

**Prepared Statement on the FY 2004 Defense Budget Request  
By Deputy Secretary of Defense Paul Wolfowitz  
For the House Budget Committee  
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Mr. Chairman and members of the Committee, I welcome this opportunity to return this year to give you a brief overview of the fiscal year (FY) 2004 defense budget request and address your questions at this critical time for America and the world.

**Defense Budget Topline**

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

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

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

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

The only reasonable evaluation of a U.S. defense budget is its ability to cover the range of uncertain risks that threaten America's vital interests. Besides their horrific human toll, the September 11<sup>th</sup> attacks cost our nation billions in both physical destruction and damage to our economy. Direct costs of September 11<sup>th</sup> already exceed \$100 billion. Another such catastrophe could cost much more—especially if attackers use weapons of mass destruction.

The President's defense budget is sustainable. Within its topline, the proposed budget funds a strong, strategy-driven program that supports both short-term and long-term requirements. Our multiyear program is sustainable first because we have insisted on realistic budgeting – especially for acquisition programs and readiness requirements. Second, we made hard choices – most notably, by restructuring acquisition programs – to ensure that they are executable within our projected topline. For FY 2004-2009 the Department shifted over \$80 billion from previous budget plans into acquisition programs that support a strategy of transforming our military. These hard choices in the FY 2004 budget request will reduce the cost risks to the DoD topline that were highlighted in a recent Congressional Budget Office report, which does not reflect the work we did preparing this budget request.

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

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

### **Funding the Costs of War**

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

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

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

While the United States has judged it worthwhile to expend some very significant amounts on the efforts in Bosnia and Kosovo where our purposes are largely humanitarian, Iraq presents a case of direct threat to the security of the United States and our allies. Indeed, I

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

### **Balancing Near-Term Requirements and Long-Term Transformation**

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

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

The FY 2004 budget reflects the Department's new way of thinking, first articulated in our 2001 Quadrennial Defense Review and intensively developed since then. That new way of thinking is now being implemented in visionary warfighting operational concepts, a restructured unified command plan, and transformational military capabilities such as unmanned aerial vehicles and new generations of satellite communications.

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

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

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

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

Indicative of the Department's strong emphasis on transformation, the Military Services have shifted billions of dollars from their older multi-year budget plans to new ones -- as they have terminated and restructured programs and identified important efficiencies. For FY 2004-2009, the Military Services estimate that they have shifted over \$80 billion to help them transform their warfighting capabilities and support activities.

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

- The Army came up with savings of some \$22 billion over the six-year FYDP, by terminating 24 systems, including Crusader, the Bradley A3 and Abrams upgrades and reducing or restructuring another 24 including Medium Tactical Vehicles. The Army used these savings to help pay for new transformational capabilities, such as the Future Combat Systems.
- The Navy reallocated nearly \$39 billion over the FYDP, by retiring 26 ships and 259 aircraft, and integrating the Navy & Marine air forces. They invested these savings in new ship designs and aircraft.
- The Air Force shifted funds and changed its business practices to account for nearly \$21 billion over the FYDP. It will retire 114 fighter and 115 mobility/tanker aircraft. The savings will be invested in readiness, people, modernization and new system starts and cutting edge systems like unmanned aerial vehicles (UAVs) and unmanned combat aerial vehicles (UCAVs).

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

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

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

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

We are working, instead, to promote a culture in the Defense Department that

- Rewards unconventional thinking
- Gives people the freedom and flexibility to take risks and try new things
- Fosters a more entrepreneurial approach to developing military capabilities, and
- Does not wait for threats to emerge and be "validated," but anticipates them before they emerge—and develops and deploys new capabilities quickly

The major obstacles faced by us all in making that broad a transition include:

- Antiquated personnel structure – both civilian and military;
- Lack of flexibility in managing money and managing the department;
- Support structures that are outdated, slow and inflexible; and
- Broken acquisition, requirements and resource processes.

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

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

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

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

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

### **Conclusion**

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

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