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THE DEPARTMENT OF DEFENSE AND THE FISCAL YEAR 2013 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 29, 2012

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CONTENTS

	Page
Hearing held in Washington, DC, February 29, 2012	1
Hon. Paul Ryan, Chairman, Committee on the Budget	1
Prepared statement of	3
Questions submitted for the record	64
Hon. Chris Van Hollen, ranking member, Committee on the Budget	3
Prepared statement of	5
Hon. Leon E. Panetta, Secretary, U.S. Department of Defense	7
Prepared statement of	13
Response to questions submitted by:	
Chairman Ryan	65
Mr. Rokita	69
Mr. Honda	72
GEN Martin E. Dempsey, USA, Chairman, Joint Chiefs of Staff	20
Prepared statement of	20
Hon. Allyson Y. Schwartz, a Representative in Congress from the State of Pennsylvania, prepared statement of	64
Hon. Todd Rokita, a Representative in Congress from the State of Indiana, questions submitted for the record	67
Hon. Michael M. Honda, a Representative in Congress from the State of California, questions submitted for the record	71

THE DEPARTMENT OF DEFENSE AND THE FISCAL YEAR 2013 BUDGET

WEDNESDAY, FEBRUARY 29, 2012

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

The committee met, pursuant to call, at 2:00 p.m., in room 210, Cannon House Office Building, Hon. Paul Ryan, [Chairman of the Committee] presiding.

Present: Representatives Ryan, Garrett, Calvert, Cole, Price, McClintock, Chaffetz, Stutzman, Lankford, Black, Ribble, Flores, Mulvaney, Huelskamp, Young, Amash, Rokita, Guinta, Van Hollen, Schwartz, Doggett, Blumenauer, Yarmuth, Pascrell, Honda, Wasserman Schultz, Moore, Castor, Tonko, and Bonamici.

Chairman RYAN. The hearing will come to order. First off, let me just start by welcoming our Secretary of Defense, former Budget Committee chairman, Secretary Panetta. As you see, you see your face here in the Budget Committee room. I do not know the last time, secretary, that you have been in this room, but it is a real pleasure. You have respect on both sides of the aisle here, and we want to just tell you how appreciative we are of your time. We have not had a SecDef here in quite a while, and this is a topic that is so much more budget relevant these days than ever before. We are just so appreciative of you being here.

I want to welcome everybody to today's hearing to examine the president's budget request for the Department of Defense, and to explore how the federal government can meet its highest priority, providing for the common defense and strengthening our national security. As I mentioned, we have Secretary Panetta here who is no stranger to this committee. In addition to his extraordinary background as secretary of defense, the CIA, he has served as chairman of this committee.

We also want to warmly welcome the other two distinguished witnesses here joining Secretary Panetta: General Martin Dempsey, chairman of the Joint Chiefs of Staff. In the 38 years since graduating from West Point, General Dempsey has led troops in combat, served as a combatant commander, and most recently, as the chief of staff of the Army. Thank you for your service, general, and welcome to the committee. We also welcome the Department of Defense's comptroller, the Honorable Robert Hale, who is no stranger, as well, to this committee from his years of service to the Congressional Budget Office. Again, welcome back Secretary Hale.

Relative to last year's request, the president's budget calls for a $487 billion reduction in base defense spending over the next decade. This comes on top of already planned spending reduction for the global war on terrorism. The United States remains a nation at war, and our troops remain engaged in a fierce enemy overseas. It is difficult to square this reality with the president's steep reductions in both troop levels and funding levels. The timing of these cuts raises serious concerns that decisions are being driven by budgetary concerns as opposed to strategic priorities.

Mr. Secretary, I think you have a unique perspective on the tension between meeting our national security requirements and getting spending, deficits, and debt under control. While they have yet to offer a balanced budget, our friends across the aisle have called for a balanced approach. Of course, budgeting is about setting priorities. Such calls assume that all of government's activities are equally important, that the blind proportionality can substitute for a clear-headed analysis of our priorities and responsibilities as policymakers. Like all categories of government spending, defense spending should be executed with efficiency and accountability, yet many fear that arbitrary and deep reductions that the president has proposed in the defense budget would lead to a dramatic reduction in our defense capability. I commend you for your efforts to fund defense priorities within a rapidly shrinking budget. Your predicament, in my opinion, secretary, is due to failures elsewhere in the federal budget.

According to Harvard's Niall Ferguson, a financial historian, the fall of great nations is the result of their excessive debt burdens. In their path to decline, defense spending is always the first casualty.

The failure by the administration to deal honestly with the drivers of debt, specifically when it comes to government spending on health care, is a failure that imperils our economic security and now our national security. With his calls for crushing levels of debt and crowding out of defense by entitlement spending, the president's budget, in my personal opinion, charts a path to decline.

In addition to examining the steep defense reductions in the president's budget, I hope today's hearing informs us of the consequences to our security that would result from a disproportionate cuts to defense spending under the Budget Control Act sequester. Congress has a solemn obligation to ensure our troops fighting overseas have the resources that they need to successfully complete their missions, and to adhere to our commitment to their service upon their return.

Every citizen owes a debt of gratitude to the military families that continue to make untold sacrifices for our security, and for the freedoms that we cherish. We are in deep gratitude. We want to make sure that we honor them with the right kind of priorities, and with the right kind of defense policy. With that, before hearing testimony from Secretary Panetta and General Dempsey, I would like to yield to ranking member Mr. Van Hollen.

[The prepared statement of Chairman Paul Ryan follows:]

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

Welcome all to today's hearing to examine the President's budget request for the Department of Defense, and to explore how the federal government can meet its highest priority: providing for the common defense and strengthening our national security.

I want to begin by welcoming Leon Panetta back to the committee. In addition to his demonstrated experience in national security, Secretary Panetta has an extraordinary background in federal budgeting, including service as Chairman of this committee.

Mr. Secretary, there is a portrait of you in our hearing room and we are always under your watchful gaze as we conduct our work here at the Budget Committee.

We also warmly welcome our other two distinguished witnesses joining Secretary Panetta.

General Martin Dempsey, the Chairman of the Joint Chiefs of Staff. In the 38 years since graduating from West Point, Gen. Dempsey has led troops in combat, served as a combatant commander, and most recently served as the Chief of Staff of the Army. Thank you for your service, General.

We also welcome the Defense Department's Comptroller, the Honorable Robert Hale—who is no stranger to this committee from his years of service at the Congressional Budget Office. Welcome Secretary Hale.

Relative to last year's request, the President's budget calls for a $487 billion reduction in base defense spending over the next decade. This comes on top of already planned spending reductions for the Global War of Terrorism.

The United States remains a nation at war, and our troops remain engaged against a fierce enemy overseas.

It is difficult to square this reality with the President's steep reductions in both troop levels and funding levels. The timing of these cuts raises serious concerns that decisions are being driven by budgetary concerns as opposed to strategic priorities.

Mr. Secretary, I think you have a unique perspective on the tension between meeting our national security requirements and getting spending, deficits, and debt under control.

While they've yet to offer a balanced budget, our friends across the aisle often call for a "balanced approach." Of course, budgeting is about setting priorities. Such calls assume that all of government's activities are equally important, and that blind proportionality can substitute for a clear-headed analysis of our priorities and responsibilities as policymakers.

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According to Harvard's Niall Ferguson, a financial historian, the fall of great nations is the result of their excessive debt burdens. In their paths to decline, defense spending is always the first casualty.

The failure by the Administration to deal honestly with the drivers of the debt—specifically when it comes to government spending on health care—is a failure that imperils our economic security and our national security.

With its call for crushing levels of debt and the crowding out of defense by entitlement spending, the President's budget—in my opinion—charts a path to decline.

In addition to examining the steep defense reductions in the President's budget, I hope today's hearing informs us of the consequences to our security that would result from the disproportionate cuts to defense spending under the Budget Control Act's sequester.

Congress has a solemn obligation to ensure our troops fighting overseas have the resources they need to successfully complete their missions, and to adhere to our commitment to their service upon their return.

Every citizen owes a debt of gratitude to the military families that continue to make untold sacrifices for our security and the freedoms we cherish.

With that, before hearing testimony from Secretary Panetta and General Dempsey, I yield to Ranking Member Van Hollen.

Thank you.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I want to join Chairman Ryan in welcoming you back, Mr. Secretary, to the Budget Committee. Welcome, General Dempsey. Welcome, Under-

secretary Hale. I thank all of you for your dedicated service to the United States of America. Please extend our thanks and appreciation to the men and women who serve in our military. Our country is secure and free because of the sacrifices they and their families make every day.

The president, the Department of Defense, our armed services, armed forces, along with the State Department, intelligence community, and law enforcement deserve a great deal of credit for the important work they have done over these last many years. We have successfully redeployed our troops from Iraq, captured or killed countless terrorists actively planning attacks, and greatly diminished al Qaeda's capabilities. We forged a coalition that successfully helped the people of Libya end dictator's Muammar Gaddafi's brutal 40-year reign, that included the Lockerbie bombings that killed innocent Americans, and of course we eliminated the mastermind of 9/11, Osama bin Laden. These successes have helped strengthen our national security.

We must continue to support a strong military that is second to none, and as President Obama has made clear, and I quote:

"The size and the structure of our military and defense budgets have to be driven by a strategy, not the other way around, but during this difficult fiscal period we have to be much smarter and more efficient in how we shape our defense budget. The strength of our military depends, in large part, on the strength of our economy, and the long-term strength of our economy depends, in large part, on putting together a plan to reduce our long-term deficits and debt in a credible and predictable way."

Last year, the former chairman of the Joint Chiefs of Staffs, Admiral Mike Mullen warned policymakers of this growing risk. As people here know, he said, and I quote, "Our national debt is our biggest national security threat." Everybody must do their part. From 2001 to 2010 the base Pentagon budget, separate from the war effort, nearly doubled. In 2010, the United States spent more on defense than the next 17 countries combined, and more than half of the amount spent by those 17 countries was from seven NATO countries and four other close allies: Japan, South Korea, Australia, and Israel.

Last year, Admiral Mullen argued that the flush defense budget had allowed the Pentagon to avoid making difficult choices. He said, and I quote, "With the increasing defense budget, which is almost double, it has not forced us to make the hard trades. It has not forced us to prioritize. It has not forced us to do the analysis," end quote.

We can no longer afford to have taxpayer resources spent without doing the analysis, without ensuring that every dollar is spent efficiently and effectively invested. We can no longer go along with business as usual if we are going to get our fiscal house in order. There is now wide bipartisan consensus that all spending, including spending at the Pentagon, must be on the table, as we figure out how to get our finances back on track. Even this committee, where agreement is sometimes difficult to come by, voted last year on amendment to the budget that emphasized that defense spending should be considered as we strive the bring the deficit under control; and last August, as our colleagues know, the Congress

codified that consensus by passing the Budget Control Act which capped discretionary spending, including security spending.

Today, we find ourselves in a hard position. We are facing the prospect of an across-the-board $1.2 trillion sequester beginning January 2, 2013. If we do nothing, the Defense Department will be cut by another $500 billion over the next nine years in addition to the cuts on the caps. No one believes that an across-the-board reduction is the preferred way to get our finances in order. However, any effort to turn off and replace the sequester must be done responsibly by reaching agreement on a deficit reduction plan that is balanced and lays a strong foundation for our security.

We have time, the president's 2013 budget, provides an alternative. I hope that will become part of the discussion I hear in the House. The president's plan responsibly replaces the sequester with even greater deficit reduction through a balanced plan that calls for shared responsibility. It makes key investments in our long-term economic growth. It puts a priority on protecting key investments in defense, rather than protecting tax loopholes for special interests, and tax breaks for the very wealthy. The defense budget is built on a forward looking strategy developed by our top civilian and military leadership. It maintains our unparalleled military strength, as General Dempsey has said. It is a military with which we can win any conflict, anywhere.

Some have criticized the cuts in the defense budget as being too deep. I think it bears reminding that under the president's budget, the spending levels remain high by historical standards. We will still spend more in 2013 in real terms for defense, than during the peak years of the Korean War, the Vietnam War, and the Cold War. Even if you exclude war funding, average annual defense expenditures under the president's 10 year budget will still be higher in real terms than the average annual expenditures during the Korean War, the Vietnam War, and the Cold War period under President Ronald Reagan.

In addition, the reductions in the president's defense spending are only half of the amounts recommended by the bipartisan Simpson-Bowles commission. Secretary Panetta, when you were sworn in as secretary of defense, you said that a choice between fiscal discipline and a strong national defense is a false choice. I agree, and I am confident we can work together to get our fiscal house in order and ensure that we have the strongest military in the world. Thank you all, and I look forward to your testimony.

[The prepared statement of Chris Van Hollen follows:]

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

Thank you Mr. Chairman. Welcome back to the Budget Committee, Secretary Panetta. Welcome General Dempsey and Under Secretary Hale. Thank you all for your dedicated service to our country.

Please extend our thanks and appreciation to the men and women who serve in our military. Our country is secure and free because of the sacrifices they and their families make.

The President, the Department of Defense, and our Armed Forces, along with the State Department, intelligence community, and law enforcement, deserve a great deal of credit for the important work they have done over these last few years. We have successfully redeployed our troops from Iraq, captured or killed countless terrorists actively planning attacks, and greatly diminished Al Qaeda's capabilities. We forged a coalition that successfully helped the people of Libya end dictator Muam-

mar Gaddafi's brutal 40-year reign that included the Lockerbie bombing that killed innocent Americans. And, of course, we eliminated the mastermind of 9/11—Osama bin Laden. These successes have helped strengthen our national security.

We must continue to support a strong military that is second to none, and, as President Obama has made clear, 'the size and the structure of our military and defense budgets have to be driven by a strategy, not the other way around.' But during this difficult fiscal period we have to be much smarter and more efficient in how we shape our defense budget. The strength of our military depends in large part on the strength of our economy, and the long-term strength of our economy depends on implementing a plan to reduce our long-term deficits and debt in a predictable, credible way. Last year, the then-Chairman of the Joint Chiefs of Staff, Admiral Mike Mullen, warned policy makers of this growing risk. He said, 'Our national debt is our biggest national security threat.'

Everyone must do their part. From 2001 to 2010, the 'base' Pentagon budget nearly doubled. In 2010, the U.S. spent more on defense than the next 17 countries combined, and more than half of the amount spent by those 17 countries was from seven NATO countries and four other close allies—Japan, South Korea, Australia, and Israel. Last year, Admiral Mullen argued that the flush defense budget had allowed the Pentagon to avoid making difficult choices. He said, '* * * with the increasing defense budget, which is almost double, it hasn't forced us to make the hard trades. It hasn't forced us to prioritize. It hasn't forced us to do the analysis.'

We can no longer afford to spend taxpayer resources without doing the analysis; without ensuring every dollar is efficiently and effectively invested. We can no longer go along with business as usual if we are going to get our fiscal house in order.

There is now wide bipartisan consensus that all spending, including spending at the Pentagon, must be on the table as we figure out how to get our finances back on track. Even in this committee, where agreement is often hard to come by, a majority of our members voted in favor of an amendment last spring to include language in the 2012 budget resolution emphasizing that defense spending should be considered as we strive to bring the deficit under control. And last August, the Congress codified that consensus by passing the Budget Control Act (BCA), which capped discretionary spending, including security spending. These BCA caps would, in essence, encourage 'making the hard trades' across the government, including the Pentagon.

Today, however, we find ourselves in a difficult position. We are facing the prospect of an across-the-board $1.2 trillion sequester beginning January 2, 2013. If we do nothing, the defense budget will be cut another $500 billion over the next nine years in addition to the cuts already made through the BCA discretionary caps. No one believes an across-the-board reduction is the preferred way to get our finances in order or to take care of priorities. However, any efforts to turn off and replace the sequester must be done responsibly, by reaching agreement on a deficit reduction plan that is balanced and that lays a strong foundation for our security.

We still have time. The President's budget for 2013 provides an alternative to consider, and I hope it facilitates negotiations in the Congress. The President's plan responsibly replaces the sequester with even greater deficit reduction through a balanced plan that calls for shared responsibility. It reduces our deficits to manageable levels over time as the economy rebounds in the near-term. It makes key investments in education, infrastructure, and science and innovations to strengthen our economy over the longer-term. It puts a priority on protecting key investments in defense rather than protecting tax loopholes for special interests and tax breaks for the very wealthy. The defense budget is built on a forward-looking strategy developed by our top civilian and military leadership. It maintains our unparalleled military strength. As you have said, General Dempsey, this budget does not lead to a military in decline. It maintains a military that, as you have said, 'can win any conflict, anywhere.'

Some have criticized the cuts in the defense budget as being too deep. I think it bears reminding that under the President's budget, defense spending levels will remain high by historical standards. We will still spend more in 2013 in real terms for defense than during the peak years of the Korean War, the Vietnam War, and the Cold War. Even if you exclude war funding, average annual defense expenditures over the President's 10-year budget will still be higher in real terms than the average annual expenditures during the Korean War, the Vietnam War, and the Cold War period under President Ronald Reagan. In addition, the reductions in defense spending in the President's budget are only half of the amount of cuts recommended by the bipartisan Simpson-Bowles Commission.

Secretary Panetta, when you were sworn in as Secretary of Defense, you said that a choice between fiscal discipline and a strong national defense is a false choice. I

agree and I am confident we can work together to get our fiscal house in order and ensure that we continue to have the strongest military in the world.

Again, I thank you for coming and I look forward to hearing your testimony.

Chairman RYAN. Thank you Mr. Van Hollen. Let's start with you, Secretary Panetta, and then we will go to you General Dempsey.

STATEMENTS OF LEON E. PANETTA, SECRETARY, U.S. DEPARTMENT OF DEFENSE; AND GENERAL MARTIN E. DEMPSEY, CHAIRMAN, JOINT CHIEFS OF STAFF; ACCOMPANIED BY ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND CHIEF FINANCIAL OFFICER

STATEMENT OF LEON E. PANETTA

Secretary PANETTA. Chairman Ryan, Congressman Van Hollen, and members of the Budget Committee, it is a real honor and pleasure to be able to have this opportunity to appear before you; this is home. I spent 16 years in the Congress and a good chunk of those years in the Budget Committee. So this is a place where we fought through a lot of the same battles that you are fighting through right now in the 1980s and 1990s.

As a former chairman of the House Budget Committee and former OMB director, I have a deep appreciation for the very important role that is played by this committee in trying to achieve fiscal discipline, and helping set the federal government's overall spending priorities.

As you know, I had the honor of working on most of the budget summits and proposals during the 1980s and 1990s with both Republican and Democratic presidents: President Reagan, President Bush, and President Clinton; and the work of all of those efforts ultimately produced a balanced federal budget. Believe me, I know firsthand what a tough and critical job you have in this committee, particularly given the size of the deficits that you are working with that unfortunately face our country again.

It is no surprise that there is a vigorous debate here in Washington about what steps should be taken to confront these challenges. We went through many of the same debates in the 1980s and 1990s. Thankfully, the leadership of both parties were willing to make some very difficult decisions that had to be made in order to reduce the deficit.

Today, you face the same difficult choices, and while I know there are differences, the leaders of both the legislative and executive branches of government have a duty to protect our national and our fiscal security. I know that as elected members of Congress, particularly the members of this committee, you take this duty seriously, as I do as secretary of defense. I do not believe, as I have been quoted, I do not believe that we have to choose between fiscal discipline and national security. I believe we can maintain the strongest military in the world, and be part of a comprehensive solution to deficit reduction. The defense budget that we have presented to Congress and the nation, seeks to achieve those goals.

The Fiscal year 2013 budget request for the Department of Defense was the product of a very intensive strategy review conducted by senior military and civilian leaders of the department with the

advice and guidance of the National Security Council of the president. The reasons for this review are pretty clear.

First of all, we are at a strategic turning point after a decade of war, and we have been through a decade of war, and at the same time, during that decade, there was substantial growth in defense budgets. Second, Congress did pass the Budget Control Act of 2011, which did impose some spending limits that impacted on the defense budget to the tune of $487 billion over the next decade. We decided that the fiscal situation that we were confronting presented us, at the Defense Department, with an opportunity to establish a new defense strategy for the future. We developed strategic guidance before any budget decisions were made because we wanted those budget decisions to be based on strategy, not the other way around. We agreed that we are at a key inflection point. The military mission in Iraq has ended, we still have a very tough fight on our hands in Afghanistan, but 2011 did mark significant progress in reducing violence and in transitioning to an Afghan-led responsibility for security, and we and our NATO allies have committed to continue that transition through the end of 2014.

Last year, successful NATO operations did lead to the fall of Gaddafi, and as pointed out, targeted counter-terrorism efforts have significantly weakened al Qaeda and decimated its leadership, but even though we have had those successes, unlike past drawdowns, and let me stress that, unlike past drawdowns, and I have been through most of those in recent history, where the threats that we confronted receded. The problem today is we still face a very serious array of security challenges. We are still at war in Afghanistan. We confront terrorism, even though we have reduced the threat in the Fatah, terrorism exists in Somalia, in Yemen, in North Africa, and elsewhere, and make no mistake, they still threaten to attack this country.

We faced a proliferation of weapons of mass destruction. We continue to face threats from Iran and North Korea that destabilize the world. We have turmoil in the Middle East; any one of those situations could explode on us in terms of conflict. We have rising powers in Asia that continue to challenge international rules and international stability, and growing concerns about cyber intrusions, and cyber attacks. We must meet these challenges, and at the same time, meet our responsibility to fiscal discipline. This is not an easy task. Further, we did not want to make the mistakes of the past.

Every time these drawdowns have occurred in the past, what has happened is we have hollowed out the force. Our decision was we want to maintain the strongest military in the world, not to hollow out the force by just simply cutting across the board and weakening every element in defense. I required that we take a balanced approach to budget cuts and put everything on the table that we have at the Defense Department, and most importantly, to not break faith with the troops and their families, those that have deployed time and time again to the war zone.

The president's budget requests $525.4 billion in fiscal year 2013 for the base budget, and $88.5 billion to support the war efforts. In order to be consistent with Title I of the Budget Control Act, our fiscal year 2013 base budget request had to be roughly $45 billion

less than we had anticipated under last year's budget plan. Over the next five years, defense spending will be $259 billion less than planned for in the fiscal 2012 budget, a difference of nearly 9 percent; and over 10 years, starting in fiscal year 2012, it will be reduced by $487 billion.

To meet these new budget targets and our national security responsibilities, we had to fundamentally reshape our defense spending priorities based on a new strategy. The Department of Defense has stepped up to the plate. We have met our responsibilities under the Budget Control Act. With these record deficits, no budget can be balanced on the back of defense spending alone. Based on my own budget experience, I strongly believe that all areas of the federal budget must be put on the table, not just discretionary alone, but mandatory spending, and, yes, revenues. That is the responsible way to reduce deficits, and the responsible way to avoid the sequester provisions contained in Title III of the Budget Control Act.

The sequester Meade Acts would cut another roughly $500 billion from defense over the next nine years. These cuts would truly hollow out the force and inflict severe damage on our national defense. The president's fiscal year 2013 budget does put forward a proposal to try to avert sequestration and would reduce the deficit by $4.3 trillion over the next decade; and I recognize that people agree or disagree with those proposals. What I strongly urge is that working with those proposals, come up with a large, balanced package of savings that have to be achieved that could de-trigger sequestration, reduce the deficit, and maintain the strongest national defense in the world. The $487 billion in 10 year savings that we have proposed come from four areas in the defense budget: Efficiencies, trying to improve the way the defense department operates, make it more efficient; force structure reductions, this comes out of manpower; procurement adjustments, procurement reforms, dealing with modernization, weaponization; and compensation, a difficult area to confront, but an area that has grown in the defense budget by almost 90 percent. Let me walk through each of these areas.

First of all, with regard to efficiencies, Secretary Gates had proposed about $150 billion in efficiencies in the fiscal year 2012 budget, and we are in the process of implementing those efficiencies, but we made the decision that we could add another $60 billion on top of that, primarily from the following: streamlining support functions, consolidating IT enterprises, re-phasing military construction programs, consolidating inventories, and reducing service support contractors. As we reduce force structure, we have a responsibility to provide the most cost-efficient support for the force. For that reason, the president will request the Congress to authorize the base realignment and closure process for 2013 and 2015. As someone who went through BRAC, and I did in spades, Fort Ord Reservation was closed in my district, it represented about 25 percent of my local economy; so I know what it means to go through that process; yet, as difficult as it is, it still remains the only effective way to achieve infrastructure savings in the long run.

Achieving audit readiness is another key initiative that will help the department to try to apply greater discipline in the use of de-

fense dollars. We do not have department-wide audit ability at the present time, and that is a shame. For that reason, I have directed the department to achieve audit readiness by the end of calendar year 2014, so that we can speed up the process of being able to face the American taxpayers and tell them exactly how their funds are being used, but efficiencies are not enough to achieve the necessary savings. Budget reductions of this magnitude require significant adjustments to force structure, to procurement investments, and to compensation. Those choices reflected the strategic guidance and vision that we worked on, and were the basis for the decisions that followed.

Let me just summarize those if I can, and let me also make clear that this strategy has the full support of all of the service chiefs, the service secretaries, all the undersecretaries. The Defense Department is unified in the presentation of the budget strategies that I am about to summarize.

One, we know that the force of the future will be smaller and leaner, that is a reality by virtue of the drawdowns that we are engaged in, but we have made the decision that that force must be agile, it must be flexible, it must be ready to be deployed, and it must be technologically advanced. We knew that coming out of the wars, that there would be a drawdown, but we also knew that the force we wanted had to be truly agile and mobile. In addition to that, the force structure that we had, we wanted to be able to afford to properly train and equip. The very definition of hollowing out the force is to maintain a larger force structure and then cut training and equipment and weaken that force, and that is something we did not want to do. We are implementing force structure reductions consistent with that strategic guidance for a savings of about $50 billion over the next five years. The adjustments include, and you have read these, we are resizing the active Army, we are going from about 562,000 as a result of the ramp up after 9/11. We are going to about 490,000 soldiers by 2017. We will transition down in a gradual way, and we will reach a level that is still higher above the level we had prior to 9/11.

We will gradually resize the active Marine Corps to about 182,000 from roughly 202,000. We will reduce and streamline the Air Force's airlift fleet. In addition, the Air Force will eliminate seven tactical air squadrons, but we will still retain a robust force of 54 combat coded fighter squadrons, and maintain our capabilities on airlift as well. The Navy, while it will protect its highest priority and most flexible ships, will retire seven lower priority naval cruisers that have not been upgraded with ballistic missile defense capability.

Secondly, we felt we had to rebalance our global posture, and focus on those areas that represent the greatest threats to our national security, so we will emphasize Asia-Pacific and the Middle East. The strategic guidance made clear that we must protect capabilities needed to project power in Asia-Pacific and the Middle East. These are the areas where, as you know just by picking up the newspaper, these are the places that can represent the greatest threats to our security. For that reason, we maintain the current bomber fleet, we maintain our aircraft carrier fleet at a long-term level of 11 ships and 10 air wings. We maintain the big deck am-

phibious fleet, we enhance our Army and Marine Corps force structure presence in the Pacific, and we also maintain a strong presence in the Middle East.

Third, where elsewhere in the world, and we have responsibilities elsewhere, we cannot ignore Europe or Latin America or Africa. What we have recommended is that we build innovative partnerships and strengthen key alliances and partnerships in those areas. The strategy makes clear that even though Asia-Pacific and the Middle East represent areas of growing strategic priority, the United States will strengthen its key alliances with NATO, and the other alliances that we have in the Pacific. We will build better partnerships, and one of the recommendations is to develop innovative ways, such as rotational deployments using the Marines, using the Army, and using special forces to sustain U.S. presence elsewhere in the world.

Fourthly, we need to ensure that we can confront and defeat aggression from any adversary, anytime, anywhere. We have to have the capability to defeat more than one enemy at a time. This is the 21st century, and our adversaries will come at us using 21st century technology, and for that reason we have to be able to respond with 21st century technology. So we must invest in space, in cyberspace, in long-range precision strikes, and in special operations forces to ensure that we can still confront and defeat multiple adversaries, even with the force structure reductions that I outlined earlier.

Even with some adjustments to the force structure, this budget sustains a military that is the strongest in the world. We will have in the Army 18 divisions and 65 brigade combat teams. In the Navy we will maintain 285 ships, with the Marines we will have 31 infantry battalions and 10 artillery battalions, and in the Air Force we will maintain 54 combat squadrons, as well as 275 strategic airlifters. We will have, without mistake, the strongest military in the world, even after we have made these reductions.

The last point I would make is that this cannot just be about cuts, it also has to be about investments and so we have targeted our investments. In developing that technological leap that we have to have if we are going to be able to get ahead of the rest of the world, we are investing in science and technology and basic research and special operations forces, in unmanned air systems, and in cyber. At the same time, we recognize the need to prioritize and distinguish urgent modernization needs from those that can be delayed, particularly in light of the cost problems we confront. We have identified $75 billion in savings over five years that result from canceled or restructured programs. $15.1 billion from restructuring the joint strike fighter program, $13.1 billion by stretching investment in the procurement of ships, $2.5 billion from terminating an expensive version of the global hawk. All of these are important steps to try to modernize the force, but do it in a cost-effective way. An additional key to this strategy is making sure that we maintain a strong reserve and a strong National Guard. That has been one of the basic support systems for the last 10 years of war. We have relied on the National Guard, we relied on the reserve, and those of you that have been to the battle zone know that these individuals are fighting alongside the active duty. They are getting

tremendous experience, they are making tremendous sacrifices, but they are an experienced and effective force. We need to maintain that for the future.

And also we need to maintain a strong and flexible industrial base. If we start losing that industrial base, and it impacts on our ship-building capability, on our tank construction capability, on our plane development, if we lose those crafts, if we lose those skills, we will damage our national defense. We have to try to maintain that industrial base at the same time.

Finally, with compensation, the most fundamental element of our strategy and our decision-making process is our people. They, far more than any weapon system or technology, are the great strength of the United States. We are determined to sustain basic benefits that flow to the troops and to their families and to wounded veterans, and yet, at the same time, we had to look at the compensation area because it has grown by 90 percent since 2001, and we have to implement cost constraints in the future in this area. For that reason, we have approached in a way that we think is fair, transparent, and consistent with our commitments to our people.

On military pay there will be no pay cuts, and we are going to provide pay raises these next two years, but then limit those pay raises in the out years. On TRICARE costs for health care, we have recommended increased fees; we have not increased those fee levels since 1990.

We have looked at retirement commission to look at the retirement area, with the proviso that we grandfather those benefits so that those that are serving will not lose the benefits that were promised to them, but at the same time, try to look at what reforms can be made on retirement for the future.

That is the package that we have presented, this has not been easy, this is a tough and challenging responsibility, but we need your support. As someone who comes from the legislative branch and has served in this Congress, has served in this room, and in the Congress, I believe in the partnership between the executive and legislative branches when it comes to making these kinds of decisions, so we need your partnership to try and implement this strategy.

Please make no mistake, there is no way I can reduce the defense budget by a half a trillion dollars and not have it impact on all 50 states, and also, not have it increase risks. We think they are acceptable risks, but nevertheless, there are risks. We have a smaller force, we will depend a lot more on mobilization, we will have to depend on our ability to develop new technologies for the future, we have troops that are coming home, we have to provide them jobs, we have to provide them education and support, so that they do not wind up on unemployment rolls. There is very little margin for error in what we have proposed. You have mandated, and the Congress has mandated on a bipartisan basis that we reduce this budget by $487 billion. In many ways, this will be a test. As you know better than I, everybody talks a good game about deficit reduction, but this is not about talk, this is about action, and doing what is right for this country.

Mr. Chairman and members of the committee, as a former member and a former chairman of the budget committee, this com-

mittee cannot cease to being a conscience of the Congress and the country when it comes to fiscal responsibility and doing what is right for this nation. I look forward to working with you closely in the months ahead to try to develop what this country expects of their leaders, to be fiscally responsible in developing a force for the future, a force that can defend this country, that can support our men and women in uniform, and most importantly, be the strongest military in the world. Thank you.

[The prepared statement of Leon E. Panetta follows:]

PREPARED STATEMENT OF HON. LEON E. PANETTA, SECRETARY, U.S. DEPARTMENT OF DEFENSE

Mr. Chairman, members of the committee. Thank you for the opportunity to appear before you to discuss the President's budget request for Fiscal Year 2013 (FY13) for the Department of Defense.

As a former Chairman of this committee and Director of the Office of Management and Budget, I have a deep appreciation for the important role you play in helping set the federal government's overall spending priorities. It is a tough job, but it is a critical responsibility, particularly given the significant challenges we are facing as a country. Our economy is still recovering from an historic recession. We are grappling with very large debt and deficits that over the long-term threaten our nation's fiscal solvency. Meanwhile, we remain a nation at war, and we are confronting a complex range of security challenges that threaten global stability and our homeland.

I recognize that there are vigorous debates in Washington about the proper role of government in confronting these challenges. But if there is consensus on one thing, it is that one of the fundamental duties of the federal government is to protect our national security. This is a responsibility for both political parties, and all branches of government. And I know that as members of Congress you take this duty as seriously as I do as Secretary of Defense.

In order to protect our national security, I believe that we must maintain the strongest military in the world, and I am committed to sustaining our military strength as Secretary of Defense. But that is not enough. Our national security also depends on strong diplomacy, it also requires strong intelligence efforts. Above all, protecting the nation requires a strong economy, fiscal discipline and effective government.

As someone with a lifetime of experience developing and implementing budgets, I do not believe that we must choose between fiscal discipline and national security. I believe we can maintain the strongest military in the world, and be part of a comprehensive solution to deficit reduction.

DEFENSE STRATEGY REVIEW

We were able to achieve that balance because the FY13 budget request for the Department of Defense was the product of an intensive strategy review conducted by the senior military and civilian leaders of the Department under the advice and guidance of President Obama. The reasons for this review are clear: first, the United States is at a strategic turning point after a decade of war and substantial growth in defense budgets. Second, given the size of our debt and deficits, Congress passed the Budget Control Act of 2011, imposing limits that led to a reduction in the defense base budget of $487 billion over the next decade.

We at the Department decided that the fiscal situation presented us with the opportunity to establish a new strategy for the force of the future, and that strategy has guided us in making the decisions contained in the President's budget. These decisions reflect the fact that we are at an important turning point that would have required us to make a strategic shift under any circumstances. The U.S. military's mission in Iraq has ended. We still have a tough fight on our hands in Afghanistan, but 2011 marked significant progress in reducing violence and transitioning to Afghan-led responsibility for security—and we are on track to complete that transition by the end of 2014, in accordance with our Lisbon commitments. Last year, the NATO effort in Libya also concluded with the fall of Qadhafi. And successful counterterrorism efforts have significantly weakened al-Qaeda and decimated its leadership.

But despite what we have been able to achieve, unlike past drawdowns when threats have receded, the United States still faces a complex array of security challenges across the globe: We are still a nation at war in Afghanistan; we still face

threats from terrorism; there is dangerous proliferation of lethal weapons and materials; the behavior of Iran and North Korea threaten global stability; there is continuing turmoil and unrest in the Middle East; rising powers in Asia are testing international relationships; and there are growing concerns about cyber intrusions and attacks. Our job is to meet these challenges and at the same time, meet our responsibility to fiscal discipline. This is not an easy task, but is one that I believe is within our grasp if we all do our part for the American people.

To build the force we need for the future, we developed new strategic guidance that consists of five key elements:

• First, the military will be smaller and leaner, but it will be agile, flexible, ready and technologically advanced.

• Second, we will rebalance our global posture and presence to emphasize Asia-Pacific and the Middle East.

• Third, we will build innovative partnerships and strengthen key alliances and partnerships elsewhere in the world.

• Fourth, we will ensure that we can quickly confront and defeat aggression from any adversary—anytime, anywhere.

• Fifth, we will protect and prioritize key investments in technology and new capabilities, as well as our capacity to grow, adapt and mobilize as needed.

STRATEGY TO FY13 BUDGET

We developed this new strategic guidance before any final budget decisions were made to ensure that the budget choices reflected the new defense strategy.

While shaping this strategy, we did not want to repeat the mistakes of the past. Our goals were: to maintain the strongest military in the world, to not "hollow out" the force, to take a balanced approach to budget cuts, to put everything on the table, and to not break faith with troops and their families. Throughout the review we also made sure this was an inclusive process. General Dempsey and I worked closely with the leadership of the Services and Combatant Commanders, and consulted regularly with members of Congress.

As a result of these efforts, the Department is strongly united behind the President's budget request for fiscal 2013, and the Future Years Defense Plan.

DEFENSE TOPLINE

The President's budget requests $525.4 billion in FY13 for the base budget of the Department of Defense and $88.5 billion to support the war efforts. In order to be consistent with Title I of the Budget Control Act, our FY13 base budget request had to be roughly $45 billion less than we had anticipated it would be under last year's budget plan. Over the next five years, defense spending under the FY13 budget will be $259 billion less than we had planned for in the FY12 budget—a difference of nearly nine percent. Over the ten years starting in FY12, it will be reduced by $487 billion. This represents a significant change to our defense spending plans, and in order to meet these new budget targets and our national security responsibilities, we had to fundamentally reshape our defense spending priorities, based on our new defense strategy.

Whereas under last year's budget we had planned for several years of modest real growth in the defense base budget, the $525.4 billion base budget request for FY13 represents a decline of more than two percent over last year's enacted level in real dollar terms.

At the same time, we expect total defense spending, which includes war-related costs, to be reduced significantly over the next five years. Given the drawdown in Iraq and the ongoing transition in Afghanistan, funding requests for overseas contingency operations have already begun to decrease sharply. After adjustment for inflation, we expect total defense spending to be down by more than 20 percent, mostly because of the drop in war costs. This decline is roughly consistent with the size of the drawdowns after Vietnam and the Cold War—although we are determined to implement these reductions in a manner that avoids a hollow force and other mistakes of the past.

While the defense base budget will not be significantly reduced over the next five years—in fact, it will remain above 2008 levels after adjusting for inflation—the Department has historically required modest real growth in force structure and modernization accounts in order to maintain our force structure without hollowing out the force. That means that even with a defense base budget that is roughly flat in real dollar terms, we will have to get smaller in order to maintain a ready, agile, and deployable force.

I believe that this pattern of defense investment is both appropriate and sustainable within the overall federal budget. Spending on the defense base budget has in-

creased by about 30 percent in real terms since 2001, and by fiscal 2013, it will make up 45 percent of all Federal discretionary budget authority. That said, the defense base budget will represent only 3.2 percent of GDP in 2013—and as our economy continues to grow, we project that percentage will fall to 2.8 percent by 2017.

Ultimately, we need to base our investment in national defense not on numbers but on strategy, and a clear-eyed assessment of the risks and threats that exist to our national security. Given the complex and dangerous world we continue to inhabit, the President's proposal for spending on the defense base budget represents the investment we need to provide an adequate defense for the nation.

There is no doubt that our budget deficits are too high and that, as the economy recovers, we need to reduce deficits in order to strengthen our long-term economic outlook and protect our national security. The Department of Defense has stepped up to the plate with its share of the cuts needed to meet the original caps enacted under the Budget Control Act. But with these record deficits, no budget can be balanced on the back of discretionary spending alone.

Based on my own budget experience, I strongly believe that Congress and the Administration need to put all areas of the federal budget on the table and work together to achieve sufficient deficit reduction, in a balanced way, to avoid the sequester provisions contained in Title III of the Budget Control Act. Sequester would subject the Department to another roughly $500 billion in additional cuts over the next nine years, and in FY13, these cuts would have to be implemented with limited flexibility. These changes could hollow out the force and inflict severe damage to our national defense and programs that are vital to our quality of life.

I understand that sequester is designed to force the Congress to confront the hard choices that must be made in any serious effort to deal with the deficit. We all recognize what those hard choices are. They involve dealing with mandatory spending, which represent almost two-thirds of the federal budget, and additional revenues. It's a matter of simple arithmetic that discretionary spending, which accounts for only one-third of the federal budget, cannot be expected to contribute 100 percent to our deficit reduction efforts.

History has made clear that real deficit reduction only happens when everything is on the table—discretionary, mandatory spending, and revenues. That has been true for every major deficit reduction plan enacted by the Congress in recent history.

We still have time to avert sequestration, and the President's FY13 budget represents a path to doing so. The President's FY13 budget proposes a balanced plan to produce about $4 trillion in savings, including the $1.0 trillion in deficit reduction already generated by the Budget Control Act's discretionary caps. The President's plan would add mandatory savings and revenue increases to the already enacted discretionary cuts. If enacted, this proposal would provide a basis for halting sequestration, while ensuring the maintenance of a strong national defense.

ACCOMMODATING DEFENSE BUDGET CUTS

Let me turn now to the changes we made to accommodate the reductions required to be consistent with the Budget Control Act. I believe that these changes offer convincing evidence that we have made tough choices in the Department of Defense, and that we are doing our part to help achieve the national security imperative of deficit reduction while making decisions that fit within our overall defense strategy.

The $259 billion in five year savings from defense that are part of this plan come from three broad areas:

- First, efficiencies—we redoubled efforts to make more disciplined use of taxpayer dollars, yielding about one quarter of the target savings;
- Second, force structure and procurement adjustments—we made strategy-driven changes in force structure and procurement programs, achieving roughly half of the savings;
- Finally, compensation—we made modest but important adjustments in personnel costs to achieve some necessary cost savings in this area, which represents one third of the budget but accounted for a little more than 10 percent of the total reduction.

The remaining reductions reflect economic changes and other shifts. Let me walk through these three areas, beginning with our efforts to discipline our use of defense dollars.

MORE DISCIPLINED USE OF DEFENSE DOLLARS

If we are to tighten up the force, I felt we have to begin by tightening up the operations of the Department. This budget continues efforts to reduce excess overhead, eliminate waste, and improve business practices across the department. The

more savings realized in this area, the less spending reductions required for modernization programs, force structure, and military compensation.

As you know, the FY12 budget proposed more than $150 billion in efficiencies between FY 2012 and FY 2016, and we continue to implement those changes. This budget identifies about $60 billion in additional savings over five years. Across the military services, new efficiency efforts over the next five years include:

• The Army proposes to save $18.6 billion through measures such as streamlining support functions, consolidating IT enterprise services, and rephasing military construction projects;

• The Navy proposes to save $5.7 billion by implementing strategic sourcing of commodities and services, consolidating inventory, and other measures;

• The Air Force proposes to save $6.6 billion by reducing service support contractors and rephasing military construction projects;

Other proposed DoD-wide efficiency savings over the next five years total $30.1 billion, including reductions in expenses in the Office of the Secretary of Defense and the Defense Agencies.

As part of these initiatives, we are continuing the initiative to improve the Department's buying power by seeking greater efficiency and productivity in the acquisition of goods and services. We are strengthening acquisition support to the warfighter, executing acquisitions more efficiently, preserving the industrial base, and strengthening the acquisition workforce. This budget assumes that these policies produce savings of $5.3 billion over the next five years.

In terms of military infrastructure, we will need to ensure that our current basing and infrastructure requirements do not divert resources from badly needed capabilities.

As we reduce force structure, we have a responsibility to provide the most cost efficient support for the force. For that reason, the President will request that Congress authorize the Base Realignment and Closure process for 2013 and 2015. As someone who went through BRAC, I realize how controversial this process can be for members and constituencies. And yet, it is the only effective way to achieve infrastructure savings.

Achieving audit readiness is another key initiative that will help the Department achieve greater discipline in its use of defense dollars. The Department needs auditable financial statements to comply with the law, to strengthen its own internal processes, and to reassure the public that it continues to be a good steward of federal funds. In October 2011, I directed the Department to emphasize this initiative and accelerate efforts to achieve fully auditable financial statements. Among other specific goals, I directed the Department achieve audit readiness of the Statement of Budgetary Resources for general funds by the end of calendar year 2014, and to meet the legal requirements to achieve full audit readiness for all Defense Department financial statements by 2017. We are also implementing a course-based certification program for defense financial managers in order to improve training in audit readiness and other areas, with pilot programs beginning this year. We now have a plan in place to meet these deadlines, including specific goals, financial resources, and a governance structure.

These are all critically important efforts to ensure the Department operates in the most efficient manner possible. Together, these initiatives will help ensure the Department can preserve funding for the force structure and modernization needed to support the missions of our force.

STRATEGY-DRIVEN CHANGES IN FORCE STRUCTURE AND PROGRAMS

But it is obvious that efficiencies are not enough to achieve the required savings. Budget reductions of this magnitude require significant adjustments to force structure and procurement investments. The choices we made reflected five key elements of the defense strategic guidance and vision for the military.

1. Build a force that is smaller and leaner, but agile, flexible, ready and technologically advanced

We knew that coming out of the wars, the military would be smaller. But to ensure an agile force, we made a conscious choice not to maintain more force structure than we could afford to properly train and equip. We are implementing force structure reductions consistent with the new strategic guidance for a total savings of about $50 billion over the next five years.

These adjustments include:

• Gradually resizing the active Army to 490,000 soldiers;

• Gradually resizing the active Marine Corps to 182,100 Marines;

• Reducing and streamlining the Air Force's airlift fleet. The Air Force will maintain a fleet of 275 strategic airlifters and 318 C-130s—a fleet more than capable of

meeting the airlift requirements of the new strategy. In addition, the Air Force will eliminate seven Tactical Air squadrons but retain a robust force of 54 combat-coded fighter squadrons, maintaining the capabilities and capacity needed to meet the new strategic guidance;

• The Navy will retire seven lower priority Navy cruisers that have not been upgraded with ballistic missile defense capability or that would require significant repairs, as well as two dock landing ships.

2. Rebalance global posture and presence to emphasize Asia-Pacific and the Middle East

The strategic guidance made clear that we must protect capabilities needed to project power in Asia-Pacific and the Middle East. To this end, this budget:

• Maintains the current bomber fleet;

• Maintains the aircraft carrier fleet at a long-term level of 11 ships and 10 air wings;

• Maintains the big-deck amphibious fleet;

• Restores Army and Marine Corps force structure in the Pacific after the drawdown from Iraq and as we drawdown in Afghanistan, while maintaining a strong presence in the Middle East.

The budget also makes selected new investments to ensure we develop new capabilities needed to maintain our military's continued freedom of action in face of new challenges that could restrict our ability to project power in key territories and domains.

Other key power projection investments in FY13 include:

• $300 million to fund the next generation Air Force bomber (and a total of $6.3 billion over the next five years);

• $1.8 billion to develop the new Air Force tanker;

• $18.2 billion for the procurement of 10 new warships, including two Virginia-class submarines, two Aegis-class destroyers, four Littoral Combat Ships, one Joint High Speed Vessel, and one CVN-21-class aircraft carrier. We are also investing $100 million to increase cruise missile capacity of future Virginia-class submarines;

3. Build innovative partnerships and strengthen key alliances and partnerships

The strategy makes clear that even though Asia-Pacific and the Middle East represent the areas of growing strategic priority, the United States will work to strengthen its key alliances, to build partnerships and to develop innovative ways such as rotational deployments to sustain U.S. presence elsewhere in the world.

To that end, this budget makes key investments in NATO and other partnership programs, including $200 million in FY13 and nearly $900 million over the next five years in the NATO Alliance Ground Surveillance system.

The new strategy also envisions a series of organizational changes that will boost efforts to partner with other militaries. These include allocating a U.S.-based brigade to the NATO Response Force and rotating U.S.-based units to Europe for training and exercises; and increasing opportunities for Special Operations Forces to advise and assist partners in other regions.

4. Ensure that we can confront and defeat aggression from any adversary—anytime, anywhere

This budget invests in space, cyberspace, long range precision-strike and the continued growth of special operations forces to ensure that we can still confront and defeat multiple adversaries even with the force structure reductions outlined earlier. It also sustains the nuclear triad of bombers, missiles and submarines to ensure we continue to have a safe, reliable and effective nuclear deterrent.

Even with some adjustments to force structure, this budget sustains a military that is the strongest in the world, capable of quickly and decisively confronting aggression wherever and whenever necessary. After planned reductions, the FY17 joint force will consist of:

• An Army of more than one million active and reserve soldiers with 18 Divisions, approximately 65 Brigade Combat Teams, 21 Combat Aviation Brigades and associated enablers.

• A Naval battle force of 285 ships—the same size force that we have today—that will remain the most powerful and flexible naval force on earth, able to prevail in any combat situation, including the most stressing anti-access environments. Our maritime forces will include 11 carriers, 9 large deck amphibious ships, 82 guided missile cruisers and destroyers, and 50 nuclear powered attack submarines.

• A Marine Corps with 31 infantry battalions, 10 artillery battalions and 20 tactical air squadrons.

• An Air Force that will continue to ensure air dominance with 54 combat coded fighter squadrons and the current bomber fleet. Our Air Force will also maintain a fleet of 275 strategic airlifters, 318 C-130s and a new aerial refueling tanker.

5. Protect and prioritize key investments, and the capacity to grow, adapt and mobilize

The force we are building will retain a decisive technological edge, leverage the lessons of recent conflicts and stay ahead of the most lethal and disruptive threats of the future.

To that end, the FY13 budget:

• Provides $11.9 billion for science and technology to preserve our ability to leap ahead, including $2.1 billion for basic research.

• Provides $10.4 billion (base and OCO) to sustain the continued growth in Special Operations Forces;

• Provides $3.8 billion for Unmanned Air Systems. We slowed the buy of the Reaper aircraft to allow us time to develop the personnel and training infrastructure necessary to make full use of these important aircraft.

• Provides $3.4 billion in cyber activities. We are investing in full spectrum cyber operations capabilities to address the threats we see today and in the future;

At the same time, the strategic guidance recognizes the need to prioritize and distinguish urgent modernization needs from those that can be delayed—particularly in light of schedule and cost problems. Therefore this budget identifies about $75 billion in savings over five years resulting from canceled or restructured programs. Key modifications and associated savings over the next five years include:

• $15.1 billion in savings from restructuring the Joint Strike Fighter by delaying aircraft purchases to allow more time for development and testing;

• $13.1 billion by reducing investment in procurement of ships, while continuing to focus on the higher-capability vessels most needed to carry out our defense strategy;

• $1.3 billion in savings from delaying development of the Army's Ground Combat Vehicle due to contracting difficulties;

• $4.3 billion in savings from delaying the next generation of ballistic missile submarines by two years for affordability and management reasons;

We will also terminate selected programs, including:

• The Block 30 version of Global Hawk, which has grown in cost to the point where it is no longer cost effective, resulting in savings of $2.5 billion; and

• The weather satellite program, because we can depend on existing satellites, resulting in savings of $2.3 billion;

We have also invested in a balanced portfolio of capabilities that will enable our force to remain agile, flexible and technologically advanced enough to meet any threat. To that end, ground forces will retain the key enablers and know-how to conduct long-term stability operations, and the Army will retain more mid-grade officers and NCOs. These steps will ensure we have the structure and experienced leaders necessary should we need to re-grow the force quickly.

Another element is to maintain a capable and ready National Guard and Reserve. The Reserve Component has demonstrated its readiness and importance over the past ten years of war, and we must ensure that it remains available, trained, and equipped to serve in an operational capacity when necessary.

Another key part of preserving our ability to quickly adapt and mobilize is a strong and flexible industrial base. This budget recognizes that industry is our partner in the defense acquisition enterprise.

ENSURING QUALITY OF THE ALL-VOLUNTEER FORCE

Now to the most fundamental element of our strategy and our decision-making process: our people. This budget recognizes that they, far more than any weapons system or technology, are the great strength of our United States military. All told, the FY13 budget requests $135.1 billion for the pay and allowances of military personnel and $8.5 billion for family support programs vital to the well-being of service members and their families.

One of the guiding principles in our decision making process was that we must keep faith with our troops and their families. For that reason, we were determined to protect family assistance programs, and we were able to sustain these important investments in this budget and continue efforts to make programs more responsive to the needs of troops and their families. Yet in order to build the force needed to defend the country under existing budget constraints, the growth in costs of military pay and benefits must be put on a sustainable course. This is an area of the budget that has grown by nearly 90 percent since 2001, or about 30 percent above inflation—while end strength has only grown by three percent.

This budget contains a roadmap to address the costs of military pay, health care, and retirement in ways that are fair, transparent, and consistent with our fundamental commitments to our people.

On military pay, there are no pay cuts. We have created sufficient room to allow for full pay raises in 2013 and 2014 that keep pace with increases in the private sector. However we will provide more limited pay raises beginning in 2015—giving troops and their families fair notice and lead time before changes take effect. Let me be clear: nobody's pay is cut in this budget nor will anyone's pay be cut in the future years of this proposal.

This budget devotes $48.7 billion to health care costs—an amount that has more than doubled over the last decade. In order to continue to control the growth of these costs, we are recommending increases in health care fees, co-pays and deductibles to be phased in over four to five years. None of the fee proposals in the budget would apply to active duty service members, and there will be no increases in health care fees or deductibles for families of active duty service members under this proposal. Those most affected will be retirees—with the greatest impact on working-age retirees under the age of 65 still likely to be employed in the civilian sector. Even with these changes, the costs borne by military retirees will remain below levels in most comparable private sector plans—as they should be.

Proposed changes include:

• Further increasing enrollment fees for retirees under age 65 in the TRICARE Prime program, using a tiered approach based on retired pay that requires senior-grade retirees with higher retired pay to pay more and junior-grade retirees less;

• Establishing a new enrollment fee for the TRICARE-for-Life program for retirees 65 and older, using a tiered approach;

• Implementing additional increases in pharmacy co-pays in a manner that increases incentives for use of mail order and generic medicine; and

• Indexing fees, deductibles, pharmacy co-pays, and catastrophic caps to reflect the growth in national health care costs.

We also feel that the fair way to address military retirement costs is to ask Congress to establish a commission with authority to conduct a comprehensive review of military retirement. But the President and the Department have made clear that the retirement benefits of those who currently serve must be protected by grandfathering their benefits. For those who serve today I will request there be no changes in retirement benefits.

A BALANCED PACKAGE

Members of the committee: putting together this balanced package has been a difficult undertaking and, at the same time, an important opportunity to shape the force we need for the future. I believe we have developed a complete package, aligned to achieve our strategic aims.

As a result, the FY13 request is a carefully balanced package that keeps America safe and sustains U.S. leadership abroad. As you take a look at the individual parts of this plan, I encourage you to do what the Department has done: to bear in mind the strategic trade-offs inherent in any particular budget decision, and the need to balance competing strategic objectives in a resource-constrained environment. The best example of this balancing act is the size of the budget itself, which in my view strikes the right balance between both the fiscal and security responsibilities of the Department to the nation.

But we will need your support and partnership to implement this vision of the future military. I understand how tough these issues can be, and that this is the beginning and not the end of this process. Make no mistake: the savings we are proposing will impact all 50 states. But it was this Congress that mandated, on a bipartisan basis, that we significantly reduce discretionary funding, which realistically leads to substantial cuts in the defense budget. We need your partnership to do this in a manner that preserves the strongest military in the world. This will be a test of whether reducing the deficit is about talk or action.

My hope is that now that we see the sacrifice involved in reducing the defense budget by almost half a trillion dollars, Congress—and this Committee in particular—will be convinced of its important responsibility to make sure that we avoid sequestration.

The leadership of this department, both military and civilian, is united behind the strategy that we have presented, and this budget. Like all strategies and all defense budgets, there are risks associated with this spending plan. I cannot reduce the defense budget by almost half a trillion dollars and not incur additional risks. In our judgment these risks are acceptable, but nevertheless these additional risks do exist. Those risks primarily stem from the fact that we will be a smaller military.

Will our forces be able to mobilize quickly enough to respond to crises? Will we be able to compensate with more advanced technology? Can we ensure the continued health of the all-volunteer force and meet our obligations to transitioning service members so they don't become part of the unemployment rolls?

We believe we can deal with these risks, and that the budget plan we have presented has an acceptable level of risk because it was developed base on our defense strategy. But there will be little room for error. If this Congress imposes more cuts in the defense budget, that will increase the risk and could make it impossible for us to execute the strategy we have developed. And if sequester is triggered, this strategy will certainly have to be thrown out the window and the result will be risks that are unacceptably high. So I really urge you to try to confront this issue and try to do everything you can to avoid that outcome, and to give us the opportunity to implement the strategy we have developed with the necessary and appropriate level of spending.

I look forward to working closely with you in the months ahead to do what the American people expect of their leaders: be fiscally responsible in developing the force for the future—a force that can defend the country, a forced that supports our men and women in uniform, and a force that is, and always will be, the strongest military in the world.

Chairman RYAN. Thank you. General Dempsey, if you could try to summarize, as best you can, because we have a lot of members who want to get to questions. The floor is yours.

STATEMENT OF GENERAL MARTIN E. DEMPSEY

General DEMPSEY. Fair enough. Thank you Chairman Ryan, Congressman Van Hollen, distinguished members of the committee. Thanks for the opportunity to be with you here today. I will tell you, I think this budget does represent a responsible investment in our nation's security, and strikes a purposeful balance between succeeding in today's conflicts and preparing for tomorrow. It also keeps faith with the nation and with the greatest source of our military strengths, that is America's sons and daughters and I will submit the rest of my statement for the record.

[The prepared statement of Martin E. Dempsey follows:]

PREPARED STATEMENT OF GEN MARTIN E. DEMPSEY, USA, CHAIRMAN, JOINT CHIEFS OF STAFF

Chairman Ryan, Representative Van Hollen, and distinguished members of the Committee, it is my privilege to update you on the state of the United States' Armed Forces and to comment on the President's budget proposal for fiscal year 2013. The context for this year's posture testimony is unique. Our military has transitioned many of our major operations, and we have new strategic guidance that sets priorities. We are also facing real fiscal constraints and an increasingly competitive security environment. The President's proposed fiscal year 2013 defense budget accounts for these realities. It provides a responsible investment in our nation's current and future security.

GLOBAL MILITARY OPERATIONS

Today our Armed Forces stand strong. We are proud of the performance and accomplishments of our men and women in uniform over the past year. They have carried out far-ranging missions with much success. They have defended our homeland, deterred aggression, and kept our Nation immune from coercion. And despite a decade of continuous combat operations, our troops and their families remain resilient.

U.S. Forces-Iraq recently completed its mission. More than twenty years of military operations in and over Iraq came to conclusion. The security of Iraq is now the responsibility of the Iraqi people, leaders, and security forces. We have transitioned to a normal military-to-military relationship. Diplomats and civilian advisors are now the face of the United States in Baghdad. To be sure, Iraq still faces challenges to the country's future. But as we look to that future, we will continue to build ties across Iraq to help the people and institutions capitalize on the freedom and opportunity we helped secure.

In Afghanistan, we are seeing the benefits of the surge in combat forces begun in early 2010. The security situation is improving. By nearly every measure, vio-

lence has declined. The Taliban are less capable, physically and psychologically, than they were two years ago. Afghan and ISAF forces have maintained persistent pressure on insurgent groups and have wrested the initiative and momentum from them in much of the country. But these groups remain determined, and they continue to threaten the population and the government. Combat will continue.

Key to long-term stability in Afghanistan is the development of the Afghan National Security Forces (ANSF). In 2011, the Afghan National Army grew by 18 percent. The Afghan National Police grew by 20 percent. These forces, combined with the nascent but ever more capable Afghan Local Police, are steadily assuming responsibility for Afghan security. The process of transition began in July, and today, after nearly completing the second of five "tranches" of transition, Afghan security forces are now responsible for the day-to-day security of almost half of Afghanistan's population. Developing the ANSF, degrading insurgent capabilities, and turning over responsibilities have allowed us to begin a measured draw down of our forces in Afghanistan. We have withdrawn over 10,000 of the surge troops and will withdraw the remaining 23,000 by the end of this summer. By that time, we expect the ANSF to achieve their initial operating capability and to be responsible for securing nearly two-thirds of the Afghan population. They are on track to meet the goal of assuming full lead for security by the end of 2014.

Sustaining progress in Afghanistan requires dealing with some significant challenges. The ANSF and other national and local government institutions require further development. Corruption remains pervasive and continues to undermine the capacity and legitimacy of government at all levels. Insurgent sanctuaries in Pakistan remain largely uncontested. And ultimately, much more work remains to achieve the political solutions necessary to end the fighting in Afghanistan.

Our military has been vigilant and active in other areas and with other missions to keep America and our partners safe. We decapitated al-Qa'ida and pushed this terrorist network decidedly closer to strategic defeat through the successful special forces operation targeting Osama Bin Laden. We supported NATO in its UN mission to protect civilians in Libya allowing them to end Muammar Qaddafi's tyrannical rule. We responded quickly to the devastating earthquakes and tsunami that struck Japan, saving lives and acting on our commitment to this key ally. We fended off cyber intrusions against our military's computer networks and systems. And we helped counter aggression and provocation from Iran and North Korea.

A TIME OF TRANSITION

While our military continues to capably and faithfully perform this wide array of missions, we are currently in the midst of several major transitions. Any one of them alone would be difficult. Taken together, all three will test our people and our leadership at every level.

First, we are transitioning from a war-time footing to a readiness footing. With the end of our operations in Iraq and Libya and the ongoing transition of security responsibilities in Afghanistan, our troops are steadily returning home. From a peak of more than 200,000 troops deployed to combat two years ago, we have fewer than 90,000 today. This shift cannot lead us to lose focus on on-going combat operations. But, it does mean we must give attention to restoring our readiness for full spectrum operations. We need to reset and refit, and in many cases replace, our war-torn equipment. We need to modernize systems intentionally passed over for periodic upgrading during the last decade. We must retrain our personnel on skills used less often over the last decade. And we will have to do all of this in the context of a security environment that is different than the one we faced ten years ago. We cannot simply return to the old way of doing things, and we cannot forget the lessons we have learned. As described in the Department's recently released strategic guidance, we should adjust our missions, our posture, and our organizational structure in order to adapt to ever evolving challenges and threats.

Second, our military is transitioning to an era of more constrained resources. The days of growing budgets are gone, and as an institution we must become more efficient and transparent. We must carefully and deliberately evaluate trade-offs in force structure, acquisition, and compensation. We must make the hard choices, focus on our priorities, and overcome bureaucratic and parochial tendencies. In sum, we must recommit ourselves to being judicious stewards of the Nation's resources.

Third, tens of thousands of our veterans—and their families—are facing the transition to civilian life. Many enlistments are coming to their normal conclusion, but we are also becoming a leaner force. As we do this, we must help our veterans find education opportunities, meaningful employment, and first-class health care. We must pay particular attention to those bearing the deepest wounds of war, including the unseen wounds. We must help those who have given so much cope with—and

where possible, avoid—significant long-term challenges such as substance abuse, divorce, depression, domestic violence, and homelessness. Addressing these issues is not the exclusive responsibility of the Services or veterans organizations. How we respond, as a military community and as a Nation, conveys our commitment to our veterans and their families. It will also directly affect our ability to recruit and retain our Nation's best in the future.

I have outlined several priorities for the Joint Force to help us anticipate and navigate the challenges these transitions present. We will maintain focus on achieving our national objectives in our current conflicts. We will begin creating the military of our future—the Joint Force of 2020. We will also confront what being in the Profession of Arms means in the aftermath of war. And above all else, we will keep faith with our Military Family. In doing all these things, we will provide an effective defense for the country and strengthen the military's covenant of trust with the American people.

A RESPONSIBLE INVESTMENT

The President's Fiscal Year 2013 Department of Defense base budget of $525 billion and overseas contingency operations (OCO) budget of $88 billion represent a responsible investment in our Nation's security. The decisions underlying them flow from the strategic guidance the Department of Defense issued last month. This guidance set priorities for assessing our programs, force structure, and spending in the context of a persistently dangerous and increasingly competitive security environment. With those priorities in mind, the budget proposal strikes an appropriate and necessary balance between succeeding in today's conflicts and preparing for tomorrow's challenges. It accounts for real risks and real fiscal constraints, marrying versatility with affordability.

The tradeoffs were complex, and the choices were tough. They will produce $259 billion in savings over the next five years and a total of $487 billion over the next ten years. They will not lead to a military in decline. Rather, this budget will maintain our military's decisive edge and help sustain America's global leadership. It will preserve our ability to protect our vital national interests and to execute our most important missions. Moreover, it will keep faith with the true source of our military's strength—our people.

The merits of this budget should be viewed in the context of an evolving global security environment and a longer term plan for the Joint Force. Coming on the heels of a decade of war, this budget begins the process of rebalancing our force structure and our modernization efforts and aligns them with our strategy. Essentially, we are developing today the Joint Force the Nation will need in 2020, and our plans to build this force will unfold over the course of several budget cycles. This budget is the first step—a down payment. If we fail to step off properly, our recovery will be difficult, and our ability to provide the Nation with the broad and decisive military options will diminish.

It is worth addressing head-on some of the major changes we are planning as we adapt to changing global opportunities and challenges. And just as this budget must be viewed in the context of a broader plan, these changes must be viewed in the context of our evolving force. They represent a comprehensive, carefully devised package of decisions that strikes a fine balance. They are not, and cannot be viewed as, individual, isolated measures. In all cases, needed capabilities are preserved or, when necessary, generated, through one or several programs.

This budget will make critical investments in our future force. Certain specialized capabilities, once on the margins, will move to the forefront. Networked special operations, cyber, and Intelligence, Surveillance, and Reconnaissance will become increasingly central. The results will be a Joint Force that is global and networked, that is versatile and innovative, and that is ably led and always ready. This force will be prepared to secure global access and to respond to global contingencies. We will be a military that is able to do more than one thing at a time—to win any conflict, anywhere.

Particular attention will be placed on our anti-access/area-denial capabilities. The proliferation of technology threatens our unfettered access to the global commons—access that is fundamental to global commerce and security. As we rebalance our global posture to emphasize the Asia-Pacific region and the Middle East, we are adjusting our operating constructs and the systems we employ. This includes divesting some outdated ships, planes, and equipment as well as investing in new programs. We will also commit to our partnerships and to helping develop our partners' security capabilities.

Similarly, this force will place added focus on our military's cyber defense capabilities. The threats to the average American's day-to-day life and our military capa-

bilities that emanate from cyber space have evolved faster than many could have imagined. We must adapt to these threats with similar adroitness and capacity. This budget allows for us to expand many of our nascent cyber capabilities and to better protect our defense networks. Similarly, bipartisan cyber legislation being introduced in Congress is a good first step in developing protection for our Nation's critical infrastructure. With much work to be done, we look forward to working with agencies across the government and with our allies and partners to confront this broad range of emerging threats.

While some additional capabilities for our Joint Force will be needed, others will not. The Joint Force of the future will be leaner than today's. We will no longer be sized for large scale, prolonged stability operations. As a result, we expect to draw down the Army from 562,000 to 490,000 by the end of fiscal year 2017, and the Marine Corps from over 202,100 to 182,100 by the end of fiscal year 2016. Some of this reduction was planned several years ago when Congress authorized temporary end strength increases to support our operations in Iraq and Afghanistan.

But in making ourselves leaner, we will not make the mistakes of previous draw downs. We will not retain organizational structures that lack the people, training, and equipment necessary to perform the tasks we expect from them. We will be realistic about the organizations we keep, while also maintaining our ability to reconstitute and mobilize forces. We will still be able to respond to any large scale mobilization against us. To do this, the Joint Force will retain capacity in our reserve components and our industrial base should they be required to surge. We will maintain the Army Reserve end-strength at 205,000 and reduce the Army National Guard by only 5,000 down to 353,200. The Marine Corps reserves will be retain their current strength.

Another major concern among our troops, their families, retirees, and with the American public is military compensation and benefits. I want to make it clear that cuts in spending will not fall on the shoulders of our troops. There are no proposed freezes or reductions in pay. There is no change to the high quality health care our active duty members and medically retired Wounded Warriors receive. But we cannot ignore some hard realities. Pay and benefits are now roughly one third of defense spending. Pay will need to grow more slowly in the future. We are also proposing a commission to review of military retirement. And to control the growth of healthcare costs, we are also recommending changes to TRICARE. These adjustments include modest, new or phased-in increases in health care fees, co-pays, and deductibles largely for our retirees—but not our active duty service members. Even with these increases, TRICARE will remain one of the finest medical benefits in the country.

Overall, these proposed changes value both the demands of military service and our duty to be good stewards of the Nation's fiscal resources. They will sustain the recruitment, retention, and readiness of the talented personnel we need. Most importantly, they will sustain our enduring commitment to our troops and their families—we must never break faith with them. I want to note, however, that keeping faith with our service men and women is not just about pay and benefits. It is also about ensuring we remain the best trained, best equipped, and best led force on the planet.

The last, and perhaps most critical issue, is risk. This budget and the strategy it supports allow us to apply decisive force simultaneously across a range of missions and activities around the globe. They mitigate many risks, but they accept some as well, as all strategies must. The primary risks lie not in what we can do, but in how much we can do and how fast we can do it. The risks are in time and capacity. We have fully considered these risks, and I am convinced we can properly manage them by ensuring we keep the force in balance, investing in new capabilities, and preserving a strong reserve component. We can also compensate through other means, such as effective diplomacy and strong partnerships. I believe that these risks are acceptable and that we will face greater risk if we do not change from our previous approaches.

CONCLUSION

In the upcoming year, our Armed Forces will build on the past year's achievements, adapt to emergent challenges, seize new opportunities, and continue to provide for our common defense. We will continue to face threats to our security, whether from aggressive states or violent terrorist organizations. But our military will be ready for them, and our response will be a source of pride for the American people. In all of our efforts, we will aim to maintain strength of character and professionalism—at the individual and institutional level—that is beyond reproach.

As we embark on this critical new course, we will need Congress' support to help us build the Joint Force the Nation needs and to strengthen our relationship with the American people. As I stated before, this budget and the choices that underlie it should be understood in the context of the comprehensive, carefully balanced, multi-year plan they support. These choices were tough. Some decisions will be controversial. But they call for an investment that allows our force to take the steps necessary to ensure our Nation's defense for years to come. We ask Congress to support this budget and, more importantly, to avoid the deep and indiscriminant cuts that sequestration would impose.

I thank this Committee, and the entire Congress, for all you have done to support our men and women under arms and their families. Your resolute attention to their needs and to our security has been both invaluable and greatly appreciated.

Chairman RYAN. That was pretty fast. I would not have expected that. We are not used to that fast.

Secretary Panetta, as I mentioned, we have tremendous respect for you, for your past, and for your service to our country. I agree with lots of what you said in your testimony, but it is just hard to get my mind around whether this is a strategy-driven budget or a budget-driven strategy, and that is what we are getting down to here.

The administration, since February 2010, has reduced the base budget, and that is the budget without the costs of the wars in Iraq and Afghanistan, by $500 billion. At each time of these requests, your predecessor and now you, have argued that this budget reflects a strategy-driven budget, but you have just said that the world is not safer, that the challenges are mounting. You mentioned WMD, Iran, North Korea, turmoil in the Middle East, and on and on and on. So I do not know how to reconcile this. Is the world becoming safer, and therefore we can trim our sales so much more, or are we changing our strategy? Are we changing our defense in foreign policy to a much less ambitious goal?

Secretary PANETTA. I think the fundamental problem is that, as Mike Mullen said, that one of the key threats to our national security is the national debt, and in the effort to try to confront the national debt, obviously the Congress came forward and proposed the Budget Control Act. The Budget Control Act provided about a trillion dollars in reductions. You developed a fence that was part of the Act, that set aside national security, and ensured that we would be required to reduce the budget by almost a half a trillion dollars. That is the law, and that is the requirement that I have abided by.

General DEMPSEY. Mr. Chairman, could I take a stab at adding to that a little bit because I do wear the uniform. I have been around 38 years, and have gone through any numbers of strategic reviews, and some of your questioning about whether we could really make this a strategy-driven discussion, I think probably relates to the amount of time we have taken. I am a personal believer in Parkinson's law, some of you may remember in 1955 in the Economist magazine there was a postulate put forward that work expands to fill the time available, so I actually believe that, and I believe that in the six months, or five months, that we had to take a very comprehensive look at strategy, we actually accomplished that task.

Chairman RYAN. Okay, so when we take away the budget gimmicks and the accounting tricks, which is what we do in this committee, we have a budget from the president that has a net spend-

ing increase of $1.5 trillion. It has a tax increase of $1.9, so it has about $400 billion in deficit reduction over 10 years, but you are dropping this category by $487. So from our perspective, this looks like a budget-driven strategy, not a strategy-driven budget because there is no entitlement reform, there is no reform in the other parts of government, and the only real specified cuts are here.

Let me ask it this way, we have this new revised defense strategic guidance talks about increasing the Asia-Pacific region. Most analysts who look at this strategy, and this region, say that this necessarily means we need more naval and air forces, but your budget abandons the long-standing goal of a 313-ship fleet, and it does very little to expand or modernize the Air Force that General Schwartz, the chief of staff of the Air Force, notes is smaller and older than the Air Force at the end of the post-Cold War drawdown. So how do we reconcile this rhetoric with this budget?

Secretary PANETTA. Well, first and foremost, some of the questions you are asking ought to probably be better directed to an OMB director.

Chairman RYAN. Yeah, but you can do that, too.

Secretary PANETTA. I can play any role, but today I am secretary of defense. I am dealing with the number that was handed me, and what we did to try to respond to that number. The approach we took was to say if we are going to emphasize the Pacific and the Middle East, we have to have force projection. That is the reason we are maintaining 11 carriers. Some had proposed that we ought to cut back on our carrier force, and we said no, we are going to maintain 11 carriers because they are very important to our ability to project power. We are going to maintain our bomber fleet, but more importantly, we are investing in a new bomber, and developing a new bomber for the future. In addition to that, we continue to invest in the joint strike fighter, which is a fifth-generation fighter that we think is very important for the future.

In addition to the ships in the Navy, we are going to maintain the number of ships that we have now and our plan is the next five years to meet that 300-ship Navy that we think is important for this country. So we have tried to protect the key priorities that relate to the strategy that we have developed, which is to stress the Pacific, stress the Middle East, and maintain the kind of forces we need to confront any enemy in those areas.

Chairman RYAN. Well, without going into the OMB territory, these are the only specific cuts we see. Everything else is net increasing, but let me get to some specific budgets about your budget. You did a good job of identifying budget gimmicks when you were here as chairman, and trying to push them out of the budget when agencies tried to put them in when you were OMB director. There is two of them I want to talk about here, and I will do this as fast as I can. You moved funding for the 64,900 soldiers and Marines from the base budget, which is capped under the BCA, to the war budget which is uncapped. How is that not a circumvention of the budget caps?

Secretary PANETTA. That is why I have a comptroller here, is to answer that kind of question.

Mr. HALE. The OCO rules say that we will budget for permanent end strength in the base budget. We have now decided that we are

going to go down to 490,000 in the Army, 182,000 in the Marines. In our view the difference between where we are now and that 490 and 182 is no longer permanent, it is there because of Afghanistan.

Chairman RYAN. But your end strength reduction is 92,000 soldiers, not 65,000. So why did you not put the entire 92,000 in the OCO budget?

Mr. HALE. Because everything above 490 for the Army, and above 182 for the Marines is now primarily in the force because of Afghanistan, and therefore we think are properly budgeted in OCO, and is something I might add that we cleared fully with OMB.

Chairman RYAN. First time that has ever been done. This is not normal.

Mr. HALE. We have had end strength, temporary end strength, there for a number of years, Mr. Chairman, smaller, but they have been there.

Chairman RYAN. Yeah, I would say that. We usually have extra costs of having personnel in war zones covered, but this includes the full $6 billion of costs of computating troops in the war budget; so that I would say is pretty unprecedented.

Mr. HALE. Well, we have had about a 1.2 billion in the last budget, and now it is six, but again, this is an unprecedented change. We have made a decision to go to a much smaller Army and a much smaller Marine Corps consistent with the new strategy.

Chairman RYAN. The last administration tried plowing base budget spending into their supplementals as well. I do not know how you can say that this is not plowing base spending into a supplemental.

Let me ask this question, you mentioned the joint strike fighter. You have got a large number of program restructurings in this budget request. For the most part of it you are delaying the acquisition of purchase. For example, I think you claim $15.1 billion from the joint strike fighter program over the next five years, but the program of record has not changed. So you are doing a five year budget, but as you know, we do 10 year budgets; you are just pushing it into the back end of the 10 year budget. So how does that achieve any taxpayer savings over a 10 year period? And if you are elongating these programs, does that not violate the direction you are getting from the Perry-Hadley Commission, which is to tighten the timeframe of these programs?

Secretary PANETTA. Well, the key there is to produce a plane that, when we go to full production, does not have to be changed time and time and time again, which does the very problems that you have pointed out, which is it increases the costs, and increases the expenditures to the tax payer. Our goal here is, having worked with the joint strike fighter, that we felt as it goes through the tests, let's be able to determine what changes need to be made now, not go into full production with what we have, but wait and trail that out, and when we have completed those tests, when we know what is to be in the final product, then we will go into full production. This was based on substance, it was not based just simply on trying to achieve the savings, although fortunately, when you do extend it out you do get some savings.

Chairman RYAN. And you think that takes another five years? That is what makes it difficult to see this as more of a budget-driven strategy than a strategy-driven budget.

Secretary PANETTA. Well, I would urge you to sometime go down to some of our facilities and look at this plane and the technology that is involved in the plane; it is spectacular technology, but it also requires a great deal of testing to ensure that it works.

Chairman RYAN. Well, there are a lot of members, and I want to be cognizant of their time, so I will appreciate it, Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. Let me thank all of you for your testimony today. I was not going to go down this line of questioning, but I do want to take a moment to discuss the math here because we are the Budget Committee. When the acting director of the OMB was here the other day, the chairman criticized him and the administration for saying as part of this budget we have got the $487 billion worth of cuts, and saying that was stuff that the Congress did on a bipartisan basis. Today, the chairman is criticizing, I think, the administration for taking those same budget cuts as part of this budget and savings. You just cannot have it both ways.

I would also point out that in addition to the security cuts made as part of the Budget Control Act, we took very deep cuts over the next 10 years in non-defense discretionary spending. Those items are also on the chopping block as part of sequestration. I just would note as a historical note, that in designing the sequester, the offer was made to our Republican colleagues to say instead of having these particular defense cuts as part of sequester, we can get rid of a lot of special interest tax loopholes. They chose to put the defense cuts on the table before cutting tax loopholes and special interest tax breaks. That is just a matter of historical record. That is a decision they had to make.

I would also point out that as part of the administration's budget request there are over $300 billion in savings in mandatory health, which is about equivalent, in aggregate, to the amount recommended by Simpson-Bowles in that category, as well as some non-health mandatory spending cuts; and of course, the president's budget includes about $1.6 trillion in revenue raised as part of a balanced approach, closing those tax loopholes, and asking folks at the highest income levels, the top 2 percent, to go back to the same top marginal rates they were paying during the Clinton administration, a period when the economy was booming.

Mr. Secretary, I want to ask you about one of the proposals that has been put forward by the chairman of the Armed Services committee to deal with sequester, and what he proposed in a piece of legislation that I have right here, is across-the-board cuts in civilian personnel, both at the Defense Department, and outside the Defense Department. I think it is worth noting that 36 percent of executive branch civilian employees are at the Defense Department; almost one in four civilian employees in the federal government work at the Defense Department. That is 764,000 out of 2.1 million federal employees. So that proposal would result in the Department of Defense cutting over 80,000 civilian workers over the budget period.

Now, as part of your budget you have emphasized and need to strengthen the defense acquisition workforce in order to save tax payer money, to make sure that we are not wasting money, and to make sure we have sufficient capacity and capability. In fact, you say that this workforce determines the quality of DOD's acquisition outcome, an area of the budget which we all agree is in need of improvement.

Mr. Secretary, and I would point out GAO has highlighted this as an important area as well and has pointed out that in many cases, we actually now hire contractors as part of the acquisition process because we do not have enough in-house expertise, a practice that raises conflit cof interest issues, which GAO has also pointed out could waste tax payer money.

So Mr. Secretary, I want to know that if we were to mandate a 10 percent cut in the DOD civilian workforce, what impact would that have with respect to strengthening the acquisition process and saving tax payers money without harming the defense of this country?

Secretary PANETTA. Yes, let me respond by first saying that Congressman McKeon, I think, was trying to make a good faith effort to try to do something to avoid sequester, and I commend him for that, but I have also told him personally that the approach of simply going after the civil service side of it, particularly when it came to defense where we do have over 700,000 civilians who work in the Defense Department alongside the military men and women in uniform, that it could impact on our ability to implement our mission, particularly with regards to the area that you just described.

Look, I was director of the CIA. The CIA is made up of civilian workforce, and these are people who every day put their lives on the line in order to protect this country. It is not to say that, obviously, some savings cannot be achieved here, but I think to just put it all on the backs of the civil servants in this country I think would not be a wise step.

Mr. VAN HOLLEN. Thank you, Mr. Secretary, let me ask you a question with respect to your audit workforce, and despite efforts of the Defense Department over the years, the Defense Department remains a federal agency that has not now passed a clean audit. The Department of Homeland Security finally cleared that hurdle, so there is clearly room here for improving efficiency, and in fact, as part of your budget, you recommend increasing the audit workforce in order to save tax payer money, and not allow those dollars to be wasted. In fact, you recommend a 10 percent increase in the audit workforce, so that we can get a handle on these things. I am going to assume that a 10 percent cut in that work force when you have asked for a 10 percent increase would make it more difficult for you to save tax payer dollars in a wise way through auditing.

Secretary PANETTA. Obviously.

Mr. VAN HOLLEN. Thank you. Now I want to get to this issue of contractors because sometimes people in Congress, when they talk about we are going to reduce the civilian workforce, they think it is going to save the tax payer dollars. You go back to your constituents and say hey we reduced the size of the civilian workforce when in fact, in many instances, those same tasks and responsibilities are contracted out.

And in fact, Mr. Secretary, if you could talk about that because one of your goals has been, in part, to reduce the numbers of contractors. I would point out that the project on government oversight has a study that found that contractors get paid 1.8 times more than the government pays federal employees for performing comparable services. So anybody who thinks that just cutting federal civilian employees and contracting out that work saves tax payer money is just plain wrong. So if you could talk about that choice and that challenge.

Secretary PANETTA. Well, one of our efforts at efficiencies is to try to reduce the numbers of contractors we had there. I think it was Secretary Gates who basically said he did not know how many contractors were at the Defense Department because you are looking at just numbers of contractors plus all of the subs, and plus the others that are related to that, so it is a huge number, but there is no reason why we should not know how many contractors we have. Frankly, there have been responsibilities that have been contracted out that I think should be performed within the civil service side of the Defense Department. So we are looking at that whole area as part of the efficiencies, the $60 billion that we hope to achieve in savings, that represents a good part of that.

Mr. VAN HOLLEN. Thank you, Mr. Secretary. My last question deals with looking at our national security challenge in a comprehensive way. Your predecessor, Secretary Gates, often pointed out that we need to deploy the full scope of resources, focusing, yes, on the military, but also on our diplomatic capabilities, our development assistance capabilities. I would just like to read a quote from him that he gave at a speech at the Nixon center. He said, and I quote:

"I never miss an opportunity to call for more funding for, and emphasis on, diplomacy and development. Whatever we do should reinforce the State Department's lead role in crafting and conducting U.S. foreign policy to include foreign assistance on which building security capacity is a key part. Proper coordination and concurrence procedures will ensure that urgent military capacity building requirements do not undermine Americans overarching foreign policy initiatives."

Admiral Mullen stated in a letter to the majority leader in 2010, "The diplomatic and development capabilities of the United States have a direct bearing on our ability to shape threats and reduce the need for military action." General Dempsey has made similar statements in the past.

I want to ask you because last year's Republican budget, cut around $240 billion from diplomacy and development assistance, which your predecessor and Admiral Mullen and others have said are important to our overall national security. Could you comment on whether you share the views of Secretary Gates on this issue?

Secretary PANETTA. Look, I think we all understand that a strong national security cannot be just dependent on our military power and our military weaponry and our military men and women. A strong national security is dependent on having a strong diplomatic arm, a strong development arm, a strong intelligence arm, a strong capability to try to have a strong economy in the world. I mean all of this is related to our national security, and I

think if any one of these areas suffers cuts above and beyond others, it is going to damage our security just by virtue of the kind of broad approach we need to have to maintain the leadership position we have in the world.

Chairman RYAN. Thank you. Mr. Calvert.

Mr. CALVERT. Thank you Mr. Chairman. Mr. Secretary, thank you for your service. I believe your home in the Carmel Monterrey area has to be one of the most beautiful places on the planet, so I know you are enduring a big sacrifice being here, so I thank you very much.

Secretary PANETTA. It does make my sanity subject to question.

Mr. CALVERT. Yes. And General, thank you for your 38 years of service. The next few years may be your most critical time.

Secretary Panetta, you have publicly stated that sequestration is unacceptable. I agree with you, and I am concerned about the devastating impacts of sequestration, both the method and the amounts that would have on our ability to protect our vital national interests around the world. As you mentioned, right now China is building two aircraft carriers, with them the ability to project power. China continues to develop anti-satellite missiles and cyber warfare capability. Iran is on the precipice of obtaining a nuclear weapon. North Korea is increasingly unstable and confrontational. North Africa is experiencing a rise in terrorism. There is strife in many parts of Central and South America, right in our backyard. The Arab awakening in the Middle East remains unpredictable. Russia continues to rise, both economically and militarily, and the list goes on.

According to reports, sequestration reductions would lead to the smallest ground force since 1940 that was mentioned, a fleet of fewer than 230 ships, the smallest level since 1915, and the smallest tactical fighter force in the history of the United States Air Force. Mr. Secretary, can you elaborate on your thoughts on the devastating impacts if sequestration takes place?

Secretary PANETTA. Well, I have been saying this and I think you understand. You take a meat axe approach to the defense budget where you basically cut $500 billion across the defense budget, what you are basically going to be doing is weakening every area of the defense budget. You are going to impact on force structure, you are going to impact on compensation, you are going to impact on our ability to develop the kind of weaponry that we do need for the future. The reduction in sequestration we are virtually going to have to stop production on most of the key weapons that we have in production as a result of that kind of impact. The bottom line is that sequestration would be totally irresponsible. It would devastate our national defense, it would weaken this country, and it would tell the rest of the world that the United States is going to be not only a weak power, but unable to respond to the threats that you just pointed out.

Mr. CALVERT. Thank you, Mr. Secretary, for that very direct answer. General Dempsey, last week during a HAC-D hearing you talked about the current environment being the most dangerous time that you can remember in your 38 year career. Can you please expand on that, and what that means in the context of sequestration?

General DEMPSEY. Yeah, I can. It is a bit of a strategy paradox, is it not, because the great powers are not really any longer really standing off against each other, but there are plenty of, let's call them near-peer competitors, and even more important, there are a wide variety of non-state actors, super empowered individuals, terrorist groups, who have acquired capabilities that heretofore were the monopoly of nation states. And so when I said that it is the most dangerous period in my military career, 38 years, I really meant it. I wake up every morning waiting for that cyber attack or waiting for that terrorist attack or waiting for that nuclear proliferation, waiting for that proliferation of technologies that makes it an increasingly competitive security environment across the globe. The effect of sequestration will be that we will have to go back and redo our strategy, the strategy that we just adapted from the QDR strategy to this emerging defense strategy as we have described it. We would have to redo that, and as the secretary said, it would, in my personal military judgment, impose unacceptable risks to our national security.

Mr. CALVERT. Thank you. Thank you, Mr. Chairman.

Chairman RYAN. Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman. Thank you, Mr. Secretary and General Dempsey, and your entire team. I guess I can say that this is a room where we always look up to you, Mr. Secretary, but we do appreciate your service. In San Antonio, military city as we call it in Texas, as I am sure in a number of other cities across America, there has been concern, or at least great interest, in your comments about base realignment and closure. San Antonio, as you know, actually gained, though it was a traumatic gain, with the closure of Brooks Air Force Base, there in the last round. This city, under the leadership of Mayor Castro, has already reached out with Fort San Antonio to find, I think, about 139 additional acres if there is a need for expansion at Lackland. We see the 24th Air Force cybercommand there as a place where cyber warfare alternatives can be provided to those facilities that we have here in the Washington area. I think that the proposal that Senator Hutchison and Senator Tester have put forward to include overseas bases in any of that review, that there at least needs to be a mechanism in any future BRAC to consider where our overseas commitments are, even though there are treaties and other things to consider, and would just ask you to consider that as you go forward.

Then of course all of us have thousands of veterans in our areas, and people that are military retirees. You have a number of proposals that you are considering that would impact those military retirees. Can we assure those who are retired now, or who are nearing retirement, that they can feel that their retirement on fixed income is secure?

Secretary PANETTA. With regards to your last question, yes. Our goal with regards to looking at retirement, we have made clear, and the president has made clear, that people ought to be grandfathered in who are serving in the military, those who have served, or are about retire, that they will get full retirement benefits as promised to them. Our goal is to try to look to the future and see

what reforms we can make with regards to those that will join the armed forces in the future.

With regards to your overseas bases question, and I understand exactly what the thrust of the legislation is about. We do have the authority to close bases overseas, obviously, we would have to do it pursuant to the treaties and the diplomatic relationships that we may have, but nevertheless, we have, over the last few years, cut almost 100 bases overseas. We are in the process of taking down two of the four brigades in Europe, and that will involve some additional infrastructure reductions as well. So I am trying to do this on the basis of substance. What is it we need to have, what is it that we need to maintain, and that is the basis on which we are approaching it in the Defense Department.

Mr. DOGGETT. Two even more controversial issues: one of them, I believe you are doing everything you can to seek a non-military approach to Iran, and I would just encourage that you continue to do that. It is difficult to see, while all options have to be on the table, how military intervention there can do anything but make our families less secure.

Secondly, in Afghanistan, I know that your remarks have caused some extended public discussion and will continue to do so about our future in Afghanistan. I view Colonel Danny Davis, and I have read his article in the Armed Forces Journal, and am aware of his other comments; I am sure they were not well received in some quarters, but as a hero who spoke out about the troubles that we have during our policies in Afghanistan. What happened there this past weekend in a very secure area where brave Americans were killed by people in Afghan uniforms I know is troubling to all of us. I think your comments that we were prepared to move forward in 2014, unlike some of my colleagues, I would like to see you move more quickly rather than more slowly, and encourage looking at our policy there to find a way to ensure our security, having achieved many of our goals, and assure our security without as broad a footprint as we have today. I thank you Mr. Secretary.

Secretary PANETTA. I appreciate that. With regards to Afghanistan we really have, I think, turned a corner in 2011 with regards to Afghanistan. We were able to weaken the Taliban, we were able to reduce the level of violence there, the Afghan army, for the first time, really engaged and performed well and took over the key security responsibilities in key areas. We are in a process of transitioning areas now to Afghan control and security. We just completed a second tranche which represent over 60 percent of the population of Afghanistan now being under Afghan control and security, and we are going to continue that process. The final tranche will take place in 2013, and our goal at that time, then, is to obviously move towards having the Afghans take the lead on combat operations with our support. We will still be in combat mode and support, but we are going to try to be able to move that responsibility over to the Afghans, but maintain our transition through the end of 2014. NATO is unified on that path, and it represents what we agreed to in Lisbon. I think it is the right path. Even with the events, I might say, over the last week, and I have to tell you that the Afghan army performed well. They controlled the demonstrations, the level of violence was able to go down, and they performed

very well which gives us additional confidence that these guys can do the job that we have asked them to do.

Chairman RYAN. Thank you. Mr. Cole.

General DEMPSEY. Mr. Chairman, I am not going to answer the Congressman, but I would like to take the opportunity to make sure you know that my silence on the issues of Iran or Afghanistan are not in agreement with your position, and I would be happy to come and speak with you about it. To understand the complexity here, there seems to be, sometimes, some stark black and white choices, there are not, and I would love to have the opportunity to talk to you.

Mr. DOGGETT. I look forward to visiting with you.

Chairman RYAN. Great. Mr. Cole.

Mr. COLE. Thank you very much, Mr. Chairman. Thank both of you. I had the opportunity to hear you in Defense Appropriations Sub-Committee and as usual, it is always compelling and really thoughtful testimony, and I appreciate it. My friend Mr. Calvert, who also had the benefit of that brief, he asked some really good questions on sequester, I want to ask you a timing question, and a probability question. In your view, and you have been around this place, number one how likely do you think it is sequester will really happen, and because I, actually, am very afraid about it, but everybody seems to think that will never happen. Well, of course we all thought the Super Committee would work too, and that was not supposed to happen. So we are here, and dismissing these things out of hand, I think, is dangerous.

The second question is from your planning standpoint, how much time do you need to prepare for that? I think Congress sort of has the idea that we will wait until after the election, and then we will address whether or not there is going to be a sequester. What does that do to you, and obviously your uniformed subordinates, in terms of planning?

Secretary PANETTA. With regards to sequester, I sure as hell hope it does not happen. I think, as I said, it would be a terrible reflection, I think, on the Congress and the leadership of this country if the leadership of both parties were not able to come together and de-trigger that mechanism. I do remain confident, I really do after 40 years in this town, and having been through a lot of battles, legislative battles and challenges, that I still have a deep fundamental belief that in the end, despite the politics, despite the back and forth that often takes place in this Congress, that when it comes to our national security and when it comes to issues like this that ultimately the right decisions are made. I remain hopeful that you will do the right thing with regards to sequester.

With regards to planning, we are not planning on sequester. As General Dempsey pointed out, I would have to throw the strategy I just presented to you out the window if we had to do that with sequester. At some point, I suspect OMB, probably in the summer, will have to request that we take a look at it, and try to determine what steps would be taken. I just think that it would very difficult to plan, frankly, because it does have this kind of crazy formula that would be applied and which we would have very little flexibility to try to do what we could to avoid the impact of sequester.

General DEMPSEY. Sir, could I add please?

Secretary PANETTA. Sure.

Mr. COLE. Please.

General DEMPSEY. Although we are not planning, congressman, the defense industrial base, which has to have value proposition and business plans, are planning for it, and at some point, the specter of sequestration will have its own effect, whether it ever goes into existence or not.

Mr. COLE. That is a great point. Let me ask you, Mr. Secretary, as well. You mentioned it was going to sort of take an all-of-the-above strategy to deal with a budget deficit of this size. To your knowledge, has the president proposed any entitlement reforms?

Secretary PANETTA. I believe that as part of the request in the budget that they would include some recommendations with regards to entitlements. I know during, obviously, the negotiations that were held on the budget deal that some of those were put forward. I honestly believe that you have to confront that. Look, discretionary spending is one-third of the budget. You cannot ignore the two-thirds of the budget that are blowing through the ceiling right now. That has to be part of any deal, and when we faced this, and as I said, almost every summit that I was a part of, we had to put entitlements on the table, we put discretionary on the table, and we had revenues on the table, and that is what led to the agreements that both Republican and Democratic presidents put forward. I think that is where you have to go. These are record deficits you are dealing with. I never in my lifetime, especially after getting a balanced budget, expected that we would have a 1.3 trillion deficits. That has to be dealt with, and it can only be dealt with through the tough choices I just pointed out.

Mr. COLE. Last question, and we do not have a lot of time. You went through and you described what those processes took to the Defense Appropriations Sub-Committee just in terms of the conditions that had to prevail to reach the desired outcome. If you have a second, would you mind just laying that out again? In your opinion, as somebody who has been through these, to achieve that kind of goal?

Secretary PANETTA. I am sorry; you are talking about in terms of what?

Mr. COLE. Well, I am actually out of time, but thanks for your service and I appreciate what you are doing.

Chairman RYAN. Mr. Blumenauer.

Mr. BLUMENAUER. Thank you Mr. Chairman. Mr. Secretary, I thought your statement was excellent. I loved the outline that you presented, and you are the right person at the right place at the right time. There is nobody in history that has had the range of experiences that you have had legislatively, in the executive branch, and the various departments; you know this stuff. I think it is important that you emphasize that we will still have the most powerful military in the world if this takes place, and actually if it went beyond that because of the outstanding capability that we have. I think you implied, but I think we Congress need to have more sympathy with the notion of how we deal with the notion of risk. We are not going to reduce risk to zero, but I think what you have attempted to do here is to provide a more balanced approach to a wider of variety of risk. It is much less likely that we are going

to fight two land wars. There is nobody in the world that can engage us in naval efforts. Even after the Chinese somehow, someday get an aircraft carrier or two. I think you have done a great job of helping us think through what we need to deal with the risks of the future: the terrorists, cyber terrorism, asymmetrical attacks, special ops challenges that are being faced right now, both in uniform and CIA, and whatnot. I am of the opinion that our military can do this. They can take the parameters that we give them with your leadership. This is something that can be done. I have been stunned at the capacity what they have done in the past.

Congress has screwed it up. Congress has raised compensation levels. Talk about entitlements, we have not raised TRICARE since 1990, and it is less sustainable than anything we are talking about with Medicare. We have required the military to buy equipment that it did not necessarily want, in some cases did not need. The political engineering of the tasks that you, your predecessors, and the men and women in uniform have had to cope with boggles my mind and it is amazing that it is as good as we have today.

Congress could not close a base. We had to come up with this jerry-rigged system so that we could actually deal with military closures. I am hopeful that we do not fail in terms of going all political on you, undercutting you, making it harder than this difficult task is.

One of the things, Mr. Chairman, I hope we can do, and I have talked about it around this table before, is to deal with some of these things that we agree on because if we could give you an ironclad timetable of 12 or 15 years, there is a whole lot that you could do, but we have forced you to do things with civilian contractors, and then not given you money to have oversight. I am hopeful that we will be equal to the challenge in Congress. I am not worried about the president. I am not worried about the men and women in uniform; I am not worried about your capacity. I am worried about Congress.

But I would like to zero in on just one area that you have specific expertise in because you mentioned Fort Ord. One of the things I have been trying to work with since I came to Congress is to deal with helping the military clean up after itself, and Congress has fallen down.

We have not given you the resources. We have had other priorities, and we have cut the ground out from underneath you, but we are still working. You have given Sam Farr a task; he has been in Congress 18 years, and you are still cleaning up after Fort Ord. That has real applications in terms of military readiness. If we did a better job of helping the military clean up after itself, there would be applications that you could use to keep our men and women safe overseas and families safe around these military facilities. The military is the largest generator of Superfund sites. I have got one in Portland, Oregon that is the result of three naval efforts, in three wars, and decommissioning ships, and we are going to bankrupt companies in Portland because the Department of Defense is not participating in cleaning up after itself. I wonder if, and my time is short, but I wonder if we can engage you in something where there is a better partnership when you are spending $1.7 million a minute to help bases all across the country.

Maybe it would not be so hard to close bases if we did not stick them with a toxic mess of unexploded ordinance, and then leave the community and turn our back on them.

Secretary PANETTA. I would be more than happy to engage you in that process having been through it at Fort Ord. Frankly, the only way to ultimately achieve savings when you do BRAC rounds is to be able to have the clean up, and do it expeditiously so communities can re-use the property and not be stuck holding property that cannot be re-used. There are a lot of things I think we can do to improve that process, and I would be more than willing to engage with you on that.

Mr. BLUMENAUER. Thank you very much, thank you Mr. Chairman.

General DEMPSEY. Chairman, if I could because whenever there is a dangling participle here I want to make sure I do not let it just hang. You said you are confident we can do what we need to do at this budget level and even beyond. I am not signing up yet for the even beyond.

Chairman RYAN. Point taken for the record. Dr. Price.

Mr. PRICE. Thank you, Mr. Chairman. I want to thank the secretary and general as well for joining us today. Mr. Secretary, I could not be more struck by your comment about the entire budget and the need for complete reform, looking at the whole budget, not just the third of the pie that is the discretionary side. I think so often in this town we sweep things under the rug, and right now what is being swept under the rug, sadly, is addressing the real fiscal challenges, and that has all sorts of spin-offs into the economy and challenges there if we do not stop spending money that we do not have. General Dempsey, I want to visit a comment that you made recently regarding the nation of Iran. The statement, and I think I have the quote correct here, that stunned me and many of my constituents, and that is your quote, "We are of the opinion that Iran is a rational actor," unquote. Do you stand by that statement, and maybe you want to explain a little more?

General DEMPSEY. Yes, I do, sir. I stand by it because the alternative is almost unimaginable. The alternative is that we attribute to them that their actions are so irrational that they have no basis of planning. Not to sound too academic about it, but Thucydides in the 5th century B.C. said that all strategy is some combination of reaction to fear, honor, and interests; and I think all nations act in response to one of those three things, even Iran. The key is to understand how they act, and not trivialize their actions by attributing to them some irrationality. I think that is a very dangerous thing for us to do. It does not mean I agree with what they decide, by the way, but they have some thought process they follow.

Mr. PRICE. Maybe you can help me understand then, what you believe to be the rationality of an assassination attempt on the Saudi ambassador in our territory?

General DEMPSEY. Well, I am not here to justify Iran's actions.

Mr. PRICE. Just asked you to comment on the rationality of it.

General DEMPSEY. I do not understand their rationality, but I am not them.

Mr. PRICE. But you have described them as a rational country.

General DEMPSEY. I am suggesting that they take actions; they are calculating. What I am suggesting is that we need to be equally and maybe even more calculating.

Mr. PRICE. Do you believe it to be rational on their part to seek nuclear weapons?

General DEMPSEY. No, not by my standards, of course not. Absolutely not on my terms.

Mr. PRICE. Over the last three years, the amounts requested by this administration for missile defense for, arguably, our strongest ally in the world, Israel, went from $121 million in 2011 to $106 in 2012, to $99 in 2013. What justification, given what we see out of the nation of Iran, can you give, either general or secretary, for that decrease in that trend line?

Secretary PANETTA. Well, let me mention with regards to Israel, we have significantly increased the amount of funds that we provide to Israel. It is now $650 million, which more than doubles what was the level in the prior administration of about $320 million. We have provided significant funding for Israel's Arrow and Sling ballistic missile defense programs. We have secured funding for Iron Dome system, which is a great defense for them against short-range rockets. Whatever decisions we have made with regards to Israel and their assistance level has been made in conjunction with them.

Mr. PRICE. And I understand that sometimes they have concurred and sometimes they have not.

Secretary PANETTA. Right.

Mr. PRICE. I guess I would express a grave concern on the part of folks who watch this, and I know you do with keen interest and great concern, that the public statements that have been made, general, regarding what we believe Israel should or should not do, are harmful to the ability for planning to occur, I suspect, diplomacy to occur, that in fact some of the comments that you have made many believe have empowered Iran to a greater degree. So I would just ask you if you believe that if Iran gets a nuclear weapon, do you believe they can be deterred diplomatically?

General DEMPSEY. Well, we have all said, everyone in uniform, there is no group in America more determined to prevent Iran from achieving a nuclear weapon than the Joint Chiefs of Staff, I assure you of that.

Mr. PRICE. Mr. Secretary?

Secretary PANETTA. We are committed, not just to contain, but to prevent Iran from getting a nuclear weapon. That is a fundamental commitment that the president, and the administration has made. We have made very clear to Iran that they are not to close the Straits of Hormuz. We think that the international community is unified in trying to isolate Iran, and trying to make clear to them that they have to stop their process of trying to move towards nuclear development, that they have to stop the kind of spread of terrorism that they are engaged in, and if they want to resolve these issues to join in a diplomatic effort, and join the international community in a diplomatic effort to resolve these issues. Make no mistake about it, we are maintaining all options on the table to make very clear to Iran that they are not to do what we just said.

Mr. PRICE. Thank you, Mr. Chairman.

Chairman RYAN. Thank you. Ms. Castor.

Ms. CASTOR. Thank you Mr. Chairman. Secretary Panetta, and General Dempsey, thank you very much for being here and all of your years of service.

Over the past decades, the threats to America's national security have evolved from the conventional threats, threats from state actors, to unconventional, non-state actors, terrorist networks, and terrorist organizations. America and the Department of Defense have rightfully adapted and grown a terrific special operations force, special forces; we have invested in that, and the budget has grown there rightfully. The best examples of the value of those investments: the take out of Osama bin Laden. Thank you very much. The Maersk Alabama when the sharpshooters were able to take out the pirates and really save lives in doing so, and then just last month the rescue in Somalia of aid workers. So I think the new strategy that you emphasize in the budget rightfully invests, and continually, in special operations.

The former SOCOM commander, Admiral Eric Olson, always emphasized quality over quantity, but after years in Iraq and Afghanistan where special operators around the globe have been assigned to the central command area of responsibility, it is obvious that special operations in other parts of the world have been in doubt. Admiral McRaven, the current SOCOM commander, is asking for greater agility and flexibility in building forces around the globe back to where they need to be.

You did not get into it in detail in your testimony, would you go into greater detail on the importance in the strategic shift to special operations around the globe?

And also another problem with sequestration is, and I am interested in your interpretation, of across-the-board cuts. You said if that happens you would have to throw out your strategy, but how are you interpreting that right now? If the worst case scenario happens and we know we have got to continue to invest in special operations, but do you interpret it that across-the-board cuts means that we will not be able to make those strategic investments where we need to be making them?

General DEMPSEY. I will take the easy one and I will pass it to my boss. Special operating forces are really, what I would describe as, one of three capabilities that over the last 10 years we have learned the most about; and in fact, that is one of the things about our strategy. What we have done is learn the lessons of the last 10 years of war, and how we can better integrate existing conventional capabilities with emerging capabilities. The three I will mention are ISR, which is phenomenally better in terms of ELINT, SIGINT, full-motion video, high definition, all the things that have happened on your iPhone have happened to us in ISR, if you have an iPhone, I hope you do.

The second one, of course, is special operating forces. We are going to grow them by 3,000 in this budget. Eventually, over the fit of probably 8,000, and that will allow us to get back to, not only the high end direct action activities, but also building partner capacity across the globe with new and emerging partners; and the last one is cyber. That is the third of those three capabilities, I think, that we have to account for now. Ten years ago, we would

not have had a conversation about cyber; we better be having a conversation about cyber today. Mr. Secretary.

Secretary PANETTA. Yeah, the problem, as I said, with the formula in sequester by taking it across-the-board it is going to impact on every area of the defense budget, but it will impact on our investments. The investments that we are making will be undercut and we will find ourselves, instead of having the kind of weaponry, the kind of technology that we need, the kind of equipment, the kind of training, the kind of support system that we need, all of that will be undercut by virtue of sequester. You are not only hitting the main elements of the defense system, our force structure, and the support systems that are there, you are hitting the investment portion that it is so important to the future.

Ms. CASTOR. There is a lot of talk about giving special operations greater flexibility even outside of the combatant commanders, and what is your view of how that is going to evolve?

Secretary PANETTA. Well, look, first and foremost I am big supporter of special operations, particularly in my last job we had a great relationship and worked very closely together. Admiral McRaven is looking at ways to try to see how we can expand their role because we are talking about trying to get them into more of a rotational presence in places around the world. We are in the process of considering some recommendations. We have not made any final decisions, but I can tell you this: Special forces will play a large role in the future.

Ms. CASTOR. Thank you very much.

Chairman RYAN. Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman. Thank you, and I want to thank all three of you for being here today. Mr. Secretary you come here with some very unique qualifications to be here today. General Dempsey, your record is quite exemplary, and I want to congratulate you on having children that followed you in service. It is quite an honor to be here with all of you.

Just to kind of preface some comments, Mr. Secretary, based on what you talked about prior with three years of trillion dollar deficits. It is a concern and I appreciate you bringing that up. I just want to read something from another relatively famous general, Dwight Eisenhower. In his farewell address, he said:

"Another factor in maintaining balance involves the element of time. As we peer into society's future, we, you and I and our government, must avoid the impulse to live only for today, plundering for our own ease and convenience the precious resources of tomorrow. We cannot mortgage the material assets of our grandchildren without risking the loss, also, of their political and spiritual heritage. We want democracy to survive for all generations to come, not to become the insolvent phantom of tomorrow."

That is a wonderful warning to all of us regarding trillion dollar deficits, and you have sat in these chairs, and you know the challenges that we face. Back in 1977 you were one of the first people to ever introduce a biannual budget bill. Do you still support that concept?

Secretary PANETTA. I have always thought it made sense to try to extend, because we were fighting a budget battle every year. Frankly, we would have been better off establishing a two year

process; it would give us some planning for the future; it would allow us to look not just at the moment, but also what we need for the next year; and frankly, it would have provided a little more stability, I think, within the Congress. So the answer to your question is yes, I still support a biannual budget.

Mr. RIBBLE. All right, and I am appreciate of that, sir, because I have offered one up for this Congress, and hopefully maybe I can finish what you started several decades ago. How would that affect military planning to actually have a two year budget cycle rather than a single year?

Secretary PANETTA. I think it would give us the opportunity to establish a much more stable approach to funding defense if we knew that we did not have to fight this battle over funding every year, but had at least a two year cycle to be able to look at.

Mr. RIBBLE. Do you feel it would enhance oversight?

Secretary PANETTA. I think it would because my view, and the point behind the legislation I introduced was to allow one year to go through the budget process, the appropriation's process, and frankly, one year for better oversight.

Mr. RIBBLE. Okay, thank you and I am very cognizant of the budget restraints we have. We are all wrestling with this, all of us are, and I know you are as well. I represent north east Wisconsin where the fine ship builders at Marinette Marine are building our littoral combat vessels.

Secretary PANETTA. Oh yeah.

Mr. RIBBLE. I am just kind of wondering how the decision process was made for reduction in LCS?

Secretary PANETTA. You know, obviously the Navy made the recommendations on it because, I think, they were trying to emphasize other elements within the fleet that they thought they would need for the kind of flexibility and agility that we needed. Specifically, I cannot give you my specific answer on that.

Mr. RIBBLE. General, any idea?

General DEMPSEY. No, I think it goes back to the chairman's comment about are we giving up on a particular number as the goal for the size of the fleet. I think what the CNO is doing is taking a look at future threats, taking a look at a new fiscal environment, which we all acknowledge, and determining how best to manage the fleet so it provides as much versatility as possible, and anything we do now has to be multi-role. That is one of the characteristics of the decisions we have made in this budget. You will see that things that had a single role in the past we are letting them go so we can have as much multi-role capability as possible.

Mr. RIBBLE. General, if I could just follow up with one quick question. Thank you for that answer, by the way. Could you also maybe just expound a little bit on what we might be able to do encourage nations like Germany and France and others in Europe, because I think there is a sense that we are pulling more of their weight than they are. Could you maybe just address that a little bit?

General DEMPSEY. Yeah, I always start an answer to that question by pointing out that if we go to war tomorrow the folks we are going to ask to go with us are still our traditional partners, and so we need to stay committed to them as they do to us. Their

NATO budget in the aggregate is actually quite large. It is about $300 billion in defense in the aggregate. Your point, though, is the absolutely correct one, which is how can we best harmonize their capabilities with ours. And there are some things they need to invest in, as we have told them, for example, ISR, tankers, things on which they rely on us. They have an initiative in NATO called NATO Smart Defense, and we are trying to actually articulate what that means so that it produces the outcome you just described.

Mr. RIBBLE. Thank you, and I yield back.

Chairman RYAN. Mr. Pascrell.

Mr. HALE. Can I just briefly say a word on biannual budgeting, and that is it did not work before because we never got a biannual appropriation, so if you are going to push it.

Chairman RYAN. Point taken. Mr. Pascrell.

Mr. PASCRELL. Thank you, Mr. Chairman. Secretary Panetta, thank you for your service. Thank you also Mr. Hale, and General Dempsey. I am a bit embarrassed, all the way from the academy to the head of the 7th Army to here, and you got to be asked a question, Mr. Chairman, knowing your record, very specifically, as to why are you cutting, or recommending, that we cut the missile defense money for Israel from $120 million to $106 million. That message is there, it is only a small part of the budget, is it not?

When we end a day of pandering, Mr. General, on our side of the table here, and then we will really get some action in the Middle East. Israel is one of our strongest allies. We have committed to that country, we doubled the money in the last three years as you pointed out, so it is really beyond me. It wastes our time as to who is more concerned about Israel, Uncle Louis or Aunt Tilly. We are committed to that country, period. It is important that that democracy continue, so I apologize for what you were asked in terms of what you have given to this nation.

Now, secretary, I want to talk on a very light subject, procurement. The realities of the situation that we live in where we need to provide the resources to our military and keep us secure at all times. In previous years, changes to procurement were notoriously tough to make, even though the administration would not request unneeded weapon systems, like the F-35 alternative engine. Members of Congress would sneak funding into the bills anyway. This year, we actually had an open appropriations process and I have to salute the other side. I want to give the folks on the other side credit. We were actually allowed to take a vote individually on some of these unneeded weapon systems, like the F-35. This unnecessary program was kept alive for years. How much money did we waste when you go back in the years when there are attempts to change things? Now that it has been eliminated, we are going to save $3 billion.

Mr. Secretary, can you talk a little bit about the other procurement changes that are included in this budget and how they will save the tax payers money moving forward? Before you answer that question, Mr. Secretary, if you would my time will run out, on the matter of traumatic brain injury, we have a long way to go to live up to what this Congress and past Congresses have attempted to do for our soldiers who have not been responded to when they

come off the signature injury of traumatic brain injury and post-traumatic stress disorder. I would like you to address that, you cannot do it today, but at least address the first question.

Secretary PANETTA. Well, just briefly on your last comment on traumatic brain injury, this is an area of tremendous concern because what we are seeing is that men and women coming back from the battle area, even though they may not display the symptoms of it, when they are back in their communities it is clear that they have had that kind of injury. Also, obviously, for those that have gone through IEDs, traumatic brain injury is something that we see all the time, and the ability to work with that and ensure that these kids are able to regain their capability. Science, and medical science, is doing some wonderful things, but we need to do much more to ensure that they are protected.

With regards to procurement, this is an area in particular where I think we have to do everything possible to try to achieve savings. You have pointed out some of the decisions that we have made with regards to the procurement area in order to ensure that, frankly, we do not go ahead with a weapon system unless we know that it has been tested and that it is fully capable of performing the mission. The problem in the procurement area is this stuff drags on for too long, frankly, and the longer it drags, on the more changes are made, the more expensive it is, and by the time it finally comes out it is already outdated. We have to stop that process, and that means we have to begin by looking at the changes that have to be made up front, make sure we stick to that, and then go into production on that sooner rather than later.

Also, we have to do more competitive bidding with regards to the weapon systems. We have to require industry itself to cut costs where it can, instead of, sometimes, going ahead and doing things on their side that build in additional costs in the system, so there is a series of steps that we are taking that are part of our efficiencies to improve procurement reform.

Chairman RYAN. Thank you. Mr. Flores.

Mr. FLORES. Thank you Mr. Chairman. Secretary Panetta and General Dempsey, thank you so much for your service. Just wanted to let you know that there are several of us in this Congress that have your back when it comes to the sequester. We have your back when it comes to supporting our uniform military men and women, and we also have your back when it comes to not balancing the budget on the backs of our uniformed military because what you do is the number one responsibility of the United States government.

That said, one of the quotes that you said, Mr. Secretary, was that this budget and this strategy had no margin for error. I would like to ask you this question, what keeps you awake at night with respect to this budget and this strategy? The second quote comes from General Dempsey: "We have an increasingly competitive security environment." So in light of those two quotes what keeps you guys awake at night?

Secretary PANETTA. I worry all the time about the fact that we are going to wake up and we will be subject to a crisis or an attack, a cyber attack, for example, that we have no idea where it came from, and it virtually has crippled our country, taken down our

power grid, taken down our financial systems; and I worry a great deal about that. There is a hell of a lot to worry about in the world we are in.

I worry about what can happen with Iran. I worry about North Korea. We worry a great deal about what can happen in the Middle East as a result of the turmoil there: Syria, Yemen, Bahrain, other places, Egypt. Those are concerns, but first and foremost, I guess, I worry about the unexpected attack that we are not prepared to deal with.

Mr. FLORES. Right, General Dempsey, do you have anything to add to that?

General DEMPSEY. I do, thanks.

Mr. FLORES. You can keep it short for me.

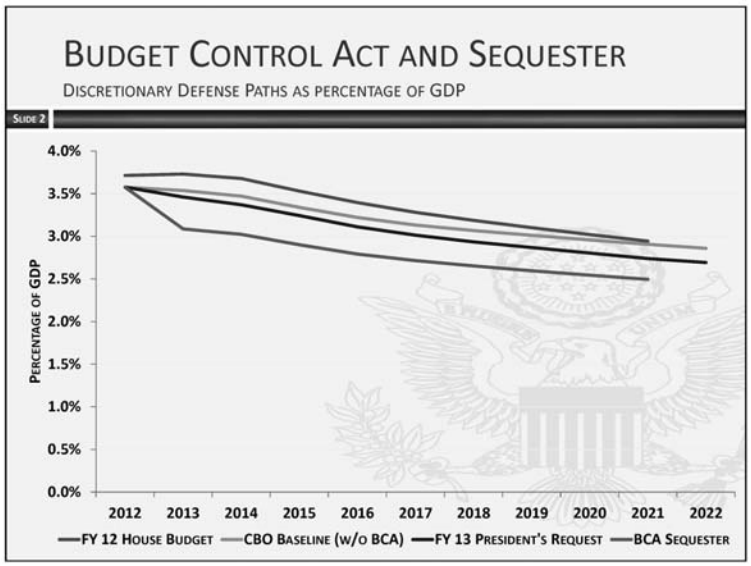
General DEMPSEY. I will, sir, that is all I do. I do short; you heard my opening statement.

Mr. FLORES. I like your style; that is my style.

General DEMPSEY. Right. I worry about the kids that we put in uniform. If we do not ensure they are the best trained, the best equipped, and the best led force on the face of the planet, then shame on us. The other thing I worry about: The world needs America to be a stabilizing global power. The world needs America, and if we reduce our defense capabilities, and we maintain our global aspiration, that disconnect will put those kids at risk.

Mr. FLORES. I would like to have a chart come up.

It is a defense spending as a percentage of total GDP because this is where I want to go. You have made some quotes talking about the security environment that we have, and you have a quote about no margin for error. If I can get the chart up.



This is defense spending as a percentage of GDP. The long orange line represents where we have been historically. The lines to the right represent different outcomes, and the bottom line is the sequester, which we are going to fight to keep that from happening,

but we will have to find alternative areas to cut. The green line is the president's budget, which is the second line from the bottom. Spending less than 3 percent of GDP, which is the lowest number in recent history, probably ever in the history of this country bothers me in light of your quotes. So I would ask you this, and I am not trying to get you cross-wise with the president's policy, but in light of your earlier quotes about our security engagement, what should defense spending be as a percentage of GDP long-term, assuming we are not trying to recapitalize a force that has been hollowed out, that we have long-running planning cycle where we can plan this over the long term?

Secretary PANETTA. I think the answer is not a number. The answer is really what is our capability? Do we have a strong capability to be able to respond to any adversary, more than one adversary at a time, and not only confront them but defeat them; that is the challenge. In the budget we presented, we feel confident that we can take on any adversary and be able to not only confront them but to defeat them. I think that has to be the fundamental question. I think we are comfortable, even though this has been a difficult process, we are comfortable that with this budget strategy that we have presented here that we can protect America.

Mr. FLORES. Well, let us get into the weeds for just a second. Let us talk about the joint strike fighter, for instance, and well get into BRAC if I have time. I have actually sat into the joint strike fighter, and you are right, it does have amazing capabilities, but I am worried about reprogramming it so that we defer purchases out to five years. When you do that, the unit cost goes up.

Secretary PANETTA. No, I know.

Mr. FLORES. And so what is going to happen to the unit cost, what is going to happen to the foreign buyers that want to buy this? Say, if we slow down, then they are going to slow down.

Chairman RYAN. Gentleman's time.

Mr. FLORES. Okay.

Chairman RYAN. You want to answer that quick?

Secretary PANETTA. Can I give it a quick answer? We have got three variants on the JSF fighter, and that by just by virtue of having three variants, we have got to make sure that every one of them works. We have been testing each of them. I just took the marine version off of delay, or probation, because it had met the test. We want to do this right. It is a complicated effort, but the time we have to test it will guarantee that ultimately when we go to production we have a better plan.

Chairman RYAN. Ms. Bonamici.

Ms. BONAMICI. Thank you, Mr. Chairman. Mr. Secretary, and General Dempsey, thank you so much for your testimony and thank you for your service. I join many others, I am sure, in appreciating your recognition that the unacceptable level of debt is a threat to our national security, and I hear that back at home as well. And thank you for making proposals that will implement efficiencies while keeping our military strong and our nation safe.

I wanted to ask you about overseas contingency operations. The budget includes $44.2 billion per year from 2014 through 2022 as placeholders for future war costs. Now, Mr. Secretary and General Dempsey, you have stated that the forces are on track to take the

lead responsibility for Afghanistan security, and you talked about that today, by the end of 2014. So, assuming that that timeline holds, is it possible that we could have significantly fewer deployed troops in 2015 and beyond and could our costs be dramatically less than the $44.2 billion in those upcoming years?

Secretary PANETTA. Well, there is no question. We are running almost how much a year now for the war?

Mr. HALE. We asked for $88.

Secretary PANETTA. It is about $88 billion that we are confronting in the war. As we transition down there is no question that we are going to achieve additional savings as we transition to the Afghan force. We will still, and the president has made clear that we have an enduring presence, and we will have an enduring presence in Afghanistan, but it will be at a level that I think will help support them, but will be far less than what we are doing at the present time, that is for sure.

General DEMPSEY. In fact, could I add, congresswoman, that the costs of this conflict are fully encumbered. What I mean by that is some of that outgo cost is training to deploy, some of it is executed in country, but we also have this huge bubble of recapitalization and reconstitution coming our way. We have said for some time even if the war ended today the next two years will be resetting a force. So I cannot predict for you exactly what those costs will be out that far, and I think the placeholder is important.

Ms. BONAMICI. Thank you, and I think I want to take this opportunity to make a suggestion for some of those cost-savings and reiterate the importance that Mr. Blumenauer raised about cleaning up some of the superfund sites.

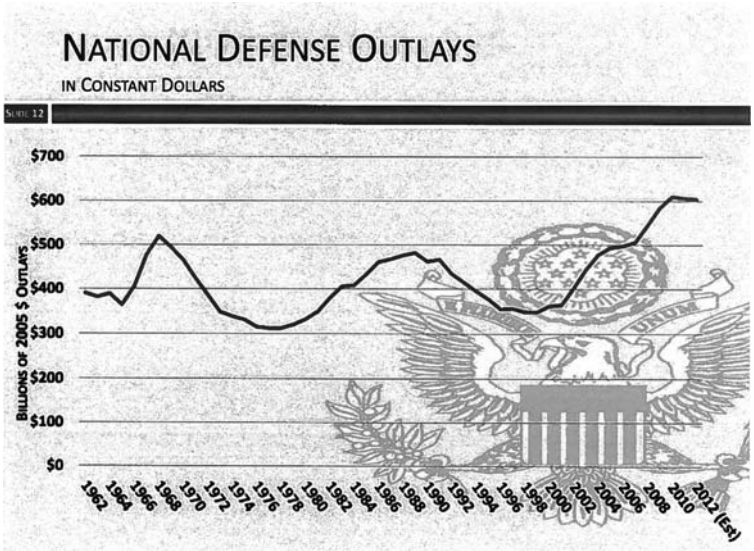
Also, I wanted to talk about healthcare costs. The Affordable Care Act adopted a number of measures to begin reducing the escalation of health care costs across the board, and, in fact, the cost-containment measures reduced TRICARE for Life costs by $4.4 billion over 10 years, thereby reducing military personnel accrual costs in the DOD military personnel accounts. So, as some advocate for the cost savings of the Affordable Care Act to be eliminated, how would that impact the military personnel budget without those cost savings from the Affordable Care Act?

Mr. HALE. We are looking at that all the time. It is a complicated question. The $4.4 you mentioned was a CBO estimate. I think I would like to take that for the record in terms of getting our experts to comment. There is not a real simple answer.

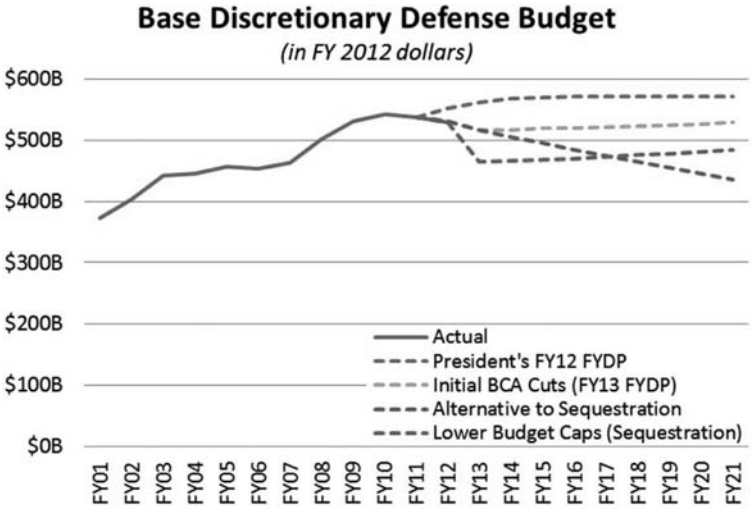
Ms. BONAMICI. Thank you, and I will yield back my time.

Chairman RYAN. Thank you. Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here today. All you gentlemen, thank you for being here today. I recognize that we are in a difficult position. We are sitting here trying to perform a balancing act just like you are. We are trying to figure out how to pay for what it is we want to accomplish as a nation. I need your help, please, to help me understand. I need slide number 12, please.



Help me understand why we are where we are, or why it is so difficult, and if we do not have slide number 12, it is going to be difficult to do this. Gentlemen, we are looking at, in terms of constant 2005 dollars right now, we are looking at a national defense outlays that are roughly 25 percent above where they were in the late 1980s when the Soviet Union was still around, 70 percent above where they were as recently as the late 1990s. I hear what you are saying about this first $487 billion for the cuts. There is no room for error. If I could go ahead, maybe, let us try the second slide and see if we can get to where we are going.



Anyway. What we are looking at now is even with the $487 that you gentlemen were looking at, which is the green line; you are looking at essentially flat spending. Again, this is flat spending off

of numbers that are dramatically increased over what they were just a decade ago. The sequester, which, Mr. Secretary, you have described variously as a disaster, as a crazy doomsday mechanism, as a meat axe approach, only takes us down to 2007 levels. It is a 9 percent cut, but it is a nine percent cut off of a number that has increased 70 percent since the year 2000. Why is it so hard? And I want to agree with you, and I want to accomplish the same things you want to accomplish, but why is it so hard to cut 9 percent from a budget that is up 75 percent from a decade ago?

Secretary PANETTA. I have to tell you, every budget summit, or agreement, I have been a part of, we have never cut the defense budget by a half a trillion dollars. Never. So this is a very significant cut that the congress gave us to reduce the defense budget by. And to do it at a time when we are facing the threats that we are facing in the world, I think that has to be taken into consideration. If you continue to come back at defense and continue to cut it, the margin of error that I talked about is there because it will weaken us in our ability to address the number of threats that are out there. If we were coming out of World War II, or if we were coming out of a war where the threat that we were confronting totally receded, that would be one thing. That is not the case. You are asking us to do a half a trillion dollars in defense cuts at the same time we are facing a huge amount of threats out there that confront this country. That is the problem.

Mr. MULVANEY. And I recognize the fact that it is a half a trillion dollars. By the way, if I understand your testimony earlier, you are planning on the first $487, but is it my understanding that you have not made plans for the sequestration?

Secretary PANETTA. That is correct.

Mr. MULVANEY. And, in all fairness, Mr. Secretary, that is just as much the law right now as the first $487 billion, is it not?

Secretary PANETTA. It is the law, but it does not take effect until January of 2013.

Mr. MULVANEY. Which is nine months from now?

Secretary PANETTA. January 2013.

Mr. MULVANEY. What am I supposed to tell my folks back home, that the Secretary of Defense is not making plans for a half a billion dollars in cuts that take place in nine months?

Secretary PANETTA. Yes, because I think it is totally irresponsible for the congress to allow a sequester to take place that will weaken our defense system and devastate it with these across-the-board cuts.

Mr. MULVANEY. Well, now, you are preaching to the choir. I voted against the Budget Control Act for that same reason. The point of the matter is that it is just as much the law as what you gentlemen are planning for.

Secretary PANETTA. But it is a law that frankly does not require a hell of a lot of planning because it is so blind-minded in the way that it approaches it, it basically provides a formula that cuts defense across the board. There is not a hell of a lot of planning I can do to deal with that kind of approach to cutting the budget.

Mr. MULVANEY. Mr. Secretary, I do not want you to get the impression that we are not all on the same team, because I really do believe in this particular circumstance across both sides of this

aisle, and I share the same worries that you mentioned before. I share the worries about what is happening in the Middle East. I share the worries about cyber attacks. I share the worries about domestic defense. I do not question what you are saying in terms of the role that this country ought to perform. My problem is how the hell are we going to pay for it? Do you remember those words, sir?

Secretary PANETTA. Yes, indeed.

Mr. MULVANEY. They were yours in this same chamber 20 years ago, and I just want to let you know that we are just trying to do the same thing that you tried to accomplish in 1992.

Secretary PANETTA. Absolutely, and I am with you on that. I think it has to be paid for.

Mr. MULVANEY. Thank you, sir.

Chairman RYAN. Thank you. Mr. Honda.

Mr. HONDA. Thank you, Mr. Chairman, and welcome. It is good to see a local boy. Mr. Secretary and General Dempsey, I just want to thank you for appearing before us today and for your tremendous service. In recent history, we have seen some tremendous successes which should be credited to you and to many others. The end of our presence in Iraq, the SEAL Team 6 mission, the expedited schedule for drawdown on Afghanistan will go down in history as much as the celebrated events. For some of us, these milestones could not come soon enough.

With this now behind us, we have to take a hard look at the money that we have been spending and commend you for coming up to the challenge of drawing up a new guidance which finds approximately $480 billion in savings, and you have done this in a very smart and sophisticated way that does not endanger our country or its citizens. And with this recent discussion, I suspect, and I know the answer to the question of sequester, or the impact of it.

The cuts up to now, and I guess the question was going to be is it good enough, and it sounds like the answer would be, I am going to answer my own questions. Up until now, and we need not to go any further because of the complicated defense situation we face ourselves with in terms of cyber systems and everything else. But, given that the defense spending that we have had that is calibrated by international standards, I understand that the International Peace Research Institute found in our nation's current defense spending is bigger than the next 17 countries, and given the cuts that we just put in, or that you are recommending, what will be our standing, even with these cuts? Will we still be greater than the 17 countries?

Secretary PANETTA. Yes.

Mr. HONDA. The answer is yes. Thank you. And then, I guess the issue about health care has been addressed for our veterans, but the 4.4 percent reduction was a surprise to me, because I was asked that at a town hall meeting whether TRICARE is going to be sustained or not, and I said to my knowledge, yes. And now I found out that I was inaccurate. How will we supplant and how will we be able to augment the kinds of services that TRICARE is going to have to cut with future funding?

Secretary PANETTA. Well, I will yield to Bob, but what we have done in TRICARE is basically provided fee increases for those that are covered by TRICARE. We do not impact the quality of care they receive nor the kind of care they receive, but we do require that they will pay additional fees for those services. That is the proposal that we presented.

Mr. HALE. No change in benefits.

Secretary PANETTA. No change in benefits.

Mr. HONDA. The fee increases, will that be doable for our veterans?

Secretary PANETTA. We have tried to design it in a way that would have minimum impact on those least able to do it, so we are talking about people who retire at higher levels, number one. Number two, this is still the best health deal in town in terms of the kind of coverage we provide with TRICARE.

Mr. HONDA. I understand that.

Secretary PANETTA. I mean, it is not bad. And right now, health care costs at the Defense Department are $50 billion. I have got to do something to try to control those costs, and this was one of the ways we thought made sense.

Mr. HONDA. Okay. Thank you. If I could switch fields now, in Asia we have had the issue of Okinawa and some of the redeployment of Marines, and some of our fixed wing and helicopters to different bases. I would like to sit down with someone and get a full detail on that.

Secretary PANETTA. Sure.

Mr. HONDA. But on the set aside, I understand that Webb, Levin, and McCain had asked for a study of this security system or what is the current security system, or they wanted a study of that area before they would move forward on their budget? Is that still in play, and where are we with that study?

Secretary PANETTA. I think they have always expressed concerns about some of the approaches that had been agreed to with regards to how we would relocate to Guam and the amount of money that would be expended in that move, but we are in the process of working with Japan to try to negotiate an approach that we think will make better sense. This has been something that has been bouncing around for 15 years. We think it is time that we try to resolve it, and the Japanese have been very cooperative in working with us on this effort.

Mr. HONDA. Yeah, to the tune of three prime ministers, but I appreciate that. And are the two landing strips that they were looking at with one of the air bases, is that off the table?

Secretary PANETTA. I think that is one of the things we have been discussing.

Mr. HONDA. Okay. Great. Thank you very much.

Chairman RYAN. Thank you. Mr. Rokita.

Mr. ROKITA. Thank you, Mr. Chairman. Good afternoon, gentlemen. Mr. Secretary, I would like to get a ratio from you. When you think of the term war fighter or combat troops, for every one of those brave men and women, how many others are behind them, whether they are contractors, whether they are civilian employees, uniformed, non-combat, what is the ratio?

Mr. HALE. Well, currently, we have 1.4 million people in uniform. We have about 750,000 civilians, and, although it is hard to measure the number, something on the order of 300,000 contractors. Who is supporting who at what time, it is hard to say, but if you want to count the civilians and the contractors, that would be 1.4 to 1.

Mr. ROKITA. What is it?

Mr. HALE. If you count all the contractors and civilians, it would be about a million, roughly, and you have got about 1.4 million in uniform.

Mr. ROKITA. So that is 1.4 to 1 is what you are saying, nothing like one combat troop, one war fighter to eight or 10 or anything like that.

Mr. HALE. It depends on how you are defining support.

Mr. ROKITA. I am trying to be as clear as possible, all support.

Mr. HALE. Some of that military personnel are providing support.

Mr. ROKITA. All support that would come out of this budget. This is the Budget Committee, so what would that ratio be?

Secretary PANETTA. I think that the ratio that he provided is probably pretty close.

Mr. ROKITA. 1.4 to 1? Okay. How long will it be before the Defense Department is audit-ready?

Secretary PANETTA. I have directed that we try to develop our audit capability on a faster track. I think right now the target was to hit 2017. What I am trying to do is to at least begin to develop an audit capability by 2014. That is the effort that we are trying to make with a final product coming out in 2017.

Mr. ROKITA. Thank you, Secretary. And just so we are clear, this is not where the military is able to pass an audit that would otherwise be given to other government agencies, it is just getting the Defense Department in a position to, or so an audit can be conducted to see how this money is being spent and see how efficiently it is being spent?

Secretary PANETTA. No, you are absolutely right. I mean, there is no way I can justify to the American taxpayer spending the kind of money we spend at Defense and not having the ability to audit where those funds are going. Now, there are individual audits. It is not like we do not know where all these funds are going, but frankly, we as a department need to have auditability as a department with the entire budget.

Mr. ROKITA. Right. So, you understand the concern from members, like my friend Mr. Mulvaney, we are all on the same team here, but, we also have a duty to make sure we are spending this money as wisely as possible?

Secretary PANETTA. You bet. You bet.

Mr. ROKITA. Let me finish just by reading a letter from Commander of U.S. Navy Reserves, 21 years in the military, John Pickerill; he is from Crawfordsville, Indiana. I met him for the first time just a few weeks ago. This is not a "gotcha" kind of letter, but I want you to respond to it. I think you, my democratic as well as republican colleagues would appreciate what he is saying. This is after he talks about the 12 service members who were needlessly electrocuted because of faulty wiring and bad electricians by defense contractors.

"While stationed in the Green Zone, I was assigned a living trailer that had joined a living trailer of two young contractors in their 20s. After being there for a while, I struck up a conversation with them and found out that they had a job running network cable. When I asked how they liked it, they said it was so great to be working there. He was making over $300,000 per year plus all living expenses, and he bragged that if he could stay there for three years, he would be able to put a million dollars in the bank and retire before he turned 30."

"As another example, one of the officers assigned beneath me befriended a contractor, and one day she came to him in tears. She was an honest girl who could not understand why her boss was telling her to mark down eight hours on her timesheet when she only worked two hours per day. These are merely a few accounts. Once I returned home, I had a hard time putting this thought out of my mind. How much of all this spending was necessary for our national defense? Was any of it necessary for our national defense? This was taxpayer money spent not on national defense but instead on increasing the profits of defense contractors." And I offer this for the record.

Secretary PANETTA. Listen, I think the observation of that individual is of concern to all of us. I think when taxpayers give us the money to spend on defense, we owe them the responsibility to make sure that every dollar is being spent in order to protect this country and to be able to justify it. And I am not saying there are not occasions like pointed out in the letter of those examples of people who abuse the system. What we have a responsibility to do is to make sure the system is not abused. And that is something I am intent on doing.

Mr. ROKITA. Thank you. I yield.

Chairman RYAN. Thank you. Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman. Mr. Secretary, Generals, it is great to have you here. Mr. Secretary, I know that my colleague, Mr. Price, asked you earlier about funding levels for Israeli missile defense. Could and I apologize, I was not here when he asked that question, and would you mind repeating and explaining what those numbers mean in terms of our overall security cooperation with Israel, and also explain those numbers as it relates to the numbers in comparison to previous administrations?

Secretary PANETTA. Yes. What I said was, first of all, obviously, our support to Israel is unshakable and we have reflected that, frankly, in our budget request. The budget request, by the way, is done in collaboration very closely with the Israeli government. Since taking office, the administration has requested money for a number of missile systems that they have, the Arrow and David Sling Ballistic Missile Defense programs as well as the Iron Dome System, which is a very effective system for defense against short-range rocket attacks. The total amount of assistance that we provide Israel is $650 million, which is more than double what was provided in the last administration, which was at a level of I think about $320 million. So, we are making a significant contribution to Israeli defense.

Ms. WASSERMAN SCHULTZ. Thank you. And, since actions speak louder than words, which I think is a pretty universal truth, and I know Mr. Price raised the issue of public statements when he was here, could you describe the administration's actions to date to deter Iran's nuclear ambition and their progress towards developing and deploying a nuclear weapon?

Secretary PANETTA. The administration and the president has made clear that we will prevent Iran from getting a nuclear weapon, period. This is not about containment, this is about preventing them from gaining a nuclear weapon, and nobody should make a mistake about our intent here. And what we have done is to work with the international community to make clear to Iran that they have to deter from the effort that they are making to develop their nuclear capability, they have to stop what they are doing in terms of promoting violence abroad, and providing assistance to terrorists abroad. They have to stop any kind of effort that would close the Straits of Hormuz. We have made very clear what those red lines are. The international community has joined together to implement a series of very tough sanctions, diplomatic sanctions, economic sanctions; and I can tell you that those sanctions are biting. They are isolating Iran. They are impacting on their economy. They are impacting on their ability to govern their own country. The whole point of those sanctions is to put pressure on them to make clear that they have to join the international community, live up to their international responsibilities. But if they do not, we have put every option on the table to make clear to them that there is nothing that we will hesitate to do to stop them from developing those kinds of weapons.

Ms. WASSERMAN SCHULTZ. And thank you. And would you say that we have applied the toughest sanctions that Iran has felt to date with the most international buy-in in history?

Secretary PANETTA. These are the most sanctions we have ever applied against one country. The sanctions we have just applied impact on their energy, impact on their banking system, and those will continue to take effect. The combination of what we have done, I think, has sent a very clear signal that the behavior they are engaged in is not to be tolerated.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Secretary, and also thank you for your long-time service to our country. I yield time.

Secretary PANETTA. Thank you. Mr. Huelskamp.

Mr. HUELSKAMP. Thank you, Mr. Chairman. A couple of questions, first. Secretary Panetta, you talked earlier, and there were signs about the sequester, and of course the president of the United States did sign that deal that included that, and yet there is no provisions in your budget to implement a sequester. Did the president direct you to ignore that particular law?

Secretary PANETTA. The position of OMB was that we are not to plan for a sequester at this time, and that is the direction we have been given, and that is what we are doing.

Mr. HUELSKAMP. Is that normal to simply ignore a law that could have pretty drastic consequences by refusing to plan for that law?

Secretary PANETTA. Well, as we pointed out, this is pretty unusual to have a sequester mechanism. The point of it from the very beginning was to be so drastic and so insane that it would force

the congress to do what is right and come up with a deficit reduction package. That is the whole purpose of sequester. I do not think the congress intended sequester to actually happen, to be truthful. I mean, it was supposed to be a gun at your head.

Mr. HUELSKAMP. Secretary, I asked the question, did the president direct you to ignore the sequester or did you do that yourself?

Secretary PANETTA. The president did not direct me. We basically got directions from OMB to basically not plan for sequester, particularly after coming up with $500 billion in deficit reduction.

Mr. HUELSKAMP. When would you plan to plan for the sequester? And the president is involved here; it is not just congress, obviously. The president would have to sign a plan that would suspend that. Are you just hoping that that will never happen? I mean, is that what we are doing here?

Secretary PANETTA. Well, I would hope that you would hope that would never happen.

Mr. HUELSKAMP. There is no answer, apparently. There is no plan for that. The law is very clear, whether the president liked it or not, he signed it, and on recommendation, I presume, of his advisers.

Second question I want to ask a little bit more is the issue of audit-readiness, and my colleague had mentioned that, and he hoped by 2014, maybe by 2017, what exactly does that mean if you are not audit-ready?

Secretary PANETTA. It means that the defense budget is not auditable, and we are the only agency that is not auditable, and that is a shame. And when I became secretary, the first thing I did was to direct the comptroller that we have to move on a faster track to develop auditable books.

Mr. HUELSKAMP. What assurance do we have that you are spending hundreds of billions of dollars where you are telling us you are going to spend it today? How do we know that? You are essentially saying we do not know that?

Secretary PANETTA. I mean, auditing is ensuring that how we say we are spending dollars is in fact audited to confirm that that is the case. We do have audit in the different agencies. It is not like we do not carry on auditing within the different services. But, overall, for the department as a whole, we do not have auditability, and that is what needs to be corrected.

Mr. HUELSKAMP. And I had a constituent that contacted me today about a news item. Did you know that apparently our federal taxpayers are paying for a $750,000 soccer field at Gitmo? Is that something that the Department of Defense knew about?

Secretary PANETTA. I am sorry, what was that?

Mr. HUELSKAMP. A $750,000 soccer field at Gitmo that was just announced by the Department of Defense. Is that something you were aware of, Mr. Secretary?

Secretary PANETTA. No, I was not.

Mr. HUELSKAMP. Are you also aware of that the armed forces also owns five separate luxurious resorts around the world, that obviously service members can attend as well as perhaps a million civilians can attend as well? Is that something you were aware of that the Department of Defense owned as well?

Secretary PANETTA. No.

Mr. HUELSKAMP. Is that something proper for the Department of Defense to own a resort that allows you to stroll barefoot on the Waikiki Beach, sightsee European castles, shop in Seoul's exciting shopping districts, or the best one, to go to Walt Disney Resorts? Is that something that is proper for the Department of Defense to own?

Chairman RYAN. Let him answer the question.

Mr. HALE. That is non-appropriated funds.

Secretary PANETTA. That is non-appropriated funds, first of all, which means that it is not part of the defense budget. But, more importantly, a lot of the facilities are provided for men and women who go into battle and who have been deployed overseas, and you know what? I think that the very least we owe them is the ability to be able to enjoy whatever time they take off from going to war.

Mr. HUELSKAMP. Okay. Well, this also applies to over a million civilians that have never seen war. It also, for folks that do not live in these particular areas, they cannot jump on a plane, Mr. Secretary. But all I wanted to raise is the point that if you are not audit-capable and you are here asking for more money, and you are not ready for a sequester, my constituents are very concerned with the proper use of taxpayer funds. So I appreciate the answers to the questions. I yield back my time.

Mr. HALE. Mr. Chairman, I would like to add briefly to that. The fact that we are not audit-ready means that we cannot go through a series of requirements imposed by auditors. We need to do that, and I have made it a major area of emphasis. But our systems are designed to know where we spend the money, and we have passed audits that indicate we are taking the direction that Congress gives us, passing it out appropriately to our commands. So, I can tell you where we are spending the money. I cannot go through all the detailed things that is required by an audit. We need to do it, but I do not want to leave you with the impression that we are sitting over there, spending this money wherever we want. They do 150 million accounting transactions a year. If even 1 percent of them were off, we have 3,000 auditors watching us, we would know and you would know. So, we do know where we are spending the money.

Mr. HUELSKAMP. Okay, and if I might just follow up.

Chairman RYAN. Gentlemen, I am sorry. Time has expired.

Mr. HUELSKAMP. Well, he was able to answer afterwards I asked him a question.

Chairman RYAN. I let him answer your question after the time had expired. We have a vote hanging at 5:00 and about five other members. So, Mr. Lankford.

Mr. LANKFORD. Gentlemen, thank you. General Dempsey, thanks for all your years of service and for being here. You have been in front of quite a few committees and have done this. I am sure it is your favorite part of every single week.

General DEMPSEY. It is.

Mr. LANKFORD. I am sure. Secretary Panetta, you have been on both sides of this. It must be interesting for you to come and sit in a room and give testimony, looking at yourself looking back at you in your painting on the wall, knowing that you have been on both sides of this as well; and I appreciate many decades of service

for you as well and what you have done. You have stated the fact that many of us have stated in other areas as well. Education, for instance, there have been years and years of just throw more money at it, and that will fix the problem, because there are issues. But, continuing to throw money at it does not necessarily give you better outcomes. It takes some reforms to the systems and structures. What I hear from you is you are basically both saying the same thing with defense. There need to be some things that occur and that may not necessarily mean throwing more money at it. It may mean reforming systems and structures. So, I want to ask you about a couple of those. When you mention force reduction, what are we talking about between all branches and force reduction?

Secretary PANETTA. We are talking about 120,000 that will be reduced over these next five years between now and 2017.

Mr. LANKFORD. Okay. Are those all uniformed, or are those some civilian as well?

Secretary PANETTA. What I gave you was all uniform.

Mr. LANKFORD. Okay. Where are we on civilian reductions? Because we had, as you have mentioned earlier, about 700,000 civilians there, not including contractors.

Secretary PANETTA. We have had reductions in the civilian core as well.

Mr. HALE. They are fairly modest at the moment. They are about 15,000 over the five year period.

Mr. LANKFORD. Okay.

Mr. HALE. I think something we do need to look at again in terms of the balance.

Mr. LANKFORD. Well, that is a question, then, obviously. You are dealing with a significant "why," I guess, in that, when you have got 120,000 uniform reductions and 15,000 civilian reductions. Can I ask as far as what you are thinking is the type of civilian reductions there, or why the disparity between the two?

Secretary PANETTA. I think our hope is on civilian reductions that we tie that to efficiencies, getting rid of overhead, getting rid of duplication, getting rid of the contract operations that we do not need. So the reductions on the civilian side are pursuant to a list of efficiencies that we have got to put in place that hopefully will produce more with regards to reductions in that area.

Mr. LANKFORD. So, your 15,000 is a floor rather than a ceiling on that one?

Secretary PANETTA. That is right, exactly.

Mr. LANKFORD. And are there key areas that you are already looking at? You mentioned a couple of them in broad terms, but more specifically whether we are dealing with, for instance, if we close down a line of aircraft, obviously there are civilians that handle that area. Is that the kind of thing you are talking about, or are you talking about more service?

Secretary PANETTA. I was talking more internal in terms of the operations within the Defense Department because where there are duplicative operations, where there are operations or areas that are performing roles that frankly we can reduce the number of people at, that is the kind of thing I am talking about. But in addition to that, as pointed out by the comptroller, we have got a large number

of contract employees, and those contracts that we can reduce will reduce obviously the contract employees that you talked about.

Mr. LANKFORD. Okay, because that is the second part of my question, how do you not just reduce civilian employees but increase contractors to compensate for that so you are really just moving it over to another area?

Secretary PANETTA. That is what we have got to make sure that that does not happen.

Mr. LANKFORD. Okay. Go ahead.

Mr. HALE. May I briefly? From 2012 to 2013, the reduction in civilians is roughly proportional to the military. We need to look at the out years. Frankly, we ran out of time. There is only so much you can do in a couple of months.

Mr. LANKFORD. I know that feeling extremely well.

Mr. HALE. Bear with us.

Mr. LANKFORD. So, that is a pending possibly in another proposal on it, or is that at 2014?

Mr. HALE. Well, not in this budget, but we will look at it, because I think the 2013 number is pretty reasonable, but beyond 2013, and I think we go through a five-year planning process each year, we need to look again. It may be the right number in the out years, but I am not so sure.

Mr. LANKFORD. Okay. Second part of this question as well, obviously you have put together a lot in this time period. You talked a lot about procurement reform, some lines going away, but also a lot of innovation that needs to occur. That is a heavy technology. So, I get a feeling that there is this push and pull between procurement. We have got to be lighter, more agile, more mobile, more technologically savvy, more equipment to be able to help us there. That is more R&D. That is more procurement, but we have got to come down on procurement as well. We have some aircraft in the Air Force, and I am 44 years old, they are much older than I am, that we are still using, so we need some in there. So, how are you balancing that out between those two?

General DEMPSEY. Yeah. Well, I mentioned one thing we are looking at: multirole, and shorter procurement timelines. I mean, look, when I was the chief staff of the Army I got briefed on programs where the requirements were established in 2003. We are not going to deliver until 2014.

Mr. LANKFORD. Right, and the technology is behind on that.

General DEMPSEY. Making it a certainty that we are going to deliver something that is either late to need or that does not spiral in new technology. And, as you spiral in new technology, the requirement goes up, and the next thing you know, you are off to the races on cost. So, acquisition reform has to include a much closer merger of requirements and material solutions with senior leader involvement and shorter horizons. But, I will tell you that we have not gotten industry on board with that, and we have not gotten the Congress of the United States on board, but that is the answer.

Mr. LANKFORD. Okay. Thank you. I yield back.

Chairman RYAN. Thank you. Mr. Young.

Mr. YOUNG. Thank you, gentlemen, for being here today. Thank you for your service to our country. First I want to commend the secretary and the undersecretary for your ambitious efforts on the

audit-readiness initiative. I am happy to serve on the audit-readiness panel here within congress, and to the extent that we can assist you in your efforts there, we will continue to lend a critical eye as your efforts play out, but we want to help however we can; it is very important.

I am concerned that some of these proposed cuts to our defense budget may not be strategy-based and I am open to all manner of cuts, identifying efficiencies, changing how we do business with respect to health care for our service members and veterans, looking into retirement, all manner of different things, but it has to be strategy-based. I know you would agree with that. It seems to me there are essentially two different processes that you have to go through here. First, you have to clarify the strategy based on current threats, and you have indicated, I think you characterized the process as adapting the existing QDR to current circumstances. So, you are looking for cost efficiencies within the DOD budget and shifting our posture to the Asia-Pacific region. Is that a fair characterization?

Secretary PANETTA. Correct.

Mr. YOUNG. Okay. And then the second process, as I see it, is translating that strategy into specific spending requests, requesting appropriations based on that redefined, re-clarified strategy. Now, I think more work could be done in communicating part one, which is why we are pivoting to the Asia-Pacific region, why we intend to invest more resources into the Middle East, but I do not want to be too critical of the administration in that part one of a two part process. But it is the second part, translating strategy into requested appropriations where I have very little idea how the Department of Defense and the administration, more generally, came up with each of these spending requests. In an absence of that sort of clarity, I think many of us are inclined to fall back on back-of-the-envelope shorthand things, like what percentage of GDP are we spending on military? You know, when you think about it that strikes me as a superficial way to determine how much we ought to be spending on our military. Would you agree with that statement? That's not a strategy-based assessment, a percentage of GDP?

Secretary PANETTA. No.

Mr. YOUNG. Okay. What about reference to the level of military spending of other countries? Is that also superficial?

Secretary PANETTA. It is.

Mr. YOUNG. Okay. So in following our oversight role here, I also said on the Armed Services Committee, but I think all members of member of Congress would benefit from a window into your analysis there. How you translated your strategy into spending requests. I suspect that this is a sensitive methodology, one that you do not want to, maybe, articulate in an open hearing, is that correct?

Secretary PANETTA. Well, no not necessarily. Frankly, we went through that process with each of the service chiefs. And, frankly, we can sit down with you. We have a report that lists, based on each of the strategies, what decisions in the budget were made pursuant to those strategies. And we can walk through that with you. We are happy to do that.

Mr. YOUNG. I think I would benefit immeasurably in performing my oversight role should we hold those meetings. Could we open it up to my colleagues, as well?

Secretary PANETTA. Sure.

Mr. YOUNG. And do you believe that some of these meetings would be better done in a secure setting, as opposed to out in the open?

Secretary PANETTA. Yes. There will be some things, in particular cyber and some certain technologies, to overcome anti-access that we would probably have to do closed. But most of it, as the Secretary said, would be available in open setting.

Mr. YOUNG. Well, I appreciate your commitment to holding each of these meetings for each of the respective services and I will play a role in helping to assemble some of my colleagues.

Secretary PANETTA. Great.

Mr. YOUNG. So thank you very much. I yield back.

Chairman RYAN. Thank you. Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman, and thank you, Mr. Panetta and General Dempsey. Secretary Panetta, I really respect you and think you are the right person for the job at the right time with all of the experience that you have. I want to talk to you a little bit about the role of the National Guard and some of the decisions that you made.

You said in your opening statement that we rely on a strong Reserve, a National Guard, and I agree with you completely. As we drawdown, potentially, in the Middle East, we are going to rely a little bit more on the Guard and Reserve units. That will increase.

And I was made aware of a letter that the National Governors Association sent to you, about 49 different governors. I do not know if you are aware of the letter or not, but they definitely are concerned about this same approach with the cuts to the Guard. Could you talk a little bit about that because in their letter then mention that the Air Guard provides 35 percent of the U.S. Air Force's capability for 6 percent of the budget. They also mention in the letter that we must oppose the proposal that the Air National Guard absorb 59 percent of the total aircraft budget reductions and approximately six times the per capita personnel reductions. Could you talk a little bit about that approach?

Secretary PANETTA. Sure. Look, the main thing we did want was to maintain a strong Guard and a strong Reserve. The fact is that we are going to be maintaining the Guard at basically the same current levels, we are going to maintain the Reserve at the same levels. With regards to the Air Guard, which is an area that the Air Force focused on, in the past they have made cuts with regards to the active duty force itself in terms of planes. They did not focus on the Reserves in the Guard operation. They decided to look at those, particularly with regards to planes like the A-10s, and again looked at are these planes multi-mission? Can they perform the kind of role that we need with the new agility that we have as part of our strategy? And their determination was that these are basically single-mission aircraft and that those are the ones that we need to gradually reduce. We will still retain a large number of them, but they wanted to reduce some of those. That is what is im-

pacting right now with regards to the concerns, I think, that were in the Governors letter.

Having said that, what I have asked the Secretary of the Air Force to do, as well as the Air Force Chief, is to do everything possible to try to mitigate the impact of those reductions with regards to some of those planes to see what we can do. I mean, there are areas we are going to increase. We are going to do more unmanned; we are going to do more ISR. Are there ways to try to mitigate some of this by virtue of some of the things we are going to need under the new strategy?

Mr. STUTZMAN. I represent Fort Wayne, which we have the Air Guard base there in Fort Wayne, and we have the A-10s there. I think what I have seen and numbers propose is that the Air Guard can store and maintain these particular aircraft for about 28 cents on the dollar. You know, my feeling is that we could utilize the Guard even more than what we currently do by maintaining aircraft, and the value that we have, and the experience that the pilots provide. And I think that is something that is really important and should be kept in consideration.

Final question is, and this kind of goes into the proposal and the Air Force reductions, but one of the key elements of your Defense strategy is an increased focus on the Asia-Pacific region. Most analysts looking at that region see a dominant role for air and naval components in any strategy in that region. But the modernization budget eliminates planned growth in the Navy and shrinks the Air Force. Why does not the modernization program match the Defense strategy?

Secretary PANETTA. Well we think it does and for that reason, frankly, we are maintaining 11 carriers and not cutting back on our carriers because that is a major element of force projection. We are maintaining the bomber fleet, we are going to be investing in the new bomber for the future, and we are investing in obviously the joint strike fighter to try to develop that kind of fifth-generation capability. With regards to the Navy itself, we are going to be continuing investments in the ships that will provide the kind of agility that will give us the capability to move quickly on the flat deck ships that we have. We are going to be maintaining a Navy of 285 ships. That is what we have now, that is what we will have in 2017. Our goal in the next five years is to continue to develop the Navy to a 300-ship Navy. So everything about our strategy, very frankly, stresses both our naval and Air Force elements in order to project force both in the Middle East as well as in the Pacific.

Mr. STUTZMAN. Thank you.

Chairman RYAN. Thank you. Mr. Garrett.

Mr. GARRETT. Thank you Chairman, secretary, and panel; I appreciate you being here. I think I may be winding things up for you. It was several hours ago I think, I think Mr. Doggett raised the question, or raised the issue, with what is going on in Afghanistan right now and with regard to the tragic situation of a loss of a couple of our soldiers over there. And obviously the issue, well there are multiple issues that are out of there, but it is a tragedy that we lose our soldiers over there. I am just curious, from the media accounts, I know that this country has apologized to that

country for what has occurred, but have you personally or the administration heard from the Afghan government to apologize to us and the families of those soldiers who have lost their life from Afghanistan?

Secretary PANETTA. Yes. Minister Wardak, who is the defense minister, called me over the weekend and apologized for what happened.

Mr. GARRETT. I appreciate that because that is something that we have not heard from the press. Secondly, to a point that Mr. Rokita raised, which was regarding to the audits. I have served on this committee now for nine years and I may be here longer than everyone here except for Chairman Ryan. And regardless who is sitting over there, Democrat or Republican, we have heard the same thing: that we are going to get to this, it is a big; it is important, and it is going to happen sooner rather than later. At the beginning of the testimony I thought I heard you say that you hope to have this done by around 2014, but then following the questioning it sounded like maybe I heard 2017 for this. Which is the year you are anticipating that it is up and running?

Secretary PANETTA. Well, it is a complicated process, but let me ask Hale to talk about his, because he is the one that deals with the auditing operation.

Mr. HALE. We are heading to be audit-ready for the key statement, the budget statement, that I think is the greatest concern to me and should be to you because it is all the budget data that we use by 2014, and all of the statements by 2017, which is the provision in the law. And I would have to agree with you, we have overpromised and under delivered for a long time.

Mr. GARRETT. What is the hardest point of this as far as getting it done? Because if this was private industry and the CEO was sitting there and just saying, "Well, you know, we just really do not know where all the money has been going to as far as in the certified audit," that CEO, present company excepted, would be out.

Secretary PANETTA. Right.

Mr. GARRETT. And I am not just saying that here. But what is the hardest point? I have heard that over the years that it has to do with identifying what your assets really are around the country.

Mr. HALE. You know, the hardest point has been sustained management attention to this. We have never had a CEO that actually paid attention in the same way that Secretary Panetta has. That has helped a lot. There has not been sustained management attention. There are technical factors, as well, but I think I will spare you them, unless you want to hear them.

Mr. GARRETT. No, maybe if you could send them to us in a short paper on it that would be appreciated because we have never gotten that in the past.

Secretary PANETTA. Congressman, I share your concern. As a former member of this committee and a former budget chair and a former OMB Director, when I found out that this was the case it was to the extent that it is unacceptable.

Mr. GARRETT. One of the very first things in my notes, hours ago, when you were talking about where we have efficiencies, about $150 billion here, and that you are going to have added onto that to $60 billion, that is $210. That all sounds great. What I am won-

dering is, can you really articulate that, can you really document that?

Secretary PANETTA. Yes. I have asked the same question.

Mr. GARRETT. From a department-wide perspective, not from an individual perspective.

Secretary PANETTA. No.

Mr. GARRETT. If you can say in this department over here and this area over here, we got it.

Secretary PANETTA. Yes, we can.

Mr. GARRETT. You can?

Secretary PANETTA. Yes, we can.

Mr. GARRETT. How do you do that without a department-wide audit and putting into perspective into the entire department?

Secretary PANETTA. Because my question was we were supposed to do $150 billion in efficiency savings and I asked this guy next to me, "What are we doing to achieve those savings," and they have laid out each of the areas where we are making progress in achieving those savings. And we can share those with you.

Mr. HALE. Mr. Garrett, our systems are designed to tell you where we spend the money based on what you appropriate. They do that pretty well. They are not designed to provide the information that a private sector auditor wants in order to pass audit. They need to be, but they are not. So that is what we cannot do. We do know where we are spending the money. When you appropriate funds, I can track it.

Mr. GARRETT. All right. My time is going quick. So just a couple things. You also said that the example that he raised here, it sounds like an abuse of the system that Mr. Rokita was raising about people making too much money and what have you under these cases. My take away from that, and I do not know what the underlying facts are, as you do not as well, that does not sound like an abuse necessarily by the contractor, that maybe it sounds more like an abuse by someone from the DOD, from the procurement side of the equation that that would even occur. Last question in 15 seconds if the Chairman would allow. The Department has developed a military primary proposal in 2008, and your own Defense Business Board produced several proposals this last summer. The question on this, I guess is a redundancy, is why are we looking at another reform commission when you already have proposals that are out there? And I will close with that.

General DEMPSEY. You mean on retirement?

Mr. GARRETT. Yeah.

General DEMPSEY. Well, I for one suggested that that committee, which was peopled entirely with civilian businessmen, should be reopened and include the participation of uniformed military and, in particular, non-commissioned officers. Look, I am not getting ready to sign up for a retirement plan that treats uniformed military who moved 21 times in 20 years and who put their lives at risk. I am not going to equate our retirement plan to the civilian sector. And what we got was a civilian sector proposal.

Chairman RYAN. Okay, point taken. A couple points in closing. I just want to reemphasize, Secretary, what I was trying to make in the beginning, which is put all of this in perspective. I have heard you mention that the number you have got that was given

to you is because the law Congress passed, the BCA. I would simply point out that the firewall in the BCA is there for 2012 and 2013, not thereon after. So this is a number you were given by OMB, not by Congress. To put that in perspective, the savings from the BCA and from discretionary spending is $917 billion. The budget we passed out of this committee and off the floor in the House last year saved $1.6 trillion out of discretionary spending net. We took last year's Obama line, the Gates line, $78 billion off of the fiscal year 2011 fit-up and agreed with that number and still saved $1.6 trillion.

Now, I clearly understand some of my colleagues do not like what we did. We also saved far more than that in mandatory spending, because, as you mentioned, that is two-thirds of the budget. The point I would simply say, and I heard you mention that you were given the chore of coming up with the $500 billion in deficit reduction. You have done that. You have done a wonderful job. I mean, really. What you were given as a job to do, you have done your job exceptionally well. I really mean that. I just think you were given a job to do heavy lifting for other parts of the budget that did not have this kind of responsibility placed upon them, your other Cabinet secretaries, other parts of the government.

The budget that the president sent us has a net deficit reduction of $400 billion. So you are carrying the weight of a $500 billion deficit reduction just out of your department and all of the rest of the government for the next 10 years, net deficit reduction of $400 billion. It is a budget that has a net spending increase of $1.5 trillion. Only way you can get to the $400 billion reduction number is because the tax increase is $1.9 trillion. So it is about priorities. It is about what is the priority of the federal government, what is the responsibility of the federal government, and are we applying the kind of discipline that you clearly have exercised in the rest of government? And we would simply argue that your administration is not. You are, but the administration is not and, as a result, this is why we still make the case that this is not a strategy-driven budget but a budget-driven strategy. And I do not want to always have the last word. I want to allow my colleague. I do not want to be dictator over here.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I appreciate that. Thank you, Mr. Secretary, General Dempsey, Comptroller, Undersecretary Hale. Thank you all for your testimony.

A few words in response to the Chairman. And I think, as the secretaries indicated, we all hope we can find a bipartisan way. We must find a bipartisan way to undo the sequester but replace it with, what I hope will be, a balanced approach to deficit reduction. I think the secretary was loud and clear on that. With respect to the president's budget, what the president did was to take the BCA, Budget Control Act, discretionary levels that were enacted on a bipartisan basis by this Congress and he extended, essentially, the firewall levels moving forward. The firewalls, the Chairman's right, were in place for two years, but if you extend and project those forward you save, within the defense budget, the amount essentially that is being proposed in this budget.

I also want to reiterate the fact that when it came to the sequester and how it was designed, there was a discussion about whether or not we would reach that deficit target in part by closing a lot of tax loopholes, getting rid of some tax subsidies, and asking folks at the very high end of the income scale to pay to help reduce our deficit in a balanced way. And the response was no, we prefer to put this defense spending as part of the sequester mechanism.

Now, to his credit the chairman of the Armed Services Committee said at least at one point that if he were forced to choose between those two he would close the tax loopholes. I do not know if he still maintains that position. But as we go forward, let us look for the kind of bipartisan, balanced framework that other bipartisan commissions have taken to this task. And with that I close.

Chairman RYAN. Yes, and I will just close with we agree we should just do our jobs. We know savings should be taken from this budget, that there clearly is room for savings. Everybody agrees with that. The question gets into the debt. And we just want to do our jobs. We do not want to give it to commissions, or to sequesters anymore. We just want to do our jobs. And with that I want to thank you gentlemen for indulging us for all this time. This hearing is adjourned.

[The prepared statement of Ms. Schwartz follows:]

Statement for the Record
HBC hearing on the Department of Defense and the FY 2013 Budget
February 29, 2012

Secretary Panetta, I briefly want to raise the closure of the Willow Grove Joint Reserve Base and its impact on the Hatboro-Horsham School District, which I represent.

The Joint Reserve Base Willow Grove was officially closed this past September after being placed on the Base Realignment and Closure list in 2005.

The community is still working to finalize plans on how to redevelop this land.

Until that process is complete, the former Willow Grove site will continue to contribute nothing to the school district's tax base.

Since 1992, the Hatboro-Horsham School District has received Impact Aid from the Department of Education to make up for this lost revenue.

Unfortunately, the Administration's FY13 budget proposes eliminating the federal property component of Impact Aid.

This would cost the Hatboro-Horsham School District about $650,000 in federal funding for 2013.

The school district has already faced substantial cuts at the state level and additional reductions would further strain its budget.

I would ask you, as you have these discussions with the White House and with the Department of Education, that you support continuation of this funding

[Questions submitted for the record and their responses follow:]

QUESTIONS SUBMITTED FOR THE RECORD FROM CHAIRMAN RYAN

1. The President's budget requests two additional rounds of Base Realignments and Closures, but does not request any funds to implement any base realignments or closures. Does the budget request, however, assume the eventual operational cost savings that would result from base realignments and closures?

2. GAO has estimated that the most recent BRAC round cost at least $35 billion to implement before any net savings would be achieved. Do you have any reason to believe these implementation costs would be less in a future BRAC round? Please provide a copy of any analysis that supports such belief.

3. Your budget documentation claims $41.8 billion in savings within the FYDP (FY 13-17) from the restructuring of major defense acquisition programs. How much of that $41.8 billion is just shifted into the second five years of the budget window (FY 17-22) and beyond?

4. The major effort to equip and expand the Afghan National Security Forces has been completed, but the President's budget requests $5.7 billion in continued ANSF funding. Does that $5.7 billion represent an ongoing and open-ended requirement for the U.S. government to maintain the ANSF that will continue even once the ANSF has assumed lead responsibility for securing that country?

5. The President's budget requests $2.9 billion in Overseas Contingency Operations funding for Iraq. Given the complete withdrawal of U.S. combat forces from Iraq at the end of 2011, will this be the last DOD request for OCO funds for Iraq? If not, when will these costs transition to the base budget?

6. What criteria does DOD use in determining whether funding is eligible for inclusion in the Overseas Contingency Operations request?

MR. PANETTA'S RESPONSE TO QUESTIONS SUBMITTED BY CHAIRMAN RYAN

BRAC

Question: The President's budget requests two additional rounds of Base Realignments and Closures, but does not request any funds to implement any base realignments or closures. Does the budget request, however, assume the eventual operational cost savings that would result from base realignments and closures?

Answer: No. The President's budget request does not assume the eventual operational cost savings that would result from the Base Realignments and Closures (BRAC) because these savings cannot be determined until the BRAC analytical process is complete. That said, savings as much as $2 billion annually is fairly typical of the earlier rounds (88-95).

Question: GAO has estimated that the most recent BRAC round cost at least $35 billion to implement before any net savings would be achieved. Do you have any reason to believe these implementation costs would be less in a future BRAC round? Please provide a copy of any analysis that supports such belief.

Answer: Yes, we do believe the implementation costs would be less in a future Base Realignments and Closure (BRAC) round. By way of background, BRAC 2005 was by far the largest round undertaken by the Department. The BRAC Commission made 222 recommendations, resulting in 24 major closures, 24 major realignments and 765 lesser actions. These actions affected some 125,000 military personnel at more than 800 locations across the United States. The cost of implementation totaled $35.1 billion, including $24.7 billion for military construction and another $10.4 billion to move personnel and equipment, outfit facilities, and carry out environmental cleanup. Although the implementation cost far exceeded that of any prior round, so too do the savings ($4 billion a year).

The 2005 round took place during a period of growth in the military, and it reflected the goals and needs of that time. Congress approved the 2005 BRAC round just months after September11, 2001, and the objectives were set out the following year. Although elimination of excess capacity was an objective, the focus of the 2005 BRAC round was on aligning our infrastructure with our military strategy so as to maximize warfighting capacity and efficiency. BRAC 2005 enabled the Department to reset its infrastructure to accommodate the return of forces from Europe and Korea, restructure its medical platforms, markedly increase joint basing and other cross-Service efforts, accommodate the Army's modularization, and revitalize the Army's reserve and guard infrastructure. These efforts were needed, and they have contributed significantly to the Department's effectiveness. However, they necessarily required substantial investments.

Because the focus of the BRAC 2005 round was on transforming installations to better support forces—as opposed to saving money and space—it is a poor gauge of the savings that the Department can achieve through another BRAC round. The prior BRAC rounds—which reduced capacity and paid off in 2-3 years—represent a better gauge of such costs and savings. The table below shows the associated costs and savings of the first four rounds of BRAC (1988, 1991, 1993, and 1995).

(TY$B)	Major base closures	Major base realignments	Minor closures and realignments	One-time costs[1] ($B)	Annual recurring savings[2] ($B)
BRAC 88	16	4	23	2.7	1.0
BRAC 91	26	17	32	5.2	2.3
BRAC 93	28	12	123	7.5	2.7
BRAC 95	27	22	57	6.6	1.9
BRAC 05	24	24	765	35.1	4.0

(TY$B)	Major base closures	Major base realignments	Minor closures and realignments	One-time costs[1] ($B)	Annual recurring savings[2] ($B)
Total	121	79	1,000	57.1	12.0[3]

Note 1: Through FY 2001 for prior BRAC Rounds and through FY 2011 for BRAC 2005.

Note 2: Annual recurring savings (ARS) begin in the year following each round's 6-year implementation period: FY 1996 for BRAC 1988; FY 1998 for BRAC 1991; FY 2000 for BRAC 1993; FY 2002 for BRAC 1995, and FY 2012 for BRAC 2005. These numbers reflect the ARS for each round starting in 2002.

Note 3: Does not add due to rounding

BUDGET DOCUMENTATION—FYDP DEFENSE ACQUISITION PROGRAMS

Question: Your budget documentation claims $41.8 billion in savings within the FYDP (FY 13-17) from the restructuring of major defense acquisition programs. How much of that $41.8 billion is just shifted into the second five years of the budget window (FY 17-22) and beyond?

Answer: Approximately, $19.2 billion has been shifted into the second 5 years of the budget window (FY 17-22) for the Ground Combat Vehicle, MV-22 Osprey, P-8A Poseiden, E-2D Advanced Hawkeye (AHE) Surveillance Aircraft, F-35 Joint Strike Fighter, and SSBN(X) development programs.

AFGHAN NATIONAL SECURITY FORCES (ANSF) TRAIN AND EQUIP

Question: The major effort to equip and expand the Afghan National Security Forces has been completed, but the President's budget requests $5.7 billion in continued ANSF funding. Does that $5.7 billion represent an ongoing and open-ended requirement for the U.S. government to maintain the ANSF that will continue even once the ANSF has assumed lead responsibility for securing that country?

Answer: No, the $5.7 billion in FY13 represents the total annual costs required to sustain and develop the "surge" Afghan National Security Forces (ANSF) of 352,000 Afghan National Army and Afghan National Police personnel. The $5.7 billion also includes force generation costs for the Afghan Air Force.

The Secretary of Defense and the Minister of Defense and Minister of Interior of Afghanistan will conduct joint six month reviews to look at the ongoing size, capabilities and costs of the future Afghan National Security Forces.

OVERSEAS CONTINGENCY OPERATIONS BUDGET

Question: The President's budget requests $2.9 billion in Overseas Contingency Operations funding for Iraq. Given the complete withdrawal of U.S. combat forces from Iraq at the end of 2011, will this be the last DOD request for OCO funds for Iraq? If not, when will these costs transition to the base budget?

Answer: Overseas contingency operations (OCO) budget requests for post Operation NEW DAWN (OND)/Iraq activities may continue beyond FY 2013.

The cost to train, garrison, and support the troops redeploying from Iraq has moved into the FY 2013 DoD base budget. However, the Department believes that post-OND retrograde and reset activities may continue for up to 2 years after the fiscal year of redeployment and that these costs are appropriately budgeted in the OCO. For example, of the $2.9 billion included in the FY 2013 OCO request for Iraq, approximately $1.4 billion is for retrograde and reset of U.S. equipment used in Iraq.

Other costs in the $2.9 billion include $0.5 billion for the Office of Security Cooperation-Iraq, and about $1 billion for classified programs. The Department will work with the Office of Management and Budget to determine the timing and amounts that might move into the DoD or other Agency base budget programs.

OVERSEAS CONTINGENCY OPERATIONS REQUEST DETERMINATION CRITERIA

Question: What criteria does DOD use in determining whether funding is eligible for inclusion in the Overseas Contingency Operations request?

Answer: The Department uses war/overseas contingency operations criteria developed collaboratively with the Office of Management and Budget (OMB) to determine which budget requirements to include in the OCO. The criteria establish the framework for including the incremental costs of contingency operations in the OCO budget. For example, the criteria:

- Establish the geographic areas in which combat or direct combat support operations occur that should be included in the OCO budget;

• Specify which personnel and operations costs should be included in the OCO budget (e.g., deployment-specific training, military pay and allowances to include Reserve Component personnel mobilized to support war missions, incremental operational costs in theater, incremental logistical support, certain intelligence activities);

• Provide for the replenishment of expended munitions and purchase of equipment lost to combat operations or washouts, the repair of equipment used in combat to original capability, and purchase of specialized, theater-specific equipment; and,

• Include international programs such as the Afghanistan Security Forces Fund and logistics support for coalition partners.

The criteria also stipulate several specific budget requirements that should not be included in the OCO budget. These include, for example, training equipment not for specialized, theater-specific use, Base Realignment and Closure projects, construction of child care facilities, recruiting and retention bonuses, and programs to maintain industrial base capacity.

These criteria have been useful for budgeting requirements between the DoD base and OCO budgets for several budget cycles. The OMB and DoD work in close collaboration to apply the criteria and to clarify and update them as we build upon our experience budgeting for overseas contingency operations. When necessary, OMB has approved exceptions to these criteria.

QUESTIONS SUBMITTED FOR THE RECORD FROM HON. TODD ROKITA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

• How many war fighters (combat troops) do we currently have deployed to the front lines, facing daily threats from our enemies? By "war fighter" I mean troops with boots on the ground that actively engage in combat, not just how many active servicemen and women are deployed.

1. How many active duty support staff are employed to support those war fighters?

2. According to DoD, there are nearly 775,000 civilians in the DoD workforce—roughly the same size as the population of Indianapolis. The average 2011 civilian salary was nearly $90,000—higher than the average military salary. Your FY2013 budget included a 0.5% pay increase for civilian employees. Why aren't you looking for more savings within the civilian workforce? I want our defense spending to go to the men and women on the ground, not a person pushing paper at the Pentagon.

• What metrics should be used to determine how much spending is enough?

DEPARTMENT OF DEFENSE AUDIT

• Please detail what the Department of Defense is doing to become audit ready.

1. Specifically, how are resources being allocated to make the department audit-ready as soon as possible?

2. What is the timeline for the distribution of resources for this accounting process?

3. How many personnel, including contractors, are involved in making the department audit-ready?

4. What steps have been taken thus far to move toward audit-readiness?

GLOBAL HAWK QUESTION

• I understand Congress has provided funding for the Air Force to secure 21 Global Hawk Block 30 aircraft at a cost of nearly $4 billion. In the FY 2013 budget, you propose to terminate this program and waste the $4 billion already spent in favor of the aging U-2 platform. Why has your department made this decision? Do you have plans to utilize the Block 30's already procured?

Attached in the following pages is the entire email that Representative Rokita mentioned in his questioning of Secretary Panetta.

From: JOHN PICKERILL
Date: Mon, 13 Feb 2012 04:48:35
To: Congressman Rokita
Subject: *Follow-Up from our conversation at the Lincoln Day Dinner on 9 Feb*

CONGRESSMAN ROKITA: Thanks for taking the time to talk with me during last Thursday's Lincoln Day dinner in Crawfordsville. In case you don't remember who I am, I was the one you spoke to toward the front of the room. After my wife spoke to you and mentioned I was an Iraq War veteran you graciously came over to introduce yourself. During our conversation I had briefly mentioned a disturbing example

I saw with the defense contracting industry in Iraq, and you asked if I could follow up with you at your personal email address to go into a little more depth.

As a Navy Reservist I was mobilized to Iraq from June of 2008 through May of 2009, where I was assigned to the staff of Multi-National Forces Iraq under General Petraeus, and then General Odierno. We were initially located in the Green Zone in Baghdad, but when the U.S returned the Iraqi Presidential Palace back to the Government of Iraq, the staff was moved to Victory Base Complex adjacent to Baghdad International Airport. During my time there, KBR, a subsidiary of Halliburton, held the defense contract for almost every aspect of life for a U.S. service member in Iraq. They constructed the living areas, cooked the food, provided the laundry services, provided the repair services, made the drinking water, provided the sewage service, and the electric service.

During this time KBR was under investigation for faulty electrical wiring that caused the electrocution deaths of over a dozen U.S. service members. It became such a problem that the Commanding General, GEN David Petraeus, had to personally address the problem during his daily briefing. All this while at one of the most critical moments of the Iraq War when he was attempting to execute the force surge to turn the tide of the war. He had to personally direct the formation of "Task Force SAFE," a task force to investigate and correct the cause of these electrocutions as well as other incidences of electrical shock to U.S. service members. I experienced this first-hand during my temporary stop in Kuwait while awaiting follow-on transportation to Baghdad. I had just arrived in Camp Virginia, Kuwait (June 2008 timeframe) and went to the AT&T phone trailer to call my wife to let her know I made it safe. When I approached the trailer steps there was an 8.5 x 11 piece of paper taped to the steel handrail that read, "Do Not Touch. Electrified." I should note that all electric service in Kuwait and Iraq is 220 volt (not 110 volt). There was nothing else to prevent someone from accidentally being shocked by the handrail. In a second incident, while waiting at Ali Al Salim airbase in Kuwait for transportation back to Baghdad following my R&R visit (January 2009 timeframe), I left the terminal to find a restroom just before my flight. I went to the closest restroom trailer and when I attempted to go in there were KBR electrical service workers there that advised me, "You don't want to go in there." I then saw a similar sign warning of an electric shock hazard.

GEN Petraeus was briefed that as part of the corrective action, Master Electricians from the United States would have to be flown over to Iraq to inspect all of the thousands and thousands of shower and restroom trailers throughout Iraq to ensure they were safe.

Despite these incidences, when the electrical services contract for the Iraq War came up for re-bidding, the U.S. government again awarded it to KBR.

In addition to the electrical service and other services mentioned above, KBR operated burn pits and incinerators. It should be noted that all meals were served on plastic plates, with plastic utensils, and plastic or Styrofoam cups. All of this was eventually burned in one of these pits or incinerators. At the time I was there there were over 150,000 U.S. service members in Iraq. In addition to this were over 300,000 defense contractors. If you add the State Department personnel and non-U.S. service members, there had to be well over half a million people eating in these KBR served dining facilities, all being served with plastic plates, utensils, cups, etc., all of which was burned. We could routinely see the black ash residue floating in the air. I don't really regard myself as a bleeding-heart environmentalist, but this struck me as such a waste of U.S. taxpayer dollars to be purchasing half a million plastic plates, utencils, etc. every day; and then to burn these plastics with seemingly little regard to the toxins that plastics typically give off, and what we were exposing our service members to.

While stationed in the Green Zone, I was assigned a living trailer that adjoined the living trailer of two young contractors in their twenties. After being there for a while I struck up a conversation with them and found out that they had a job running network cable. When I asked how they liked it (because the U.S. service members were always anxious to get home, while the contractors didn't seem to be in a hurry to want to go back home), he said it was so great to be working there. He was making over $300,000 per year plus all of his living and travel expenses. He bragged that if he could stay there for three years he would be able to put over a million dollars in the bank and retire before he turned 30.

As another example, one of the officers assigned beneath me befriended a contractor, and one day she came to him in tears. She was an honest girl who couldn't understand why her boss was telling her to mark down 8 hours on her timesheet when she was only working 2 hours per day. These are merely a few accounts that I personally became aware of while there only one year. It deeply troubles me about

how much U.S. taxpayers are spending on defense contracting when I remember that there were 300,000 contractors there and we had been in Iraq for 8 years.

Once I returned home, I have had a hard time putting this thought out of my mind: How much of all this spending was necessary for our National Defense? Was any of it necessary for our national defense. This was taxpayer money spent, not on national defense, but instead on increasing the profits of defense contractors. How many times have we heard about Congress authorizing military spending on, say, dozens of C-130 aircraft that the Air Force doesn't need or doesn't want only to find out that those aircraft are being built in a certain Congressperson's district? I am now convinced that most U.S. military spending has nothing to do with national defense. Instead, it goes to fund that beast which President Eisenhower warned us about at his farewell address: The military-industrial complex. The defense contracting industry then becomes a generous contributor to re-election campaigns of key Congressmen and Senators that can assure future defense contracting business growth and profit. This cycle continues, and the national debt keeps rising, and U.S. dollar gets weaker and weaker.

We Republicans cannot only attack welfare spending if we want to honestly address our debt situation. If we Republicans are going to consider ourselves true Conservatives and stand up for smaller government that is fiscally responsible and follows the principles of the Constitution, we must stand for a Constitutional and fiscally responsible foreign policy as well. The United States spends more money on weapon systems and surveillance systems than the rest of the world combined. When we consider overall military spending, the entire world's militaries spend about $1500 billion combined. Of that, the U.S. spends about $700 billion, or almost half of the world's total. China is the next highest at $100 billion, a mere 1/7 of our spending. The U.S. Navy has 11 aircraft carrier battle groups. There is no other Navy in the world with more than 2 aircraft carriers, and our biggest rivals, China and Russia, have only one a piece. The U.S. has 3,300 warplanes. That is more than twice what China has and 50% more than what Russia has.

To be told that cutting our military budget would be dangerous to our national defense is not only disingenuous but dishonest. What is truly dangerous to our national defense is for the United States to be foolish enough to follow in the Roman Empire's and Soviet Union's footsteps of spending so much on our military that we collapse economically from the inside out. A complete rethinking of our foreign policy is urgently needed.

Again, it was a pleasure to meet you. Thank you for taking the time to let me share my concerns with you.

Very Respectfully,

JOHN PICKERILL,
Crawfordsville, IN.

MR. PANETTA'S RESPONSE TO QUESTIONS SUBMITTED BY MR. ROKITA

DEPLOYED WARFIGHTERS

Question: How many war fighters (combat troops) do we currently have deployed to the front lines, facing daily threats from our enemies? By "war fighter" I mean troops with boots on the ground that actively engage in combat, not just how many active servicemen and women are deployed.

Answer: All Airmen with boots on ground in Afghanistan attend a pre-deployment combat skills training course. The combat pay entitlement delineates Air Force combat-ready war-fighters ever-poised to defend against enemy attack. As of Monday, 23 April 2012, 6,492 Active Duty Airmen, 452 Air Force Reservists, and 1,636 Air National Guardsman totaling 8,580 Air Force combat-ready war-fighters are deployed to Afghanistan.

Question: How many active duty support staff are employed to support those war fighters?

Answer: As of Monday, 23 April 2012, there are 12,304 Active Duty Airmen, 1,470 Air Force Reservists, and 2,993 Air National Guardsman totaling 16,767 deployed airmen in support of OEF, but not having boots on ground in Afghanistan.

Question: According to DoD, there are nearly 775,000 civilians in the DoD workforce—roughly the same size as the population of Indianapolis. The average 2011 civilian salary was nearly $90,000—higher than the average military salary. Your FY2013 budget included a 0.5% pay increase for civilian employees. Why aren't you looking for more savings within the civilian workforce? I want our defense spending to go to the men and women on the ground, not a person pushing paper at the Pentagon.

Answer: The pay raise for civilians included in the budget request is not set by the Department, but is based on a government-wide determination by the Office of Personnel Management on behalf of the President. The Department's FY 2013 budget reflects a balanced workforce that decreases overall spending on military end-strength and civilian personnel, as well as on contract services. It reflects our best judgment today and represents a carefully coordinated approach based on the Department's strategy and policy that balances operational needs and fiscal reality.

Proposed reductions in the military personnel levels reflect declines in our current overseas commitments; revised strategy, posture and operational planning; and changes to our force structure. Reductions in civilian personnel are predominantly associated with ongoing organizational assessments and mission/function prioritization in an effort to reduce administrative workload.

The overwhelming majority of the Department's civilian workforce works outside of the Pentagon, to include approximately 4,500 civilians who volunteered for deployments to CENTCOM AOR in support of contingency operations. The Department's civilian workforce performs key enabling functions for the operating forces, such as critical training and preparation to ensure readiness, equipment modernization and reset, medical care, family support, and base operating and infrastructure services—all vital services that support our men and women in uniform.

Question: What metrics should be used to determine how much spending is enough?

Answer: There is no single metric given the dynamics of the security situation in theater. Generally, we break the cost between variable and fixed costs.

- Variable costs are driven by the average annual troop strength in theater and assumed pace of operations.
- Fixed costs are not sensitive to changes in troop strength. For example, combat losses, equipment reset requirements, intelligence support, training, and equipping Afghanistan security forces.

As we build the next Overseas Contingency Operations budget request, we compare the funding requirements submitted by the components to actual execution to determine the reasonableness of the requests. Any requests that are inconsistent with previous funding levels are adjusted. Wars are dynamic and evolving in nature, driven by national policy and military strategy. As a consequence, OCO costs are difficult to predict as precisely as base budget costs. Nevertheless, using the measurements and techniques described above, the DoD validates and refines the OCO budget estimates as accurately and clearly as possible.

DEPARTMENT OF DEFENSE AUDIT

Question: Please detail what the Department of Defense is doing to become audit ready. (a) Specifically, how are resources being allocated to make the department audit-ready as soon as possible? (b) What is the timeline for the distribution of resources for this accounting process?(c) How many personnel, including contractors, are involved in making the department audit-ready? (d) What steps have been taken thus far to move toward audit-readiness?

Answer: The DoD plans to spend $300 million to $400 million a year, over the next 6 years, on improving business operations and achieving auditable financial statements (excluding resources to implement enterprise resource planning systems). This investment relates directly to Service and Agency plans and reports. Appropriate levels of personnel, training, tools, and support are being targeted toward achieving auditable financial statements. The Department has reported that the resources and plans were in place to meet the previous 2017 goal. The Department carefully scrutinized requests from Components for additional funding to meet Secretary Panetta's accelerated Statement of Budgetary Resources goal and, where appropriate, included those requirements in the Fiscal Year (FY) 2013 budget request.

The Department has a few hundred people who are totally devoted to the audit readiness effort. To further support this effort, in October 2011, I directed that achieving auditable financial statements will be an "all hands" effort throughout DoD. As a result, civilian, military, and contractor personnel across the Department are involved in financial improvement and audit readiness efforts. Financial auditability is not an additional activity—it is really more of a change in how we do what we are already doing to support our warfighters. Auditability is a goal that every commander, every manager, and every functional specialist must understand and embrace to improve efficiency and accountability within the Department. Leadership commitment from the highest level is setting the tone and priority for audit readiness. The Service Secretary and Chief of Staff for each Military Service have committed to achieving specific near term goals in support of their plans for achieving auditable financial statements. I have reviewed these commitments and plans

and am holding senior leaders, both civilian and military, from across the Department accountable for progress against those plans.

In addition to the steps described above, the Department has established a comprehensive Financial Improvement and Audit Readiness Strategy for achieving improved financial information and auditability. The strategy focuses improvements on policies, processes and controls, systems and data, audit evidence, and human capital. This clear, comprehensive strategy for achieving audit readiness is critical to ensuring that limited resources are assigned effectively to facilitate sustained and measurable progress. The strategy provides a critical path for the Department, while balancing the need to achieve short-term accomplishments with the long-term goals of improved financial information for decision making and an unqualified opinion on the Department's financial statements.

The Department is making progress towards its audit readiness goals. In FY 2011, independent auditors issued clean opinions for Defense organizations totaling $110 billion in budgetary resources, a dollar amount equal to many other federal agency budgets. The

Marine Corps will soon be the first Military Service to receive an audit opinion on a financial statement, a significant step for the entire Department. The Army, Navy, and Air Force all obtained independent validation of their processes for recording funds received from Congress. Other accomplishments that demonstrate the Department is making progress include the

Air Force receiving a validation of its reconciliation process, essentially accurately reconciling Air Force's checkbook.

GLOBAL HAWK QUESTION

Question: I understand Congress has provided funding for the Air Force to secure 21 Global Hawk Block 30 aircraft at a cost of nearly $4 billion. In the FY 2013 budget, you propose to terminate this program and waste the $4 billion already spent in favor of the aging U-2 platform. Why has your department made this decision? Do you have plans to utilize the Block 30's already procured?

Answer: A reduction in high-altitude requirements coupled with a reduced budget presented the Department with a decision between U-2 and Global Hawk Block 30. The U-2 was sufficient to meet the new requirements. In addition, the expected savings of Block 30 were never realized. In terms of dispositioning the current Block 30s, the Air Force is considering several alternatives at this time but has not made a final determination. The Air Force is developing a plan to place these assets in useable storage for future possibilities or disposition them to other users.

QUESTIONS SUBMITTED FOR THE RECORD FROM HON. MICHAEL M. HONDA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

UNITED STATES INSTITUTE OF PEACE

In this new era of fiscal constraint, I want to ensure we employ the most cost-effective use of resources to protect American national security interests. We have seen from a decade of war that the military cannot and should not do it all, especially when it comes to civilian stabilization efforts.

What about efforts like the United States Institute of Peace? How does it help the military? By statute, the Secretary of Defense has a seat on the Board of Directors of the United States Institute of Peace—in addition to the Secretary of State and President of the National Defense University. How does the US Institute of Peace help our military forces address the kinds of threats that you foresee to our national security in the 21st century?

HISTORICAL DEFENSE BUDGET CONTRACTIONS

In recent history, we've seen some tremendous successes which should be credited to you, among many others. The end of our presence in Iraq, the SEAL Team 6 mission, and the expedited schedule for drawdown from Afghanistan will go down in history as much celebrated events. For some of us, these milestones could not come soon enough. With this now behind us, we now have to take a hard look at the money we've been spending.

I commend you for owning up to this challenge by drawing up new guidance which finds $480 billion in savings. I think you've done this in a smart, sophisticated way that doesn't endanger our country or its citizens.

While I think you deserve praise for a job well-done thus far, I'm going to ask, "is this good enough?" I wanted your thoughts—from a historical perspective—how

does this contraction of the defense budget compare to other periods of de-militarization? Could we be pushing harder, and accomplishing these savings quicker?

JAPAN REALGINMENT—FUTENMA

I also wanted your thoughts on an issue very close to me, and that's our relationship with Japan and the realignment of forces in the region. It is my opinion that the 2006 agreement is completely untenable, and I'm encouraged by the recent flexibility displayed by the Obama Administration in adjusting major elements of this plan.

However, the situation at Futenma Marine base is still unresolved. The proposed move to Camp Schwab has major environmental and cost concerns. The Okinawan people want to see our presence on the entire island scaled back significantly, and would oppose relocation to Kadena Air Base.

While I support the reassessment of the 2006 agreement and basing options as instructed in the most recent defense authorization, I believe that we must give the Japanese government and the Okinawan people their rightful negotiating power to fully address their concerns in any future agreement.

We need a new agreement that is fiscally feasible for both the US and Japan while lessening the burden on the Okinawan people. I fear the longer this decision is delayed, the more the costs will skyrocket, but there doesn't seem to be a viable option on the table.

Can you comment on the status of negotiations regarding Futenma?

Are we studying other options that haven't been discussed before?

MR. PANETTA'S RESPONSE TO QUESTIONS SUBMITTED BY MR. HONDA

UNITED STATES INSTITUTE OF PEACE

Question: In this new era of fiscal constraint, I want to ensure we employ the most cost-effective use of resources to protect American national security interests. We have seen from a decade of war that the military cannot and should not do it all, especially when it comes to civilian stabilization efforts.What about efforts like the United States Institute of Peace? How does it help the military? By statute, the Secretary of Defense has a seat on the Board of Directors of the United States Institute of Peace-in addition to the Secretary of State and President of the National Defense University. How does the US Institute of Peace help our military forces address the kinds of threats that you foresee to our national security in the 21st century?

Answer: I believe that the United States Institute for Peace (USIP) is a cost-effective resource and contributes significantly to our collective efforts to manage conflict worldwide, as illustrated by the USIP's recent contributions in Iraq and Afghanistan.

The USIP has supported U.S. military efforts in Afghanistan since 2002 in four interrelated areas: strengthening peaceful reconciliation and capacity to mitigate conflict; enhancing the rule of law; improving cooperation for peace, security, and economic development; and increasing the understanding and effectiveness of coalition operations. These contributions, along with numerous relevant publications on a broad range of issues, directly assist with planning and executing a comprehensive Civilian-Military Campaign Plan in support of security, governance, and development lines of effort. The USIP also supports the Department of Defense's Ministry of Defense Advisors (MoDA) program by training our civilian ministerial advisors on core advisory principles in preparation for their deployment to Afghanistan. This curriculum fills a Defense-wide training gap, and has given MoDA advisors an array of tools to support the security transition mission in Afghanistan.

In Iraq, the USIP synchronized the training of Iraqi facilitators, enhancing field coordination with military units and the Department of State-led embedded Provincial Reconstruction Teams. In the Mahmoudiya region of Iraq specifically, these contributions helped tribal and local government leaders forge an agreement that led to a substantial decrease in violence there.

HISTORICAL DEFENSE BUDGET CONTRACTIONS

Question: In recent history, we've seen some tremendous successes which should be credited to you, among many others. The end of our presence in Iraq, the SEAL Team 6 mission, and the expedited schedule for drawdown from Afghanistan will go down in history as much celebrated events. For some of us, these milestones could not come soon enough. With this now behind us, we now have to take a hard look at the money we've been spending.I commend you for owning up to this challenge by drawing up new guidance which finds $480 billion in savings. I think you've done this in a

smart, sophisticated way that doesn't endanger our country or its citizens.While I think you deserve praise for a job well-done thus far, I'm going to ask, "is this good enough?" I wanted your thoughts—from a historical perspective—how does this contraction of the defense budget compare to other periods of de-militarization? Could we be pushing harder, and accomplishing these savings quicker?

Answer: My goal was to develop a new strategy that would enable the Department to meet the funding limitations mandated by the Budget Control Act of 2011. I think the FY 2013 budget request before you does that in a way that protects the broad range of U.S. national security interests.

No, I do not think we should push harder and seek quicker savings. The difference between this and previous draw downs in Defense spending is that the current global security environment remains an increasingly complex set of challenges and we must remain prepared to address these challenges. It is also imperative that we keep faith with our troops, military families, and veterans. As I have noted, any further reductions to the Defense budget will require a reassessment of the new strategy.

JAPAN REALIGNMENT—FUTENMA

Question: I also wanted your thoughts on an issue very close to me, and that's our relationship with Japan and the realignment of forces in the region. It is my opinion that the 2006 agreement is completely untenable, and I'm encouraged by the recent flexibility displayed by the Obama Administration in adjusting major elements of this plan. However, the situation at Futenma Marine base is still unresolved. The proposed move to Camp Schwab has major environmental and cost concerns. The Okinawan people want to see our presence on the entire island scaled back significantly, and would oppose relocation to Kadena Air Base.While I support the reassessment of the 2006 agreement and basing options as instructed in the most recent defense authorization, I believe that we must give the Japanese government and the Okinawan people their rightful negotiating power to fully address their concerns in any future agreement.We need a new agreement that is fiscally feasible for both the US and Japan while lessening the burden on the Okinawan people. I fear the longer this decision is delayed, the more the costs will skyrocket, but there doesn't seem to be a viable option on the table.Can you comment on the status of negotiations regarding Futenma? Are we studying other options that haven't been discussed before?

Answer: The United States and Japan remain committed to constructing the Futeruna Replacement Facility (FRF). Numerous other options have been studied extensively, including consolidation at Kadena Air Base. There is a Japanese domestic political imperative to move from the Marine Corps Air Station (MCAS) Futeruna, and both sides have reaffirmed on more than one occasion that the FRF at Camp Schwab is the only operationally and politically viable alternative.

Although the Futeruna Replacement Facility will not be constructed by 2014 as originally planned, there has been incremental but positive movement towards the construction of a replacement facility at Camp Schwab. The Government of Japan submission of the environmental impact statement to the prefectural government of Okinawa in December 2011 was a necessary and politically significant step forward. The U.S. Government is committed to working with the Government of Japan in taking the next step prior to the start of construction: securing the Okinawan governor's approval for the landfill permit.

As was recently announced, we are del inking the movement of U.S. Marine Corps forces to Guam from progress on the FRF, so that both of these important initiatives can proceed independently as the specific circumstances for each permit.

Until the FRF is constructed, U.S. Marine Corps aviation will continue to operate out of MCAS Futeruna.

[Whereupon, at 5:09 p.m., the Committee was adjourned.]

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