and not just efforts related to operations in Iraq and Afghanistan. I think this really opened the floodgates for the services to ask for things in these GWOT appropriations.

In the administration's eyes I think it is also important to understand that the GWOT, or long war as it is sometimes referred to, is really a very broad concept. It includes obviously the wars in Iraq and Afghanistan in their minds. But beyond that it represents a broad framework for organizing the U.S. military's strategy, planning and budgeting for really potentially decades to come. And in that sense it kind of reflects, it is similar to how the Cold War framework was used to help organize the plans and budgeting of the Pentagon in the second half of the twentieth century.

Unfortunately, I think you have a serious problem when you provide such a broad definition of what the GWOT is and then tell the services that virtually anything related to the GWOT can be funded through these special GWOT appropriations. And this again is true whether you are funding the GWOT through supplemental appropriations or separated in the regular annual defense budget. In either case the Defense Department has basically removed any principal distinction between what should be funded through special GWOT appropriations and what should be funded in the rest of the defense budget. And I would argue it is roughly equivalent to telling the services in 1968 at the height of the Vietnam War that the requests for Vietnam War funding can include basically anything related to winning the Cold War competition with the Soviet Union. It also amounts to in effect telling the services that they no longer need to find room in the regular annual defense budget to cover the full cost of their long term plans. And the services already have a perennial problem with providing, developing and presenting long term plans that are affordable within projected funding levels. There is a lack of realism and making this change, enlarging the definition of GWOT and what can be funded through GWOT appropriations is only going to make that planning and budgeting less realistic over the long term.

My third and last recommendation is that the Defense Department should provide better justification materials for many of the reasons that CBO has mentioned. And I would just mention one point in particular. I think it is especially difficult to tell from their justification materials to what extent reset costs are really being driven by the need to recover from costs incurred in the wars in Iraq and Afghanistan, and to what extent they are being driven by and reflect the Pentagon's long term modernization and transformation plans.

I guess the last thing I would mention before closing is that I am encouraged by Deputy Secretary of Defense England's, the latest coming from the Department of Defense that we are moving towards funding these operations through the regular annual appropriations act and that the 2008, as I understand, the 2008 request will include funding for military operations next year. But I guess when he tells me also that basically the way they are developing those numbers is to straight-line from what it is in 2007, I wonder a little bit about how useful that information is going to be and how realistic that information is going to be. And I would also, I guess, wonder if their baseline is \$170 billion for the GWOT, I am not sure that is really a good baseline to be projecting from. I am not sure how realistic that is in terms of what the actual costs for those military operations are.

So with that, I will end my comments and again thank the Committee for inviting me to testify today.

[The statement of Steven M. Kosiak follows:]

PREPARED STATEMENT OF STEVEN M. 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 some of the issues surrounding the budgetary aspects of the Global War on Terror (GWOT) and, in particular, the wars in Iraq and Afghanistan. These two wars, and especially the war in Iraq, are currently at the center of US deliberations and debates over national security, almost to the exclusion of any other major issues.

With over 3,000 American service members killed in these conflicts, and some 25,000 wounded, the financial costs of these wars and the mechanism used to fund them are, understandably, of secondary interest and importance to most Americans. That said, with the total amount of GWOT funding provided by Congress over the past seven fiscal years now totaling some \$500 billion, and the Office of Management and Budget (OMB) considering a \$100 billion GWOT supplemental for fiscal year 2007, Congress would be acting irresponsibly if it did not closely examine the budgetary aspects and implications of the GWOT. Thus, I commend this committee on its decision to hold this hearing.

There are a wide variety of different areas one could focus on in considering the budgetary aspects of the GWOT. I have chosen to focus on three essentially process oriented questions, and provide three recommendations for improving that process. I believe that instituting these changes would also lead to substantive improvements in policymaking.

Briefly stated, my recommendations are as follows:

- The wars in Iraq and Afghanistan should be funded through special GWOT accounts attached to the annual defense appropriations act, rather than through supplemental appropriations.
- The costs covered by special GWOT appropriations should be limited, with perhaps a few exceptions, to those directly related to the military operations in Iraq and Afghanistan.
- The Defense Department should provide better and more detailed budget justification material for its estimates of the cost of military operations in Iraq and Afghanistan, and other costs related to the GWOT.

I will spend the remainder of my time explaining and discussing in more detail my reasons for making these recommendations.

1. The wars in Iraq and Afghanistan should be funded through special GWOT accounts attached to the annual defense appropriations act, rather than through supplemental appropriations

Funding required to cover the extra costs associated with conducting military operations in Iraq and Afghanistan should be provided as part of the Defense Department's regular annual appropriations act, rather than through supplemental appropriations. The funding should be included in a separate and distinct title in the annual appropriations act, as has the "bridge" funding, which Congress has, on its own initiative, added to the last three defense appropriations acts.

The United States has been engaged in military operations for more than five years in Afghanistan and nearly four years in Iraq. We are long past the point where these operations should be financed primarily through supplementals, a mechanism intended to pay for unanticipated emergencies.

Historically, after the initial, unanticipated, phase of major wars or other military operations, past administrations have relatively quickly shifted from supplementals to regular annual appropriations. The Truman Administration began to include funding to cover the cost of the Korean War in its regular annual budget request in the first year of that conflict, and by the second year such appropriations accounted for almost 98 percent of the total funding provided for the war. Likewise, the Johnson Administration began including funding to cover the cost of the Vietnam War in its regular annual budget request in January 1966, less than a year after the United States began to deploy combat troops in that country. By 1968, such appropriations accounted for 86 percent of war-related funding. Long-term funding was not, thankfully, an issue in the case of the 1991 Gulf war due to the short duration of that conflict. More recently, by the second year of the military's deployment in Bosnia, the Clinton Administration included funding for that operation in its regular annual budget request.

Certainly, especially in the case of the Korean and Vietnam Wars, it was no easier to project costs for the upcoming year than it is, today, in Iraq and Afghanistan. But the Services made good faith efforts to do so, and generally appear to have succeeded.

Congress in general, and this committee in particular, has made clear, over the past several years, that they recognize the inappropriateness of continuing to rely on supplementals to fund these military operations. Congress has done so, among other things, by including a bridge fund in the annual defense appropriations act that provides a down payment on war-related costs for the coming fiscal year. In addition, the fiscal year 2007 defense authorization act includes language directing the administration to include full funding for the cost of military operations in Iraq and Afghanistan in its fiscal year 2008 budget request. The bipartisan Iraq Study Group has also recommended that war costs be included in the president's annual budget request. Unfortunately, the administration has so far been unwilling to embrace this approach.

Some might argue that it is of little consequence whether funding for the ongoing military operations in Iraq and Afghanistan is provided through regular annual appropriations or supplemental appropriations—that it is the amount of funding required that is important, not the process used to provide it. But, in fact, in this case process does matter, as it often does in budgeting. There are at least two reasons for this.

First, a budget that does not include a reasonable estimate of projected funding requirements for ongoing military operations is an incomplete budget. It is a budget that provides a misleading and overly optimistic picture of overall federal funding requirements and spending for the coming fiscal year. This would be a minor matter if we were spending only hundreds of millions or, at most, several billion dollars each year on military operations, as we were during most of the 1990s. But today, with war-related funding now surpassing \$100 billion a year, this is a major gap.

A sound budgeting process forces policymakers to recognize the true costs of their policy choices. By contrast, the administration's continued reliance on supplementals tends to mask and obscure the cost of ongoing military operations.

Second, reliance on supplemental appropriations diminishes substantially the level of oversight Congress can exercise over war-related funding. Unlike funding requests submitted through the regular annual budget process, which work their way through the House and Senate budget committees, armed services committees and, finally, appropriations committees, requests for supplemental appropriations are submitted directly to the appropriations committees.

Moreover, because supplemental requests are submitted in the middle of the fiscal year, the amount of time available to consider these measures is greatly constrained. In addition, while the substantial expertise resident in the House and Senate Armed Services committees is effectively shut out of the process, members of

Congress and staff on the appropriations committees are forced, year after year, to try to quickly work through extraordinarily large supplemental requests at the same time they are required to consider the administration's budget submission for the coming fiscal year. Taken together, these factors greatly reduce the effectiveness of Congress' oversight, over what is now a major element of the defense budget.

2. The costs covered by special GWOT appropriations should be limited, with perhaps a few exceptions, to those directly related to the military operations in Iraq and Afghanistan

Although funding the ongoing military operations in Iraq and Afghanistan through the Defense Department's regular annual appropriations act, rather than through supplementals, would mark a significant process improvement, an additional process change may also be needed to ensure, or at least encourage, sound budgeting. That change involves, with perhaps a few exceptions, limiting the costs covered in special war related appropriations—whether those measures are supplementals or, preferably, separate and distinct accounts attached to the annual defense appropriations act—to programs and activities directly related to conducting military operations in Iraq and Afghanistan.

When the United States began Operation Enduring Freedom (OEF) in Afghanistan at the end of 2001, the Defense Department leadership coined the term Global War on Terror (GWOT). The GWOT label was attached to the request for supplemental appropriations submitted to Congress at that time to pay for military operations in Afghanistan, as well as Operation Noble Eagle, the Defense Department's homeland security operation.

When the United States invaded Iraq in 2003, the administration decided to subsume this operation within the rubric of the GWOT as well. Thus, beginning in fiscal year 2003, the GWOT supplemental request submitted to Congress included funding for both OEF and Operation Iraqi Freedom (OIF), as well as a relatively small amount of funding for Operation Noble Eagle and some other activities. Beginning with the fiscal year 2005 submission, funding for Operation Noble Eagle was removed from supplemental appropriations process, and funded instead through the regular annual defense appropriations act.

Each of the GWOT supplementals submitted to Congress and enacted over the past few years have also included some amount of funding for programs and activities that are, at best, only indirectly related to the wars in Iraq and Afghanistan. The most obvious example of this is the inclusion of funding for the Army's modularity program in the fiscal year 2005 and 2006 supplemental requests. Whatever the merits of the Army's modularity program, it is an effort that Army officials acknowledge they would be pursuing whether or not the Service was currently engaged in Iraq and Afghanistan. As such, funding for this program should have been requested as part of the regular annual appropriations act—a view that the administration acknowledged to be correct, at least implicitly, when it stated in 2005 that for fiscal year 2007 and beyond funding for the Army's modularity program would be included the regular annual budget submission.

As I will discuss in the last section of this testimony, there is considerable uncertainty concerning how much the wars in Iraq and Afghanistan are actually costing in budgetary terms, and how closely connected some of the programs and activities being funded through the GWOT appropriations are to either of those military operations. Nevertheless, it appears that, to date, the vast majority of costs covered in these measures have been incurred by the US military in their conduct of these operations.

Unfortunately, there is reason to believe that this imperfect, but at least relatively disciplined, approach to generating GWOT supplemental requests is about to disappear. The Defense Department's proposal for fiscal year 2007 GWOT supplemental funding (PBD 711), which was sent to OMB for approval in December of last year, reportedly includes a request for \$100 billion. Coming on top of the \$70 billion bridge fund already provided by Congress as part of the fiscal year 2007 defense appropriations act, a supplemental request of this magnitude would bring total GWOT funding this year to \$170 billion.

By contrast, in its 2006 midsession review, OMB estimated that total funding requirements for the GWOT would amount to about \$110 billion in fiscal year 2007—very close to the \$117 billion provided for the GWOT in fiscal year 2006, and the Congressional Budget Office's (CBO's) most recent (\$119 billion) estimate of GWOT funding requirements this year.¹

¹ CBO, "Additional Information About the Alternative Spending Path for Military Operations in Iraq and Afghanistan and for the War on Terrorism," September 22, 2006, p. 2.

What explains this sudden jump of \$50 billion in projected fiscal year 2007 GWOT funding requirements? The best explanation appears to be that the increase stems, at least primarily, from the Defense Department's decision to expand dramatically the notion of what can and should be funded through GWOT supplementals, rather than through the regular annual defense budget. In October 2006, Deputy Secretary of Defense Gordon England sent the Services new guidance to use in drawing up their respective requests to the Office of the Secretary of Defense (OSD) for 2007 supplemental funding. The most important element of this brief memo was the following instruction:

By this memo, the ground rules for the FY'07 Spring Supplemental are being expanded to include the [Defense] Department's efforts related to the Global War on Terror and not strictly limited to Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF).

With this guidance, the Defense Department essentially opened the floodgates in terms of what the Services could ask to have funded through GWOT supplementals. The administration has, since the invasion of Iraq if not earlier, embraced a very broad notion of what constitutes the GWOT. Although almost all observers would agree that military operations in Afghanistan appropriately fit within the concept of the GWOT, the idea that the US invasion of Iraq and subsequent military operations in that country should be considered part of the GWOT is more controversial. But the administration's concept of the GWOT is much broader than even this construction.

In the administration's eyes, the GWOT or Long War, as it is referred to in the 2006 Quadrennial Defense Review (QDR), represents a broad framework for organizing the US military's strategy, planning, programming and budgeting over the coming decades. It is similar to how the concept of containing the Soviet Union was used to provide such a framework during the second half of the 20th century.

Whether or not such a broad conceptualization is, in general, the most useful way to view the GWOT is debatable. However, whatever the merits of this nomenclature, a serious problem is created when such a broad definition of the GWOT is used and the Services are then told that virtually anything related to the GWOT can be funded through special GWOT appropriations. And this is true whether the special appropriations consist of supplementals or special war-related accounts attached to the regular annual defense appropriations act. In either case, the Defense Department has basically removed any principled distinction between what should be included in special GWOT appropriations and what should be included in the rest of the defense budget.

It is roughly equivalent to telling the Services in 1968, at the height of the Vietnam War, that their requests for Vietnam War funding can include basically anything related to winning the Cold War competition with the Soviet Union. The most serious problem with this approach is that such guidance amounts to, in effect, telling the Services that they no longer need to find room in the regular annual defense budget to cover the full cost of their long-term plans.

The Services already have a perennial problem with developing and presenting long-term readiness, force structure and modernization plans that are actually affordable within projected or likely funding levels. In October 2006, CBO estimated that unless the peacetime defense budget—i.e., the defense budget exclusive of funding for military operations—is increased well above current levels and even the (higher) levels projected for 2011 under the administration's current plan, the gap between available funding and the cost of implementing the Defense Department's long-term plans could average as much as some \$65 billion over the next two decades. Opening up to the Services the option of shifting some of these funding requirements into special appropriations, which heretofore have been limited to covering the cost of military operations, will only further diminish the realism of their long-term planning and budgeting.

Though far from perfect, the Defense Department's long-term planning and budgeting process is a valuable tool that, among other things, attempts to force the senior leadership to make hard decisions about competing programs and priorities. That process has already been stressed to some extent by the impact of more than five years of military operations. It is likely to be far more seriously undermined by the new guidance provided to the Services, which will significantly loosen the (already somewhat tenuous) budgetary discipline imposed on the Defense Department's planning and budgeting process.

Moreover, in the end, the Services will inevitably suffer the most from the weakening of this process. At some point, the wars in Iraq and Afghanistan will wind down. And when that happens, the Services may well find the special GWOT appropriations drying up, and their baseline budgets—after years of relying on these spe-

cial measures to cover a portion of their costs—well below the level of funding needed to actually carry out their long-term plans.

3. *The Defense Department should provide better budget justification material and backup for its estimates of the cost of military operations in Iraq and Afghanistan, and other costs related to the GWOT*

To date, the GWOT funding requests submitted to Congress by the Department of Defense have not generally been supported by justification materials of the caliber—in terms of detail, rigor and overall quality—that normally accompany requests included in the Defense Department’s annual budget submission. During the initial phases of the wars in Afghanistan and Iraq, when these operations (especially the war in Afghanistan) truly represented unanticipated emergencies, it may have been unreasonable to expect the Defense Department and the Services to provide this kind of annual budget-quality backup material. But after more than five years in Afghanistan and nearly four years in Iraq, and GWOT appropriations totaling some \$500 billion, it is difficult to understand, or excuse, the poor quality of some GWOT justification material.

The lack of clarity is perhaps most problematic in the case weapons procurement. As Amy Belasco of the Congressional Research Service (CRS) noted in her analysis of the fiscal year 2006 GWOT supplemental:

Although DoD’s request includes descriptions of individual procurement items, it does not give any rationale or explain whether funding requests for various items reflect battlefield losses, washout rates for worn equipment, equipment provided for state-side units whose equipment remains overseas or additional gear for deployed units. This makes it very difficult to assess whether funding levels are too high, too low or about right.²

The lack of clarity concerning weapons procurement requirements related to the wars in Iraq and Afghanistan makes it especially difficult to judge the reasonableness of Service requests related to “resetting” their forces. Based on existing documentation it is unclear how much of the Services’ reset costs are actually related to the ongoing wars in Iraq and Afghanistan, and to what extent, alternatively, those costs reflect and are driven by existing modernization and transformation plans.

There is also reason to be concerned about the accuracy of the Services cost estimates for reset because, as noted earlier, the Services all face significant mismatches between the cost of executing their long-term readiness, force structure and modernization plans, and the amount of funding projected to be available to pay for those plans. Thus, to the extent possible, they have an incentive to fund items through the special GWOT appropriations, where funding is less constrained and oversight is less substantial.

The Defense Department should also be required to do a better job of making clear how much funding in its GWOT requests is needed to cover the cost of military operations in Iraq versus operations in Afghanistan, and explaining its approach to allocating those costs. Although related in some ways, these are in, in important respects, separate and distinct military operations. Among other things, the ability of Congress and the American people to make sound decisions concerning the affordability and cost-effectiveness these two military operations depends, in part, on their having an accurate understanding of the cost of each of those efforts.

CONCLUSIONS

The United States has already provided \$500 billion in GWOT funding over the past seven fiscal years, with the vast majority of this funding provided to the Department of Defense for military operations in Iraq and Afghanistan. And it is possible, if not likely, that hundreds of billions of dollars in additional funding will be provided over the next several years. We are long past the point when these wars should be funded primarily through supplemental appropriations, which are intended only to cover the cost of unanticipated emergencies.

As such, Congress should insist that the administration include funding to cover the full cost of military operations in Iraq and Afghanistan in its regular annual budget request, beginning with the fiscal year 2008 budget request to be submitted next month. That funding should be provided in separate and distinct accounts attached to the annual defense appropriations act. Congress should also insist that the funding provided in these special GWOT appropriations be limited to costs incurred as a result of ongoing military operations, and not, generally, include funding

²Paul M. Irwin and Larry Nowels, “FY 2006 Supplemental Appropriations: Iraq and Other International Activities; Additional Hurricane Katrina Relief,” Congressional Research Service, June 9, 2006, p. 33.

for programs and activities related to waging the broader war on terror. If funding for such programs is included in the administration's GWOT request, it should either be deleted or transferred into the Defense Department's baseline budget. Finally, Congress should require that the Defense Department provide justification materials for GWOT funding that is of the same quality provided in the justification materials that accompany the regular annual defense budget request.

Chairman SPRATT. We will start on that side with Mr. Doggett.

Mr. DOGGETT. Well, Mr. Kosiak if we could just pick up with that last point, then. Your concern is that they may include all of the figures in the regular Defense Appropriations Bill, but they may not be realistic projections?

Mr. KOSIAK. Well, I guess my concern is two fold. One is I'm not sure the \$170 billion figure really reflects, I mean they have said they are using this expanded definition of GWOT. I do not think that is particularly helpful. I think it would be better, if there is stuff in there that is needed for the long war that could last a decade or more that sounds to me exactly like the kind of stuff that should be being funded in the baseline defense budget, and not in the supplemental. And so that concerns me. And then if they are providing 2008 budget numbers and justification materials I think that is all to the good. But again, it kind of concerns me if all that really is is straight-lining from, you know, in different budget categories from what it was in 2007. I'm not sure that is the best they can do in terms of providing information and a guesstimate as to what we are going to need in 2008.

Mr. DOGGETT. Were you otherwise satisfied with their answer that they would be complying with Section 1008 of the Defense Authorization Act?

Mr. KOSIAK. Well I think the devil is in the details, sort of, to see what they actually come up with and how good the justification materials are. Because it really does depend on, you know, the ability to be able to make good estimates about what future costs are going to be depends not only on having good information as to what they are going to be requesting next year but having good historical information as well, and having good information on, you know, what the op tempo has been in some very kind of concrete ways so places like CBO can do good estimates on what future costs are going to be. And also be able to compare that with what they were getting in the past for those operations, so you can come to some judgment as to whether these are appropriate costs or not.

Mr. DOGGETT. If they do include a joint strike fighter or two, ballistic missiles in this supplemental request, why should we cut them out?

Mr. KOSIAK. Well I think there are two separate issues. One is whether you should be funding the joint strike fighter or ballistic missiles. And another question is, should they be funded in the supplemental? Or should you, I mean one option for Congress, obviously, is to decide to fund these things but to shift the funding into the regular Annual Appropriations Act. So that, that would be one possible way of doing it.

Mr. DOGGETT. Mr. Sunshine, what portion of our discretionary spending are we devoting to defense at present, of total discretionary spending if you include all the supplementals?

Mr. SUNSHINE. More than half. Let's see if I have a—

Mr. DOGGETT. So more than—you can give me the precise figure later. But more than fifty cents on the dollar of every tax dollar that we have any control over here in Congress is going to the Defense Department?

Mr. SUNSHINE. Mm-hmm.

Mr. DOGGETT. You mentioned an inability to get some information that is necessary for the effective review, and timeliness of information. That is the cost model on the war and the war obligation reports, they are not arriving timely at the Congressional Budget Office?

Mr. SUNSHINE. Well, they do not arrive at the Congressional Budget Office. The Congressional Budget Office has to go seek them out. We would like them to arrive at the Congressional Budget Office.

Mr. DOGGETT. They could be distributed at the same time they are distributed to the appropriate offices in the Pentagon?

Mr. SUNSHINE. Yes.

Mr. DOGGETT. And with regard to your testimony about the “other” category in the supplemental. How much did you say, or what percentage did you say that that included a vague “other” category?

Mr. SUNSHINE. In the obligation reports?

Mr. DOGGETT. Yes.

Mr. SUNSHINE. It is about a quarter.

Mr. DOGGETT. What does that, have you been able to make any determination of what that includes?

Mr. SUNSHINE. It is a variety of activities and operations and maintenance, for example, but with no specificity as to what they are.

Mr. DOGGETT. Has that changed over time? Have they become, have you had more in the other category?

Mr. SUNSHINE. I do not know the answer to that.

Mr. DOGGETT. We received some reportedly reassuring comments from the Secretary that in terms of a gross domestic product the military budget is not all that high. Mr. Kosiak, is it not about fifteen percent above the Cold War average?

Mr. KOSIAK. Well, as a share of overall funding levels for defense when you adjust for inflation are very high by historical standards. In terms of gross domestic product it is much lower.

Mr. DOGGETT. But that really does not have much meaning, in terms of this spending does it?

Mr. KOSIAK. I mean, I think you have to separate out in terms of how much are we actually spending on defense, we are spending a lot by historical standards today. In fact, depending on which deflator you are using, we are spending more than we were spending even at the time of the Korean War which was the other high point.

Mr. DOGGETT. Right.

Mr. KOSIAK. But so in terms of cost, we are spending a lot, even adjusting for inflation. In terms of burden on the economy if you use the simple measure of, which may or may not be appropriate, but if you use the simple measure of percentage of GDP that goes to defense spending it is much less than it was during the time of

the Vietnam War or the time of the Korean War when it was, I believe, around ten percent at the time of the Korean War.

Mr. DOGGETT. And a much more modest gross domestic product, and on a military that was about a third of the size. We have one now that is about a third of the size it was in 1990. Thank you.

Mr. KOSIAK. About two-thirds the size.

Chairman SPRATT. Mr. Conaway?

Mr. CONAWAY. Thank you, Mr. Chairman. Steve, you mentioned the War is running the rate of \$200 billion now. And we heard Ms. Jonas say it was like \$9.6 billion a month. Can you reconcile between those two statements?

Mr. KOSIAK. When I said it was approaching \$200 billion, that is just doing the simple math of, you know, Congress provided \$70 billion in GWOT funding for 2007 as part of the Annual Defense Appropriations Act. And then, reportedly the supplemental that is pending at OMB right now from DOD is for \$100 billion. So that brings it up to \$170 billion for 2007.

Mr. CONAWAY. Okay, so there is some conjecture on your part right now about the \$200 billion? Okay.

Mr. KOSIAK. Right, right. And again, part of that appears to be fairly unrelated to actual military operations.

Mr. CONAWAY. Okay. Robert, you commented on the "other" category, the infamous other category that we all hide things in, lack of specificity on what the budget number means. Is there any lack of being able to tie in total what that money actually gets spent for? And then a difference between what they actually spend it for and what the overall umbrella of the budget was? I mean, is there, is this just a problem with the budget request not having the specificity? Or is it actually they are taking it and spending it in places they should not?

Mr. SUNSHINE. I was not referring to the budget request. I was referring to the obligation reports that are produced monthly as to how the money is actually being committed. And so in terms of judging what is being, what it is actually being used for there is this big chunk that it is hard to tell.

Mr. CONAWAY. Okay. How does CBO get at that number, or get at that information? Is that a part of your normal charge to look at that? Or is that GAO is the better entity to go after that?

Mr. SUNSHINE. We do not ordinarily get into that level of detail in terms of agency budgets. The reason that some of this stuff is valuable to us is if we are dealing with requests as we have gotten from this Committee that say, "Under various scenarios of the intensity of the war, what might the government have to spend over the next three, five, ten years?" It is helpful for us to know not only how much we are spending now but what we are spending it on.

Mr. CONAWAY. All right, thank you.

Mr. SUNSHINE. But ordinarily we do not get into that level.

Mr. CONAWAY. Okay, okay. Well, that is fair.

Mr. SUNSHINE. But for all kinds of purposes it is very helpful.

Mr. CONAWAY. Sure, that is fair. Steve, in terms of the overall comment about what we are spending or how much we are spending, any sense from your professional background that this is too much? Too little? Just right?

Mr. KOSIAK. Well, I think it is very difficult to tell because, you know, if you look at the best guesses as to what this war was going to cost going back prior to the War and then early in the War and then later in the War, the costs keep going up and up. I do not think we have a real good sense for sort of what the baseline costs are for carrying out these kinds of military operations right now. And I am not entirely sure why that is. I think part of it is we do not have, I mean Secretary England suggested that we know what the War is costing because we just look at the supplemental and that is what it is costing. I think that is kind of what we are left with and we try to go beyond that with difficulty.

Mr. CONAWAY. But you were responding, I think, to Mr. Doggett's question about total spending, total defense spending which is a very sizable number no doubt about it. In terms of looking at an all in number, from your professional background at your think tank, is that total number way too high? Too little? Just right?

Mr. KOSIAK. Well I would say, I mean again, based on and CBO does infinitely better analysis on this than I have done, although I have tried to do some. But I think if you look at what CBO has estimated in the past going back to the beginning of the war and even at their most recent estimates about what these military operations themselves should be costing in Afghanistan and Iraq, I think the upper level, my sense is on the order of \$120 billion.

Mr. CONAWAY. Okay, my question is broader. I am sorry, I am not asking it very well. Because not only do we have to fight the Global War on Terror, we have got to build deterrents into a huge set of platforms across a broad spectrum of ways to defend this country. The total defense spending, a number off the top of my head is \$450 billion a year, whatever. Is that number too big? Too little? Just right?

Mr. KOSIAK. You know, I am not going to offer an opinion on that.

Mr. CONAWAY. Okay, that is fine.

Mr. KOSIAK. Except to say that—

Mr. CONAWAY. So you are going to offer an opinion?

Mr. KOSIAK. What is that?

Mr. CONAWAY. No, I am just teasing with you, go ahead.

Mr. KOSIAK. Well, I think it is very high by historical standards. On the other hand, there are certain areas, such as in procurement, where I think we clearly do have to spend more to recoup some of the losses and some of the downturn in spending and procurement that we had in the 1990's. On the other hand, I think there are some hard choices that also have to be made in terms of what are the priorities in the Pentagon, what the mission priority, and also what are the programmatic priorities.

Mr. CONAWAY. Sure, that is fair. Thank you. Mr. Chairman, thank you so much.

Chairman SPRATT. Ms. Sutton?

Ms. SUTTON. Thank you, Mr. Chairman. I apologize, I missed a bit of your testimony when I came in. I really am looking for, more than anything, some clarification about some very simple terms. I heard the prior witnesses talking about, you know, and you, talking about the Global War on Terror. I heard one of our previous witnesses talking about the supplementals are, the entire war costs

are in the supplementals. I hear this word, just War, talked about. And I'm just not really sure exactly what all those things mean. The Global War on Terror, what is the definition of the Global War on Terror?

Mr. KOSIAK. I think, I mean I assume DOD has an official—

Ms. SUTTON. Definition?

Mr. KOSIAK. I mean, I think that the reality is the Global War on Terror is Iraq, Afghanistan and then it is other things which we do not really know. I mean, it depends on who, you know, that is where it becomes unclear. And you are right to raise a question because it is an important question. And it is why I think that the supplementals really should be limited to what we do understand relatively well, which are what are the costs being incurred in military operations in Iraq and Afghanistan? They should not go beyond that. Because people have different views and different Defense Department programs are justified in different ways in terms of their role in the Global War on Terror.

Ms. SUTTON. Okay. So if we were talking in the terms that you just said and we defined the supplemental and we constrained the supplemental to the costs for Iraq and Afghanistan, that would be something that we could clearly identify and budget for?

Mr. KOSIAK. I think that is something you could relatively clearly identify and budget for.

Ms. SUTTON. Okay. And what, you know, again I understand this, when you have a category that is called "other," and it is not defined, it is a bit problematic for budgeting as well as accountability purposes and that is sort of what I am hearing here today. Talk to me a little bit more about the long war, and the costs that you are talking about. Because I am assuming those are part of the "other" category.

Mr. KOSIAK. Well I think that we might be getting a couple of "other" categories mixed up.

Ms. SUTTON. Okay, there are several "others."

Mr. KOSIAK. But I think in general, you know as I say, the costs that are directly related to ongoing operations in Iraq and Afghanistan, most of those costs are relatively clear. Things like activating reserve personnel and things like that, and special pay for military personnel, higher op tempo, operations/maintenance costs caused by higher op tempo, things like that. And that does account for a good share of it. Once you get into some of these other areas, procurement, weapons, modernization programs in particular, it starts becoming less clear.

And I do not think there is any, and the Secretary was right earlier that it is complicated to do this. It is not as though it is a simple matter of deciding what is really an incremental cost for military operations and what is not. I mean, there are some pretty tricky areas. I just think that the incentives currently are to, you know, when in doubt put things in the supplementals, basically. Because those are must pass pieces of legislation, they do not have the same levels of oversight and the money seems to flow more freely there than it does in the regular defense budget. One of the points I tried to emphasize in my testimony was I think we really do want DOD to try to make a really good, solid effort at distinguishing costs directly related to war and stuff outside of it, which

may be important to winning the broader Global War on Terror. But to the extent it is important to that, to me if that is the long war, again, that is really exactly the kind of stuff that belongs in the baseline budget because that is a core mission, a long term mission of the U.S. military.

Ms. SUTTON. Have you ever seen a written definition by DOD on what the Global War on Terror includes?

Mr. KOSIAK. I suspect I have because I have read so many documents. But honestly, I could not remember what it is. I think it is a pretty simple definition, so I am not sure I can really give you what you are looking for.

Ms. SUTTON. Okay. I really have no further questions.

Chairman SPRATT. Thank you, Ms. Sutton. Mr. Campbell?

Mr. CAMPBELL. Thank you, Mr. Chairman. Mr. Sunshine, just one question for you. And if I heard these right, I did not write either one down, but I believe that you said you estimated that CBO said that the total cost of the War on Terror, the wars in Iraq and Afghanistan largely, was five hundred and something?

Mr. SUNSHINE. Total appropriations since 2001 have totaled by our estimate about \$503 billion.

Mr. CAMPBELL. The prior witnesses, Under Secretary Jonas detailed out something that was \$372 billion. What is the difference? What is the discrepancy?

Mr. SUNSHINE. Well, about \$40 billion of the \$503 billion was not appropriated to the Department of Defense, so.

Mr. CAMPBELL. Ah ha. It as appropriated to?

Mr. SUNSHINE. To the Executive Office of the President and the State Department, USAID.

Mr. CAMPBELL. Okay. So that is forty, we now need to find another roughly ninety.

Mr. SUNSHINE. But I think the number she was talking about was probably an obligation number. It sounded to me like it was an amount that has been obligated to date, not the amount that has been appropriated to date. Obviously there is some amount of the appropriation that has not yet been obligated. I think that accounts for most of the difference between those numbers.

Mr. CAMPBELL. Okay. For those of us sitting here, what that would mean is your number basically then would be excluding any spring supplemental, the amount we would expect through the end of fiscal year 2007, right?

Mr. SUNSHINE. It will probably take longer than that for all of it to be spent, but—

Mr. CAMPBELL. Okay. Great. Thanks. That's the only question I had. I yield back, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Campbell. Mr. Scott?

Mr. SCOTT. Thank you. Thank you, Mr. Chairman. It just seems to me that trying to figure out what is a war expense and what is not a war expense is going to be problematic anyway. As a troop at home, at war, if he is getting ready to go or if he is coming back, I mean how do you, it is just going to be always awkward. Did the decision to include all of this in the 2008 budget cure most of the problems for the future?

Mr. SUNSHINE. I do not know that it clarifies the issue as to what is for the war and what is not for the war. You still have that question.

Mr. SCOTT. But I mean in terms of budgeting?

Mr. SUNSHINE. Well, I think it gives this Committee a clearer picture, assuming that there is some meaning to that 2008 number, in terms of what you want to do in a budget resolution.

Mr. SCOTT. But do you have any reason to believe that they are going to give you a reasonable five-year budget? Because he was a little evasive after 2008, 2009, it sounded like that there is going to be zero after that which would obviously be unrelated to reality.

Mr. SUNSHINE. That is what it sounded like to me, that they would not have numbers beyond 2008.

Mr. CAMPBELL. Is there any way we can get a handle on whether or not we are conducting the war in an efficient manner? The Persian Gulf War start to finish cost the United States less than \$10 billion, start to finish. We had allies that were contributing a substantial amount. Is this my way or the highway and running up bills for the supplemental is \$170 billion, is there any way we can try to see if there are other ways to conduct this war that might not cost? Or it just, you know, it is what it is?

Mr. KOSIAK. I mean, I guess I do not feel like I am competent to talk to that. I think GAO would probably have some ideas on that. I guess I would say it is, you know, to the extent you can have a solid idea of where the money is actually going and how it relates to levels of activity, numbers of troops and things like that, you are in a better place in terms of trying to figure out how much waste there is in the funding. And we are not there yet. Maybe we will get closer there with the 2008 request.

Mr. CAMPBELL. Steve, can you just say a word about the interest costs?

Mr. KOSIAK. Yeah, I mean obviously we are paying for this war on our national credit card right now so there are significant interest costs. I believe the, I am not sure I can give a good estimate of what the interest costs are. At \$500 billion certainly the ten-year, you know, looking out ten years from now, what the ten-year costs are, certainly interest costs—

Mr. CAMPBELL. The number I saw was about \$40 billion a year. If we keep going the way we are going by 2016 it would be about \$40 billion a year.

Mr. KOSIAK. I think that is about right. I mean, it is in the hundreds of billions of dollars.

Mr. CAMPBELL. Is that about right?

Mr. KOSIAK. Yes.

Mr. SUNSHINE. We did an estimate last year of something along those lines, although it was based on lower costs. That was the number that you were referring to, actually. It was based on lower costs than we are actually incurring so it would probably, under a similar scenario to what we did that one for the cost would probably be at least \$50 billion. Assuming that there were no effect on other spending or taxes as a result.

Mr. CAMPBELL. And assuming we are not paying for it, I guess, which is I guess the other question. Thank you, Mr. Chairman.

Chairman SPRATT. Just a couple of final questions. Both of you emphasized that the supplemental request should come and be a part of the defense budget for that Defense Authorization Act, Defense Appropriations Act, but it should maintain some wall of separation between the two so that you can identify the war costs. And in addition to that, which is something I preach, you can also, when one day we finally disengage we hope, know what the incremental cost was that does not need to be recurring and can be extracted from the budget. How would you structure this to give us the best insight into what was actually being spent on the war? It comes with the Defense Authorization Request, or the Defense Appropriations Bill, but it is not part of it. It is not integrated in it, so you know exactly what the incremental cost is. And then someday when you want to phase out you know exactly, or roughly, how much you need to extract in order to phase out and phase down the war. Do you have any guidelines for how to achieve that?

Mr. SUNSHINE. I think having separate appropriation accounts might be helpful. And I think having as clear as possible definitions as to what we mean by what is for the War, in the sense the short term War, as opposed to long term, ongoing responsibilities of the Department of Defense. I think the Congress might want to clearly identify for its purposes what it would like to see in those two different categories and then set up a budget structure so those two categories are as clear as possible.

Chairman SPRATT. Mr. Kosiak?

Mr. KOSIAK. Yes, I would certainly concur with that. And also I think to the extent that you can, one of the problems now is that once you get beyond the current fiscal year, if you look back, of the upcoming fiscal year, all of the historical data basically goes into all of the traditional appropriations accounts. So it is difficult to look backwards and see how much of the costs are incremental. But I also think that it also goes to the point of the importance of trying to make this distinction between the cost of military operations and other costs related to this Global War on Terror. Because I think a downside for the Defense Department is that once we do get out of Iraq and Afghanistan, the way things currently stand I think there may be a tendency for people to assume that, I mean, that all of these costs, "I guess we do not need any of the money that was in these supplementals because after all that was just for the War and the War is over now." But I think that is not true. I think some of the costs in those is needed for the Defense Department's baseline budget.

Chairman SPRATT. You suggest that it be a separate attachment to the Defense Appropriations Act?

Mr. KOSIAK. Right.

Chairman SPRATT. One of the problems with that is that the Defense Appropriations Act tends to be passed at the very end of the fiscal year, start of the next fiscal year. And the sup might genuinely be needed in the field well before September 30 of that particular year.

Mr. KOSIAK. I think you would still need to have the option of doing supplementals. But if, for example, we were to provide full funding for 2008 this year and it was passed before the beginning of 2008 then that should not be a problem, right? We will clearly

need an 2007 supplemental this year because we did not sort of do it right at the outset. But for 2008 presumably if you finish the bill before the fiscal year starts you will have enough money. And then if later in the year you do need more, it turns out your estimates were not that accurate, you might need another \$5 billion, \$10 billion, something like that, then of course you need to ask for a supplemental. But that would be a much easier task for Congress to manage and oversee effectively than a \$100 billion supplemental.

Mr. SUNSHINE. There might also be not quite as much of a rush to enact it if you are not depending on it so early in the fiscal year. If you have more of the money up front and less in the supplemental then there is less of a rush to enact a supplemental.

Chairman SPRATT. Yeah. Yeah. One final question: do you think it is asking too much, the impossible, to ask for a five-year projection of likely costs based upon some kind of stipulated scenario, or several alternative scenarios?

Mr. SUNSHINE. I think it would be too much to ask to predict what the scenarios would be. I do not think it is too much at all to ask under a variety of scenarios, perhaps a range of different scenarios, what the possible exposure would be.

Chairman SPRATT. Yeah. CBO did it.

Mr. SUNSHINE. We have done that. I am not sure we have done it as well as we would have liked to have done it, but we have done it.

Chairman SPRATT. Is your model a fairly simplified back of the envelope model? Or is there some vast database that is not visible to us as we look at the simple summary of it?

Mr. SUNSHINE. We have a number of factors that we take into account, but the model is based on data that is not current.

Chairman SPRATT. Yeah.

Mr. SUNSHINE. Because we do not have current data for this particular conflict and therefore it is not behaving very well in predicting the costs of this particular conflict.

Chairman SPRATT. Well, you assume the bill down to 55,000 troops in two theaters, Afghanistan and Iraq. How did you pick the number 55,000?

Mr. SUNSHINE. I think that was worked out with your staff, because I—

Chairman SPRATT. Okay. That's what you call a circular chain of reasoning.

Mr. SUNSHINE. In our outlook report that we release next week we decided it was not prudent to pick just one path so we are going to present a couple of different paths, a higher kind of number and a lower kind of number. Because it is so hard to determine what the military situation is going to be, what the strategy is going to be, how long we are going to stay there and do what. So I think trying to predict one path is a pretty dangerous kind of thing to do.

Chairman SPRATT. Well, they have more assumptions built into doing the five-year or future years defense plan than they do, I would think, in the model that you presented for estimating what costs might be over a five-year period of time. So they do that all the time. It is hard for me to believe that there are not some cost

studies in the Pentagon of what the consequences would be of some draw on our forces over a reasonable period of time.

We could go on and on. Thank you for your testimony, your excellent testimony, your patience in coming here, and for the contribution you have made which has been very substantial and is very much appreciated. Thank you.

[Whereupon, at 5:10 p.m., the Committee was adjourned.]

