

1 NATIONAL CAPITOL CONTRACTING
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4 BUDGETING FOR AMERICA'S
5 NATIONAL SECURITY
6 THURSDAY, JULY 7, 2011
7 House of Representatives
8 Committee on the Budget
9 Washington D.C.

10 The Committee met, pursuant to call, at 10:00 a.m., in
11 Room 210, Cannon House Office Building, Hon. Paul Ryan,
12 [Chairman of the Committee] presiding.

13 Present: Representatives Ryan, Garrett, Calvert, Akin,
14 McClintock, Stutzman, Lankford, Ribble, Flores, Mulvaney,
15 Huelskamp, Young, Amash, Woodall, Van Hollen, Schwartz,
16 Kaptur, Doggett, Blumenauer, Yarmuth, Ryan of Ohio, Wasserman
17 Schultz, Moore, Castor, and Tonko.

18 Chairman Ryan. Welcome to the reason everybody came
19 here today. Today's hearing on the strategic choices we
20 face in budgeting for our national security. I want to
21 thank my colleague Mr. Van Hollen for requesting this
22 hearing. We may differ over the appropriate level of
23 defense spending, but we stand united in our commitment to
24 America's security and a strategy based debate when it comes
25 to funding our military. Indiscriminate cuts in defense
26 spending that are budget driven, and not strategy driven,
27 are dangerous to Americans here at home and to America's
28 interest in the world. Former Defense Secretary Gates put
29 it quite well when he said, "That is math not strategy."

30 This Committee has examined, in depth over the last six
31 months, and has advanced solutions to address the fiscal
32 challenges that stifle job creation today, threaten the
33 economic security of American families and jeopardize our
34 national security commitments as well.

35 Our fiscal crisis is above all a spending crisis driven
36 by the growth of our major entitlement programs: Social
37 Security, Medicare, and Medicaid; critical programs that
38 help provide health retirement security for millions of
39 Americans. In 1970, these programs consumed about 20
40 percent of the federal budget. These auto-pilot spending
41 programs now consume about 40 percent of the federal budget.

42 Over the same period, defense spending has shrunk as a

43 share of the federal budget from about 39 percent to 19
44 percent, even as we conduct an ambitious global war on
45 terrorism. Clearly defense spending is not driving our
46 unsustainable fiscal path. There is, of course,
47 considerable waste and inefficiencies at the Pentagon, which
48 Secretary Gates did a great job of identifying. The House
49 passed budget builds upon this effort, devoting \$100 billion
50 of the savings the higher priority defense programs, and the
51 \$78 billions of savings to deficit reduction.

52 We must work together to address the real drivers of
53 our debt. We must advance solutions like those included in
54 the House passed budget that strengthen our social safety
55 net, save our critical health and retirement security
56 programs, lift our crushing burden of debt, and spur
57 economic growth and job creation.

58 America remains the greatest force for human freedom in
59 the world has ever seen. Lifting millions out of poverty
60 and liberating millions from the shackles of terror and
61 tyranny. Our leadership in the world is threatened by a
62 fiscal crisis from within, and the stakes could not be any
63 higher. It is critical for our national security and our
64 economic security that we advance solutions that match the
65 magnitude of the challenges before us. I thank our
66 witnesses for joining us today and for bringing considerable
67 expertise to help us frame the strategic choices we face.

68 We have David Mosher, did I pronounce it right is it Mosher?
69 David Mosher serves an Assistant Director for CBO on
70 National Security. We will also hear from a former
71 colleague of ours here in the House, former Senator Jim
72 Talent, who is now a distinguished fellow at the Heritage
73 Foundation and a member of the Bipartisan Panel that
74 provided an independent assessment of the most recent QDR.
75 Welcome back Jim, it is good to see you. We also have Dr.
76 Gordon Adams, a distinguished fellow at the Stimson Center
77 and a former national security budget official during the
78 Clinton administration.

79 The final point I want to make is this, a sentiment
80 that I know Mr. Van Hollen shares. The men and women in
81 uniform are not mere line items on our federal budget. Our
82 budget debates must never lose sight of our solemn
83 obligation in Congress to provide our troops fighting
84 overseas with the resources they need to successfully
85 complete their mission, and our commitment to them upon
86 their return. We owe a debt of gratitude to our military
87 families that have taken untold sacrifices for our security,
88 and our freedoms we hold dear. I want to thank the
89 witnesses, and I now yield to Mr. Van Hollen for his opening
90 statement.

91 [The prepared statement of Chairman Paul Ryan follows:]

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93 Mr. Van Hollen. Thank you. Thank you Mr. Chairman,
94 and thank you for holding these hearings. As you indicated
95 we requested a few months ago a hearing on the role of
96 defense spending, security spending within the overall
97 budget as well as a hearing on tax expenditures at some
98 point; and I thank you for holding the hearing today. I
99 hope we can do the other one. And I want to join the
100 Chairman in welcoming all our distinguished witnesses I hear
101 today. The Congressional Budget Office just released a new
102 updated report, on the Pentagon's current plans that
103 concludes historical cost growth will continue to put upward
104 pressure on the budget at a time of large deficits, and we
105 will hear more about that today. As Republicans and
106 Democrats that come together to work out a plan to get
107 deficits and debt under control, we must get a better
108 understanding of all the elements of the budget that
109 continue to put pressure on the budget's bottom line and
110 what options we should explore to get the most out of every
111 tax dollar spent. There is no higher priority than
112 providing for the security of our country and I join the
113 chairman in expressing our gratitude to the men and women in
114 the military who help keep our country strong. We all want
115 a military that is second to none, but during this difficult
116 fiscal period we have to be much smarter and more efficient
117 in how we go about providing for one. The economy, the

118 source of our ability to provide for a strong security
119 apparatus, is at risk because of large deficits and rising
120 debt over time. Admiral Mike Mullen, the Chairman of the
121 Joint Chiefs of Staff, warned the policymakers of this
122 growing risk when he stated, "Our national debt is our
123 biggest national security threat."

124 Over the last decade the base Pentagon budget has
125 nearly doubled, and spending at the Pentagon is now at its
126 highest level since World War II. The United States
127 currently outspends the world's second largest military,
128 China, by a factor of 7-1. Roughly \$700 billion to \$100
129 billion, and from 2001 to 2010, security spending including
130 Pentagon, State Department, VA, and Department of Homeland
131 Security, excluding emergencies and war costs, grew on
132 average 1.5 percent per year more than non-security
133 spending. Over the last decade the Pentagon was able to
134 avoid making difficult choices because of this permissive
135 funding environment. This is not my opinion, it is the
136 opinion of the highest ranking officer in our military,
137 Admiral Mullen said, and again I quote, "With the increasing
138 defense budget, which is almost double, it has not forced us
139 to make the hard trades, it has not forced us to prioritize,
140 it has not forced us to do the analysis."

141 We can no longer afford to spend tax payer resources
142 without ensuring every dollar is efficiently and effectively

143 | invested. There is now bipartisan consensus that all
144 | spending, including spending at the Pentagon, must be on the
145 | table as we figure out how to get our finances back on
146 | track. Many Republicans have expressed their support for
147 | reviewing defense spending to find savings, including
148 | Governor Haley Barbour, former Majority Leader Dick Armey,
149 | former Senator and three term Chairman of the Budget, Senate
150 | Budget Committee Pete Domenici, many others. Even in this
151 | year's Defense Appropriations Bill, Chairman of the
152 | Appropriations Committee, Hal Rogers, and Appropriations
153 | Defense Subcommittee, Bill Young, made the case that Defense
154 | cannot be excluded from this debate. Others have proposed
155 | deeper cuts to security spending.

156 | The President's Fiscal Commission, co-chaired by
157 | Democrat Erskine Bowles, and Republican former Senator Alan
158 | Simpson, proposed more than a trillion dollars in cuts to
159 | security programs over 10 years, including illustrative
160 | examples of how to save \$100 billion per year at the
161 | Pentagon as part of a balanced plan to reduce the deficit.
162 | A majority of the commissioners voted to approve that plan
163 | by vote of 11 to 7, including a number of Republican
164 | Senators.

165 | Even in this committee, where agreement is hard to come
166 | by, the notion that including spending, the Pentagon needs
167 | to be on the table was agreed to by a majority of the

168 members this spring in "Sense of the House" language. So
169 where do we look for savings? We should look at all aspects
170 of the budget, but the very first item to examine should be
171 inefficiencies and wasteful practices.

172 After years of trying, the Department of the Defense is
173 still the one agency, the one agency that cannot pass a
174 standard audit. It does not keep track of the number of
175 service contractors even though it spends roughly \$200
176 billion a year on such contracts. Major weapon acquisition
177 programs have experienced hundreds of billions of dollars in
178 cost overruns in recent years. The GAO recently estimated
179 cost growth of these weapon systems totaling \$300 billion,
180 and the GAO has identified a number of persistent high risk
181 management areas at the Department that need improving.
182 There are also seemingly endless examples of stories of
183 abusive contracting practices.

184 Last Friday, Leon Panetta was sworn in as Secretary of
185 Defense, someone who is well prepared to deal with our
186 fiscal challenge because of his vast security and budget
187 experience. He released a message on Friday saying, "That a
188 choice between fiscal discipline and a strong national
189 defense is a false choice." I agree with the incoming
190 Secretary of Defense in that regard. We can make both tough
191 decisions to put spending at the Pentagon on a more
192 affordable path and still maintain a military that is second

193 | to none. Again, Mr. Chairman, thank you for holding this
194 | hearing, the Defense Department Budget alone makes up
195 | approximately one-fifth of the entire federal budget, and
196 | more than half of all discretionary spending. So I think
197 | this hearing's an important exercise in our oversight
198 | responsibilities. Again, thank you.

199 | [The prepared statement of Chris Van Hollen follows:]

200 | ***** COMMITTEE INSERT *****

201 Chairman Ryan. Thank you. Thank you Mr. Van Hollen.
202 We will begin with our testimony. I asked our witnesses if
203 they could keep it to five minutes and then be able expand
204 on all of their points in the Q and A. We will start with
205 Mr. Mosher, and Senator Talent, then Dr. Adams. Mr. Mosher
206 the floor is yours, and put the mic right up to your faces.

207 STATEMENTS OF DAVID E. MOSHER, ASSISTANT DIRECTOR, NATIONAL
208 SECURITY, JIM TALENT, DISTINGUISHED FELLOW, THE HERITAGE
209 FOUNDATION, AND GORDON ADAMS, DISTINGUISHED FELLOW, THE
210 STIMSON CENTER

211 STATEMENT OF DAVID E. MOSHER, ASSISTANT DIRECTOR, NATIONAL
212 SECURITY

213 Mr. Mosher. Thank you Mr. Chairman. Thank you
214 Congressman Van Hollen. Members of the Committee, I
215 appreciate the opportunity to appear before you today to
216 discuss CBO's recent analysis of the long term implications
217 of DOD's budget request. DOD's plans are outlined in the
218 Future Years Defense Program, or FYDP, for 2012-2016 period
219 and in documents it is published on its long-term
220 procurement plans. Because decisions made in the near-term
221 can have long-term consequences for the defense budget, CBO
222 projected the costs of DOD's plans for its base budget that
223 is DOD's budget without war costs, from 2012 through 2030.
224 CBO projected what it would cost to execute those plans
225 using cost factors that are consistent with DOD's recent
226 experience. CBO's detailed analysis was released last week
227 and can be found on our website, but I want to emphasize

228 that our analysis is intended to highlight the cost of
229 executing the current plan. It is not an analysis of
230 affordability or the requirements for defense; nor is it a
231 prediction of likely actions taken by lawmakers.

232 CBO's analysis yielded the following conclusions. DOD
233 anticipates that the base budget will grow about six percent
234 in real terms over the next five years from \$536 billion in
235 2011, to \$569 billion in 2016, in order to execute its
236 plans. I am using 2012 dollars in my presentation today.
237 CBO on the other hand projects that that funding would have
238 to grow about 11 percent in real terms over that same period
239 or almost double what DOD estimates.

240 In 2030, CBO projects that DOD would need a budget of
241 \$642 billion to execute its current plans, an increase of 20
242 percent in real terms over what you guys appropriated in
243 2011. The primary cause of growth through 2030 would be the
244 rising costs for operation and maintenance plus those for
245 military personnel. In particular, CBO projects that there
246 will be significant increases in the cost for military
247 health care, military and civilian compensation, and various
248 other operation and maintenance activities. If you could
249 put Slide 1 up please.

250 As you can see from the top line in Slide 1, that is
251 projected on the screen, it is Figure 3 in the prepared
252 statement. The O and M line, which is that top line, grows

253 rapidly over the FYDP and beyond. In fact it is the largest
254 growing, the fastest growing of all those; a total of 42
255 percent growth from 2011 to 2030. The military personnel
256 account, which is the next line down from the top, provides
257 pay and most benefits to our soldiers, grows at about 26
258 percent over that same period.

259 CBO projects that together those two lines would
260 consume about 71 percent of the budget in 2030, up from 63
261 percent of the budget today if DOD does not change the size
262 of its force structure beyond 2016. In other words, the
263 same force will continue to cost more and more every year.
264 The growth in those two accounts represents the largest
265 budget challenge to DOD in future years, particularly if
266 defense budgets are cut below 2012 levels. I just want to
267 point out, by contrast the procurement account would grow
268 rapidly through 2019 but then start to fall thereafter.
269 Growth in the operations and maintenance account is driven
270 in part by rapid growth in the military health system. More
271 than nine million active duty, reserve, and retired military
272 personnel and their families are eligible for this benefit.
273 CBO projects that the cost for the military health system
274 will nearly double in real terms from 2011 to 2030. By far
275 the fastest growing major component in DOD's budget.

276 Compared to levels in 2000, costs will quadruple by
277 2030. If you could show the next slide please. The figure

278 on the screen, which is Figure 4 in my prepared statement,
279 illustrates the growth in CBO's projection. Rapid growth
280 would occur in all categories in the upcosts in the military
281 health system except the cost of military personnel, which
282 is that bottom category which will grow much more slowly.
283 The growth rates for military health systems have been
284 significantly higher than the rates in the national health
285 care costs over the past five years, and CBO projects those
286 differences will persist. For example, DOD spending per
287 user, or purchased indirect care, grew at three times the
288 national rate from 2006 to 2010.

289 An important contributor to that increase is the
290 accrual payments for TRICARE for Life, a benefit that
291 Congress added in 2002. You can see the top category in the
292 figure there in light blue. TRICARE for Life wraps around
293 Medicare significantly reducing out-of-pocket costs for
294 beneficiaries who are eligible for both programs. They are
295 generally military retirees and their spouses after reaching
296 age 65. This leaves DOD with few tools to control these
297 beneficiaries' utilization of services. It also has the
298 effect of increasing Medicare spending as well. Once again,
299 I want to thank you for the opportunity to appear before you
300 and discuss our analysis and I look forward to your
301 questions.

302 [The prepared statement of David E. Mosher follows:]

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304 Mr. Garrett [Presiding]. I thank the gentleman,
305 Congressman.

306 STATEMENT OF JIM TALENT, DISTINGUISHED FELLOW, THE HERITAGE
307 FOUNDATION

308 Mr. Talent. Thank you Mr. Chairman. I remember the
309 frequency with which I would read full statements when I was
310 on your side of the table. So I am going to recap what I
311 have to say and then make one observation, and then I would
312 be happy to accept your questions and respond to them. In
313 recapping my statement, let me give a little bit of a
314 historical overview. I think that is the best way to do it.
315 I came to the House in 1993, which coincided with the
316 beginning of the post-Cold War policies, and the Peace
317 Dividend that the government took the time. The force
318 structure many of you know this, was cut by approximately 40
319 percent across all three services. Procurement was at the
320 time cut by even more than the force structure was cut.
321 They took a procurement holiday. As I pointed out in my
322 statement, there was one year when they did not buy a
323 fighter aircraft for the Air Force; the reasons for that was
324 the assumption that we would not have to put boots on the
325 ground in the future, the assumption that for at least 10
326 years there would be no existential threat to the United
327 States. These assumptions, by the way, continued through,
328 mostly, through the 1990's, and the assumption that by

329 modernizing the platforms and modernizing the force it would
330 make each service member less vulnerable and more lethal and
331 more capable so that we would be able to accept a smaller
332 force and fewer platforms.

333 Then modernization was cut in the 1990s. At the same
334 time, as Bob Gates has pointed out, we find out that history
335 had not ended; it had just thawed out with a vengeance and
336 deployments went up. Every president in the post-war era
337 has sustained the commitments made by his predecessor and
338 added to them, and that includes this president, who has
339 sustained his predecessor's commitment, increased what we
340 did in Afghanistan, and has now announced a responsibility
341 to protect. And I do not intend to be critical of that, it
342 just shows how busy our forces have been protecting American
343 interests around the world.

344 Then 9/11 occurred, spending on defense did go up but
345 it was largely eaten up by costs that were generated by the
346 decisions in the previous decade. Operation and maintenance
347 has gone up because when you increase deployments and you
348 cut the number of platforms and you do not modernize,
349 maintenance goes up because you are trying to keep legacy
350 inventory and operation. Compensation has gone up. I think
351 that was justified, but it was also necessary because when
352 you put this kind of stress on a volunteer force you have to
353 pay people more.

354 Well, the upshot is that chickens are now coming home
355 to roost. We have kicked the modernization can down the
356 road as far as we can and now we have a force which is
357 losing crucial capabilities. The Navy is the smallest it
358 has been since 1916. The Air Force is the smallest and the
359 oldest it has been since the inception of the service. The
360 Army's missed several generations of modernization. The
361 Army is not ready outside of the forces that are committed
362 into combat. The tip of the spear is sharp, but they get
363 that way by cannibalizing the rest of the spear. So if the
364 balloon goes up some place else we are going to send in
365 troops that do not have enough training and do not have the
366 equipment, even the legacy equipment that they need, and
367 that is why the panel which you all created which was
368 consisted of people appointed by the leaders of Congress and
369 the administration, the Perry-Hadley Panel, and I mention
370 this extensively in my remark, concluded that a train wreck
371 is coming in the area of force capability because we have to
372 modernize the force. Now we have a modernization crisis and
373 we have to increase the size of the Navy.

374 That, in sum, is my remarks. I do want to add one
375 observation; I know that the budget times are difficult. It
376 is an unusually difficult time and maybe unusually difficult
377 to do what could have been done any time in the last 15
378 years to put in the funds that are needed to modernize and

379 recapitalize the force and increase the size of the Navy,
380 but at least recognize that there is a problem. Do not,
381 because you cannot solve it right now, try and pretend that
382 there is no problem. There is a problem. If you recognize
383 that there is a problem it gives a sense of urgency to do
384 the things that you can do.

385 I mention in my written statement, for example, it
386 would be a very good thing if we could increase foreign
387 military sales because the defense industrial base is very
388 fragile now. Well, we can carry, we can support that
389 industrial base and carry some of these programs if we have
390 more sales, but it is very difficult because we have an
391 archaic system of approving these things and it takes a long
392 time. You guys have probably studied it. Well if you
393 accept the fact that there is a problem and we need to do
394 something about it, you will approach that kind of a reform
395 with a much greater sense of urgency.

396 CBO talks about the need to reduce the costs of
397 military retiree health care. I would agree with that and I
398 think it is possible to do that without threatening the
399 quality of that health care. We need to meet with the
400 retirement community and their leaders, and we need to work
401 something out. There is an urgency in doing that if you
402 recognize that we are losing capabilities: air superiority,
403 amphib capabilities, the ability of the Army to move quickly

404 | and move efficiently and effectively when it needs to.
405 | There is a bunch of things that you can do.
406 | The other thing is if you recognize that there is a
407 | problem you can be opportunistic when the time comes. I
408 | have written in other forms about the Stimulus Bill. It was
409 | a decision to stimulate the economy by spending about \$800
410 | billion. I did not agree with it as a matter of fiscal
411 | policy but when I heard the government was going to do it,
412 | well now here is an opportunity to address some of these
413 | needs. For about a third of that money set aside
414 | judiciously over five to 10 years, combined with the
415 | procurement reforms that we need, we have could have taken
416 | care of this problem. Even if procurement and modernization
417 | had gotten the same percentage of that money that the DOD
418 | gets in any given fiscal year, we could have done a lot. We
419 | could have kept the F-22 line open; we needed to keep that
420 | line open as a hedge against the fact that the Russians and
421 | Chinese are still building fifth generation air-to-air
422 | superiority fighters. We could have bought F-18s as a hedge
423 | against the fact that you may not buy out the F-35
424 | requirement. We could have gone to production of a higher
425 | rate production of Virginia Class submarine earlier. We
426 | could have had the money available to reset the Army after
427 | these conflicts, and there would have been money left over.
428 | And I think had this body been conscious as a body, had we

429 made the decision to recognize and confront the fact that
430 there was a problem, there is a very good chance that that
431 money would have been there. It would have been spent in
432 American industries, high paying American jobs, which was
433 the logic behind the bill. But instead there was no money
434 spent on modernization or procurement, and I think that is
435 because we did not confront the problem.

436 I think there would have been a greater sense of
437 urgency last year about passing a defense appropriations
438 bill. I am not going to comment on that greatly but you all
439 know, the failure to pass the bill and funding it through
440 CRs did damage to the way the department operates, and that
441 was not even a money issue. And I think there would be a
442 greater sense of urgency now, at least, to try and do what
443 Secretary Gates has said for several years needs to be done,
444 which is to pass budgets that have modest real increases in
445 the defense budget, along with the savings that we are
446 trying to get, so that we can at least stop the bleeding
447 until the budget situation is resolved and we have more
448 funds to address the modernization crisis.

449 I will conclude by saying what I said in the statement.
450 Yes, there is a price to strength. There is an upfront cost
451 to it. There is a price to weakness too, and we have been
452 living with it. The reason that Operations and Maintenance
453 Budget is going up the way it is going up is they have to

454 take care of legacy equipment that is breaking down. Some
455 of it has mission capable rates of 50 percent. So you are
456 shoveling money in without getting the value, because we
457 have not recognized the problem and we have not committed
458 ourselves to a solution.

459 I understand the situation that you are in. You have a
460 very difficult job in the best of times, and these times it
461 is extremely difficult, at least confront the problem, and
462 at least approach with a sense of urgency the things that we
463 can do. Thank you.

464 [The prepared statement of Jim Talent follows:]

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Mr. Garrett. I thank the gentleman. Dr. Adams.

467 STATEMENT OF GORDON ADAMS, DISTINGUISHED FELLOW, THE STIMSON
468 CENTER

469 Mr. Adams. Thank you very much Mr. Chairman, Ranking
470 Member Van Hollen, for whom I am also a constituent. It is
471 a pleasure to be here. Thank you very much for asking me to
472 testify today and talk about this issue. It is incredibly
473 important work that you are doing and I want to try to offer
474 a perspective, perhaps slightly different from either one
475 that you have just heard, about how we might go about doing
476 that work.

477 When I worked at the Office of Management Budget, which
478 I did for five years in the 1990s; one of my bosses, who I
479 think lurks behind that portrait over there in that corner,
480 I am not quite sure because I am at a angle to it, would
481 have been Congressman Panetta, who was the Chair of this
482 Committee at the time is now the Secretary of Defense. We
483 struggled very hard with this issue of the relationship
484 between defense and the rest of the federal fiscal and the
485 US economy, and in the process of doing that struggle in
486 large part because we were constrained by the budget rules
487 that were laid down and the Budget Enforcement Act of 1990,
488 spent a great deal of time negotiating between the Office of
489 Management and Budget, and the Budget Committee; the Chairs,

490 the Ranking Members, and the members of the Budget
491 Committee. So I am very conscious of the important role
492 that you play. As we head into what Chairman Mullen called
493 our most significant national security issue, which is
494 dealing with our deficits and our debt, your role is going
495 to become ever more important. I appreciate it and I
496 understand it.

497 Let me reassert then as my first point to summarize my
498 testimony that our deficit, our debt, and the economy are
499 our most important national security issues. I agree not
500 only with Chairman Mullen but with the Simpson-Bowles
501 Commission, with the Rivlin-Domenici Commission, and
502 national security is part of that issue. All spending
503 contributes to deficits. All spending contributes to the
504 borrowing we have to do to fund the deficits. All revenue
505 changes contribute to deficits, and to the borrowing that
506 has to be done to make up and fund those deficits, and that
507 includes national defense. It always has and it always
508 will.

509 The Congressional Budget Office and further work on
510 their data by the Center on Budget and Policy Priorities
511 show that over the past 10 years, and stretching out over
512 the next 10 years, the deficits and the accumulated debt the
513 United States has have stemmed largely from three things:
514 the tax cuts of 2001 and the reduction of revenue, the

515 increase in defense spending, and the combination of revenue
516 and spending increases that happened as a result of the
517 recession. A much smaller proportion of the deficits and
518 the accumulated debt is attributable to the one time TARP
519 Bill, and to the stimulus package of 2009.

520 So defense is part of the problem. All federal
521 spending, all federal avenues are part of the problem, and
522 that is why for you everything has to be on the table.

523 Defense, point number two, is always resource
524 constraint. We speak as if we lived in a universe where
525 defense and resources are unlinked. One of the major
526 weaknesses of the panel in my judgment that Senator Talent
527 served on was that it dealt with the world as if there were
528 no resource constraints on any part of the federal budget,
529 especially defense. But as Bernard Brodie, prominent
530 strategic analyst, said many years ago in 1959, "Strategy
531 wears a dollar sign." Resources and strategy are always
532 linked; they will always be linked.

533 In doubling the defense budget over the past 10 years,
534 as General Admiral Mullen said and Congressman Van Hollen
535 referred to that, "We have lost our ability to make the hard
536 choices and do the trade-offs." Well the piper who is
537 playing the piping tune now that we have to pay is making
538 those tough choices and doing the trade-offs that have not
539 been done for the past decade.

540 Third point, we are in a build down. The build down is
541 already underway in defense. It is the fourth defense build
542 down that we have done since the end of the Korean War.
543 This is not a new experience in American national security
544 history. We have built down each time we have ended major
545 involvement in a conflict, Korea, Viet Nam, the Cold War,
546 and now Afghanistan, and Iraq. This build down is driven by
547 the end of those conflicts, and by an increasing concern
548 about our deficits, and our debt.

549 We managed a build down in 1990s. That build down
550 actually began under the George H.W. Bush Administration.
551 The first 500,000 people who came out of the military force
552 structure were taken out by Secretary of Defense Dick
553 Cheney, and Chairman of the Joint Chiefs of Staff Colin
554 Powell. We managed that build down through the 1990s, and
555 frankly despite some of the issues raised by Senator Talent,
556 it was in fact the best managed build down we have had in
557 American history and left behind a dominant global military
558 force; one who took out Saddam Hussein like a speed bump in
559 2003. So it is possible to manage a build down. We have
560 done it before we can do it again.

561 Fifth point, in my judgment the \$400 billion over 12
562 years the administration put on the table is best the
563 Defense Department is likely to do; it is a minimal. As I
564 say in the testimony, we can achieve \$400 billion in savings

565 in defense over the next 12 years providing the Defense
566 Department with growth at the rate of inflation over that
567 same 12 years as against the current defense projected
568 baseline.

569 The commissions that have been mentioned before in
570 introductory remarks, and we did the staffing on defense for
571 the Rivlin-Domenici Panel, have proposed more significant
572 reductions, \$500 billion to \$1 trillion, which at \$1
573 trillion comes to something like 15 percent of the projected
574 resources over the next 10 years. It is possible to do a
575 build down. We agree that if you reach numbers of those
576 magnitudes it is very important, as you suggested in your
577 introductory remarks, to link it to strategy. And so in the
578 testimony and in work we did for Rivlin-Domenici and
579 published in Foreign Affairs in January of this year, we
580 have talked about what some of those priorities may be, and
581 I hope we get a chance to discuss them more in the context
582 of this hearing. Terrorism obviously won, and we can talk
583 about how one approaches that. It is not predominantly a
584 military issue. Cyber protection is one, also not
585 predominantly a military issue. Large steel conventional
586 combat, we judge to be relatively unlikely not likely. The
587 rise of China is an issue of serious discussion and serious
588 consideration, but not manifestly a threat against which we
589 need to throw a significant growth in defense resources.

590 And most important perhaps in our view, the counter
591 insurgency mission, the dealing with fragile states using
592 the military instrument we would expanding the force to cope
593 with that kind of a problem, we would be drawing the wrong
594 lessons from Afghanistan and Iraq not the right lessons, and
595 I am prepared to talk to that proposition.

596 So we suggest in the testimony options that involve
597 shrinking the American Military Force, dealing judiciously
598 with our procurement vectors in the future, the Army
599 fortunately has spent a good deal of money through
600 supplementals over the past three or four years to help get
601 ahead of the ball on its own reset problem and to deal
602 seriously with the problem of defense infrastructure. When
603 we have more than 500,000 American combat forces, or I
604 should say uniformed forces, which are not in combat and do
605 not deploy according to the Defense Business Board, we have
606 a serious problem of tooth-to-tail; and that tail needs to
607 be dealt with in a serious way.

608 Final point, and I will close with this, it is
609 important to point out that even if you took all of these
610 steps the United States retains today and would retain 10
611 years out a globally dominant military. We sometimes lose
612 this point in talking about problems that the military has.
613 We have the only military in the world capable of flying
614 anywhere in the globe. We have the only military in the

615 world capable of sailing anywhere in the world. We have the
616 only military in the world capable of deploying ground
617 forces anywhere in the world. We have the only military
618 with global intelligence, communications, transportation,
619 and, logistics. The only military, no other country in the
620 world even comes close. Ten years out in a well managed
621 build down we would have exactly the same thing. Thank you
622 very much.

623 [The prepared statement of Gordon Adams follows:]

624 ***** INSERT *****

625 Mr. Garrett. And I thank the gentlemen, and I thank
626 the panel. I yield to myself for the first five minutes for
627 questions. So, I will begin where the chairman left off,
628 one of his closing comments that I think is very apropos, it
629 says, "Our budget debates must never lose sight of the
630 solemn obligation in Congress to provide our troops fighting
631 overseas with the resources they need to successfully
632 complete their mission and our commitment to them upon their
633 return." And I think that is really what it is all about,
634 why we are here right now. And I would say, as well, in
635 making sure that last line, "Our commitment to them," to
636 make sure that they are to have their safe return and that
637 may necessitate making sure that they have the resources,
638 the training, and the equipment necessary so that they
639 actually do come back safely.

640 The first point, I just recently had the opportunity to
641 look at some of the so-called top secret memos and what have
642 you with regard to Libya. I will not reveal what I have
643 learned there but in the public releases on those that we
644 received from the White House about a week or so ago with
645 regard to Libya, the administration estimated that the cost
646 of military operations over there through September 30, so a
647 month or so from now, will total approximately \$1.1 billion.
648 And I am wondering whether you all have analyzed the basis
649 for the administration's estimates in that regard and if so,

650 | how do you make that analysis?

651 | Mr. Mosher. We have not independently looked at that
652 | number. Those numbers are still rolling through and we have
653 | not done a separate analysis of that.

654 | Mr. Garrett. Do you do a pre-analysis of that? Have
655 | you done any look at this that we can say, turn to you folks
656 | that we always turn to about these things.

657 | Mr. Mosher. No, we have been keeping track of it and
658 | we would be happy to take a look at it for you but we do not
659 | have anything to share with you today a CBO analysis of
660 | those numbers.

661 | Mr. Garrett. Okay. And last question on this then, so
662 | going forward should we anticipate something from you or do
663 | we need a specific request.

664 | Mr. Mosher. If you ask us to take a look at it, we
665 | would be happy to do so.

666 | Mr. Garrett. Okay. Very good. To some of the
667 | comments that Dr. Adams raised, but I guess it goes to the
668 | whole panel, and maybe goes to a Congressman as well to
669 | begin with. So the Defense Department is said to be
670 | consistently over budget over the years, both in equipment
671 | procurement and in acquisitions. I understand in fact of
672 | the 92 major defense acquisitions, 75 percent are over
673 | budget, and 20 percent of the programs are over by budget by
674 | more than 50 percent. I wonder well first of all, whether

675 | the Congressmen would like to speak about that issue and
676 | then also, back to CBO again whether you have done any
677 | analysis or maybe Dr. Adams has done analysis, as to why is
678 | that the case. And I have been here for eight years trying
679 | to get some explanation from DOD on some of these things.
680 | To the entire panel.

681 | Mr. Talent. Sure well, you know I will comment on it
682 | Mr. Chairman. Yeah we need procurement reform. I go into
683 | some depth anyway in the statement and so does the Perry-
684 | Hadley Panel and I think there are savings that can be
685 | achieved from that. I have said before there was a price to
686 | weakness, well, you know one of the issues when you are
687 | underfunding procurement and modernization over time, and
688 | particularly when you underfund it and then you are
689 | inconsistent with it as well. You contribute, when I say
690 | you by the way I mean the government, you are contributing
691 | to the driving up of costs.

692 | One thing for example, normally the costs of programs
693 | go down as you buy them out, as you buy them in volume.
694 | Okay? Well, yes the DDG-1000 Destroyer's going to cost a
695 | lot more per copy if you buy only one or two, as opposed to
696 | the 32 that you originally decided to buy. The reason why
697 | these programs and the numbers are cut back over time is
698 | because we do not have the money to go out and buy the
699 | requirements. So yes, the per copy cost goes up.

700 The defense industrial base is capable of seeing the
701 direction this government is going in, and when we are not
702 funding these budgets adequately, they do not put a lot of
703 money into the defense industrial base. We do not really
704 have a military industrial complex anymore, if we do we have
705 a much smaller one than we used to. We only have two
706 aircraft, at least prime aircraft manufacturers, any more;
707 all of that has slimmed down. Well the smaller a defense
708 industrial base that is undercapitalized has less
709 competition, and is less capable of producing these systems
710 and these platforms at an efficient price.

711 Now there are a lot of things internal to the
712 department; and I mean in my statement what I said was, I
713 think in an effort to bring down costs, and this is not a
714 new thing by the way, every Secretary that I served under
715 wanted to bring down procurement costs, and Congress passed
716 several pieces of Legislation to do that. Typically what is
717 resulted is increase in processes, you know the number of
718 people involved in supervising these programs and the number
719 of desks that decisions have to go through. And as we
720 pointed out on the panel what that does is it reduces
721 accountability and responsibility within a chain of line
722 management. So, the answer is, you are going to have more
723 process or the same amount of process, make certain that
724 there are people designated to be in charge of the

725 particular programs that they have the authority and that
726 they are held accountable for what they produce. Another
727 very important thing, is to reduce the design bill cycle
728 which you know now can be upwards to 20 years, reduce it
729 down to five to seven years maximum and just say, look we
730 are going to get the capability that we can get by producing
731 these platforms in five to seven years. We are going to get
732 them in the field. We are going to get hulls in the water.
733 We are going to get aircraft in the sky. We are going to
734 get tanks and track vehicles on the ground, and then we will
735 evolutionary upgrade over time. But part of the difficulty
736 has been the funding line.

737 Mr. Garrett. I understand.

738 Mr. Adams. Let me comment on that Mr. Chairman. Years
739 ago a very wise person in the defense procurement world,
740 Norm Augustine, defined something called Augustine's Law;
741 and Augustine's Law basically pointed on a trajectory given
742 the increase in unit costs of hardware programs that would
743 lead us by 2054, which now does not look that far away,
744 where we would have essentially one airplane in the air
745 capability of the United States Military. The Air Force
746 would get it three days a week, and the Navy would get it
747 three days a week, and the Marine Corp would get it one day
748 a week, and, of course, they would work. And he was right,
749 Augustine ended up being the chief executive officer for the

750 Martin Marietta Corporation and a very distinguished events
751 industrial based spokesperson.

752 The problem in procurement is it goes way past this
753 administration and way back in history as Senator Talent has
754 said, and one of the very effective pieces I think that the
755 Perry-Hadley Report does talk about procurement. The
756 problem is it is very difficult to fix. And it is very
757 difficult to fix because the incentive structure is wrong.
758 The incentive structure both in the services and in the
759 industry is backwards from an incentives structure that
760 would lead to the kind of efficiencies you would want in
761 procurement. For the services, getting a program into the
762 budget is the top priority. If you get the program into the
763 budget and get a program element nine for it, and begin the
764 program you then worry later about the fact that it is going
765 to cost you more than you originally projected, but it looks
766 cheaper at the start and that is a way to get it into the
767 budget. So the incentive is to get it into the planning
768 process. For the industry, the incentive is to get the
769 contract. So if you put the program in at a very cheap rate
770 at an R&D level you hope to make up that benefit in the
771 procurement of the program when the dollars grow.

772 So the incentive for the services is backwards, the
773 incentive for the industry is backward, and the end result
774 is we end up with what I call the "Adams Law Defense

775 Procurement" which is almost everything we buy costs us
776 twice as much, takes twice as long, and gives us about half
777 the performance that it should, and it starts with the
778 incentive structure. It is very hard to change those
779 incentives even with powerhouse administration at the
780 Pentagon, even within the Pentagon the incentives structure
781 is to get it in the budget first. So it is a enormously
782 difficult problem, only one Secretary of Defense, or Deputy
783 Secretary, that I know of has begun to even get a handle on
784 it, and that is Dave Packard, who was Deputy Secretary back
785 in the 1970s. And Dave Packard, who came from Hewlett
786 Packard, therefore had a lot of private sector management
787 experience, managed to start to get his arms around the
788 procurement process, and then of course like all senior
789 officials left office.

790 So I have watched this cycle of reforming procurement
791 go on for probably 40 years now, and there is not a new idea
792 in the barrel and nobody yet has figured out how to get the
793 right incentive structure.

794 Mr. Mosher. We have not done independent analysis of
795 this, but there is a very rich literature going back many
796 years as both the other witnesses have suggested that
797 suggest that it is 20 to 30 percent cost growth in weapon
798 systems; it is not an iron law that obviously many factors
799 that happen; it is not a lot of physics but you have

800 incentives and there are just many things that happen. DOD
801 tends to buy weapon systems that are at the cutting edge of
802 technology, which is always a perilous place to try to
803 predict what costs are going to be and although there are
804 incentives that they talk about, well meaning people can
805 come up with estimates that turn out to be low when you try
806 to deal with the reality of putting systems together. So
807 there are a lot of reasons why costs out of weapon systems
808 grow and as I said, the history is long that is 20 to 30
809 percent on average for weapons system's cost growth.

810 Mr. Talent. There are examples of programs that they
811 have done right or that they have fixed midstream. I mean
812 C-17's an example. When Bill Perry C-17 was a very troubled
813 program and he fixed it, and he did it through the kinds of
814 procedures that we recommended. He took personal control of
815 it. He took charge. He had the authority. He had the
816 responsibility. He was accountable and he brought the plane
817 in you know under budget and on time. The F-18, the ENF is
818 an example of a really outstanding program. That was an
819 evolutionary upgrade which points to the direction that I
820 think we need to go in.

821 Again, we have to accept responsibility with the rest
822 of the government because when we have funding that is not
823 up to the task, they feel they have to cram a lot of
824 technology into the platforms they are given. I am

825 concerned about this cargo tankard they are going to try
826 because they need cargo and they need tankards, so they are
827 going to try and build a cargo tankard. Well I hope they
828 can do it, but if there are problems with it, maybe because
829 they are trying to put too functions into one plane. So I
830 think there is responsibility in a lot of different areas.

831 Mr. Garrett. I appreciate that, and just as I said,
832 sitting here for eight years there is just a mountain of
833 frustration of trying to ever be able to look to CBO or look
834 to the DOD when they come here to testify to say, is this
835 what we are really should be anticipating and not in this
836 year's budget but out of the 10 year budget. I guess the
837 commonality here is nothing is going to change any time
838 soon. Gentleman.

839 Mr. Van Hollen. Thank you Mr. Chairman. Let me thank
840 all of you for your testimony this morning. Senator Talent,
841 let me begin with you because I was a little bit struck that
842 in your testimony nowhere do you mention the very important
843 connection between the strength of the U.S. economy and the
844 strength of our military. I assume you do not dispute the
845 idea that the strength of our military flows in large part
846 because of our strong economy. Is that correct?

847 Mr. Talent. Yeah, I mean our economic wealth and
848 prosperity has been many times in history a key aspect of
849 our military strength. It goes the other way too.

850 Mr. Van Hollen. Absolutely, and do you agree with what
851 the Chairman of the Joint Chiefs of Staff, Admiral Mullen,
852 said that our debt is currently the largest threat to our
853 national security? Do you agree with that assessment?

854 Mr. Talent. I think there are three, and I would not
855 want to choose. I think the vital importance of getting
856 back to sustained economic growth and job growth is hugely
857 important, and I sense within the free market and the
858 private sector that the government wants that to happen and
859 it wants to encourage them to happen. I think the issue
860 with the debt is hugely important. Now, you guys are the
861 experts, but to me the core of that problem is the
862 structural, and I am going to try and state this as
863 neutrally as possibly, a structural mismatch between the
864 revenue that is dedicated to the entitlement programs and
865 the cost of the entitlement programs. And the rest of the
866 budget, yes it is a factor, but a minor factor. And then
867 the third thing, these national security challenges. So I
868 would say it is one of three.

869 Mr. Van Hollen. Right. So I take it that you clearly
870 disagree with the conclusions of the two Bipartisan
871 Commissions with respect to defense spending and the
872 importance of trying to address that issue as part of an
873 overall strategy to strengthen our economy. Do you
874 disagree?

875 Mr. Talent. Those are budget driven analysis.

876 Mr. Van Hollen. I will get to that in a minute, but if
877 you could just indicate whether or not you agree with what
878 Admiral Mullen said, which and I quote, "With the increasing
879 defense budget, which is almost double, it has not forced us
880 to make the hard trades. It has not forced us to
881 prioritize. It has not forced us to do the analysis."

882 Simple question, do you agree with that statement by the
883 Chairman Joint Chiefs of Staff?

884 Mr. Talent. No, I agree with his statements a few
885 years ago. When he suggested we needed to spend four
886 percent of the GDP or we are not going to have a capable
887 military. If I can explain. I do not see how he can say
888 hard choices have not been made when the service which he
889 used to be the Chief of Staff is headed down to 210 to 240
890 ships. A level at which nobody believes will allow us to be
891 a global Navy. I mean, if that is not a hard choice that is
892 being made. He is retired ships, he and his successor
893 chiefs, have retired ships because the cost of maintenance
894 was too high, and so the numbers of them is going down.
895 That is a pretty hard choice.

896 Mr. Van Hollen. I think what he is doing is strategy
897 in the grand sense with respect to the situation we face
898 with the deficit and the debt. You mention in your written
899 testimony the rising power of China. Nowhere do you mention

900 the fact that China is the largest holder, foreign holder of
901 our debt, and the influence that foreign entities can gain
902 over the United States through the holdings of those debts.

903 I mean, that is not raised there. Now, I could not
904 agree with you more that the defense budget should be driven
905 by strategy, not by budget, and Dr. Adams mentioned that. I
906 think there is agreement on that. As you well know, you
907 will find across the political spectrum, very different
908 views as to what needs to be done to make sure that the
909 United States remains number one. From the Cato Institute
910 on the more Libertarian side, to other think tanks on the
911 left and everywhere in between. But I certainly do not
912 dispute the basic premise that defense is our number one
913 obligation and it needs to be built off a strategy. The
914 question is what strategy and there I have to ask you, a
915 number of times you have mentioned sort of hanging defense
916 spending to GDP. My question to you is not that just doing
917 it by the math? Well you are, are you not? I mean you are
918 picking an artificial number, that is not driven by strategy
919 is it?

920 Mr. Talent. Well, I am actually glad you asked it
921 because it gives me an opportunity to make a point. It is
922 our belief, at Heritage and when we advocated at Four
923 Percent for Freedom, that that was approximately what we
924 needed. That percentage would produce what we needed in

925 order to provide for the capabilities of the DOD according
926 to a strategic based analysis, because it would have freed
927 up about another 40 to \$50 billion a year that we could have
928 put into modernization of procurement. The reason though
929 that we phrased it in terms of a percentage of the GDP was
930 to make an overall point. Which I think is a point that
931 maybe we can all agree on and we ought to stop and think
932 about this because it is so easy on the Budget Committee to
933 think of any expenditure of government as kind of an enemy
934 that you want to reduce and as too big.

935 Let's go back and look at this strategically for just a
936 second. At the end of World War II the leaders of the
937 United States on a bipartisan basis changed strategically
938 their approach to the world. They had been playing a
939 secondary role outside of the western hemisphere. That was
940 a tradition in American foreign policy. Well they
941 recognized it had not been a success, that policy, in the
942 first half of the twentieth century. We had two world wars
943 and then we were entering a nuclear age, an age of
944 asymmetric weapons, when another world war would just simply
945 be intolerable, and so what they decided to do was to
946 engage, to be more proactive, to manage risk and conflict
947 instead of letting it get out of control with a view towards
948 achieving three things, three baseline things: preventing
949 the spread of totalitarian domination, protecting the

950 American homeland, and doing that without a third world war.

951 Now here is my point.

952 Mr. Van Hollen. No. Look I am very familiar with that

953 history, really I am, and my point was a pretty simple one.

954 That I agreed with your assessment that military strategy

955 should be based on strategy not budgets, and that there is

956 an inconsistency with that and picking an artificial GDP

957 number. Now if what you are saying is, you have looked at

958 the strategy and your conclusion is that, forevermore into

959 the future, four percent is what is needed. There seems to

960 be a little inconsistency there.

961 Dr. Adams, if you could just expand on your testimony

962 regarding the approach of the Quadrennial Defense Review and

963 how you can do exactly what I think everybody in this room

964 would like to do, which is make sure that we do have a

965 military strategy that is based on making sure we protect

966 our vital interests, but that we do it recognizing that the

967 economy and the debt is also an important part of our

968 overall strategy. And to talk about one without considering

969 any of the other is to take a very narrow view about the

970 power of the United States and how we project power and

971 interest.

972 Mr. Adams. Yeah, I would be happy to address that.

973 The reality historically for the United States or any

974 country in the world has always been that their resources

975 and their strategy are linked. And that resource's issue is
976 not just budgetary resources, it is human resources, it is
977 economic resources, it is the industrial capacity of the
978 country, the productive capacity of the country, the trading
979 capacity of the country. All of those issues are part of
980 what any decent strategist would call grand strategy. It is
981 not just about military capability, and we have had a
982 tendency to focus just on military capability as what
983 defines American leadership in the world. It is an
984 important element; it is not the only element, and it is
985 largely a supporting element to a broader sense of strategy.

986 We also have a deficit in this country of thinking
987 about strategy in a broader sense. So that when produce
988 strategic documents, they tend to be documents that come
989 from the Department of Defense, which has typically and
990 rightly a concern about the military capabilities of the
991 United States, but it comes the dominant strategic thinker
992 for the government of the United States. Stepping back and
993 looking at our capacities as a country. Stepping back and
994 looking at the global situation we face, looking at our
995 mixture of tools in the tool kit; civilian tools, military
996 tools, trading tools, investment tools, all the elements
997 that go into state craft and grand strategy is where the
998 focus really should be.

999 The major problem that I had with the Quadrennial

1000 Defense Review and, arguably, with the Perry-Hadley Report
1001 as well, was that it took too narrow a view of what strategy
1002 is, and it did so saying we must simply cover every single
1003 potential danger, risk, threat, challenge, or difficulty
1004 that the United States may face in the world and build a
1005 military capability to deal with it. The major weakness of
1006 the Quadrennial Defense Review mirrored in the Perry-Hadley
1007 Panel, was to say all missions must be fulfilled, all
1008 missions are equal, all missions must have reduced risk to
1009 zero. No country in the world has ever been able to do
1010 that. No country in the world will ever be able to do that.

1011 So every country measures its risks and challenges,
1012 evaluates what risks it is prepared to accept, weighs its
1013 defense commitments in the context of its broader domestic
1014 internal economy, its capacity to produce, its involvement
1015 in the global economy, the stability of its currency, its
1016 trading relationships. That is grand strategy. We have not
1017 done that and we tended to be biased in terms of the
1018 military instrument here.

1019 Our view in doing work that we did for the Rivlin-
1020 Domenici Panel, was to say, is there within a resource
1021 constrained world, because it always is and always will be,
1022 a way of providing a scaling of the challenges that America
1023 may face on the military side that allows us to build
1024 capable military forces that retain the global superiority

1025 that we have today? This was in other words a strategy, not
1026 a numbers driven exercise. Frankly in my judgment a share
1027 of GDP as a way of measuring defenses is a totally numbers
1028 driven exercise; it is math, not strategy. So we tried to
1029 tailor it to what do you do in the world? What is the
1030 appropriate role for the United States? How likely and
1031 unlikely, and what capabilities do we need for dealing with
1032 nuclear challenges? How likely and unlikely, and what
1033 capabilities do we need to deal with potential risks of
1034 conventional war and conventional deterrence? How likely
1035 and what resources do we need to deal with terrorism? What
1036 do we need in terms of capacity to steam the world seas?
1037 What do we need to handle insurgencies in fragile states and
1038 how important are all of those missions in terms of our
1039 overall security for the United States? How much of them
1040 are really military responsibilities or the responsibilities
1041 of some other capacity in the US government? Which I
1042 certainly encourage this Committee to take a good look at.
1043 And therefore, what is an appropriate level of expenditure
1044 and an appropriate level of forces that we would need to
1045 handle those challenges?

1046 And as I say without exhausting you with the details on
1047 it at this point, what we came to was a conclusion that we
1048 would retain a globally dominant military capability with 15
1049 percent fewer resources over the next 10 years than

1050 currently projected in the Department of Defense budget,
1051 that retains the capacity to steam the oceans, that retains
1052 the capacity to deploy forces, that would be a smaller
1053 conventional force but more at the point of the spear than
1054 in the infrastructure because that is how you would have to
1055 rebalance that capability, and you can accomplish America's
1056 national security purposes for 15 percent fewer resources
1057 than currently projected. It is both math and strategy.
1058 And these Budget Committee members have to deal with both of
1059 those things, math and strategy. Math is important,
1060 strategy wears a dollar sign.

1061 Mr. Flores. I am going to try to get in two questions
1062 quickly if I can. Mr. Mosher can you recap for us, you
1063 pointed out the rapidly increasing price of health care on
1064 our military. Can you go through those metrics again
1065 quickly? And maybe we can get that slide back up as well.

1066 Mr. Mosher. Sure. Certainly, Mr. Flores. I, see if
1067 we could, it would be the second slide. It is actually also
1068 Figure 4 in the prepared statement in front of you. You can
1069 see that the growth is going to from 2011 to 2030, roughly
1070 double in the military health system costs. That is what we
1071 have here. And the point I made before was if you would
1072 look at the year 2000 to the 2011 we have seen a doubling
1073 since then.

1074 Now a number of those, you know, a lot of that growth

1075 | if you look at the bottom three lines which is the Military
1076 | Personnel involved in the providing medical service and
1077 | research, et cetera, and then the direct care which is what
1078 | is provided in the military treatment facilities, and then
1079 | purchase care and contracts which is the services that DOD
1080 | purchases through contracts with private sector providers.
1081 | Those three lines you know have been with us for a long
1082 | time, and what started to happen after 2000, there were a
1083 | number of benefits that were added, the big one is the
1084 | TRICARE for life accrual payments and that is a big wedge
1085 | there; but you also see that the direct care and the
1086 | purchase care lines, the dark blue and the medium blue line,
1087 | those start to grow significantly. And it is the growth
1088 | that we see in the DOD experience focusing on the last six
1089 | years because that is when a number of policies that were
1090 | taken, and new policies have sort of taken place, and so if
1091 | we do it much earlier it is hard to do the measure. But
1092 | that growth has been much higher, as I say, and in some
1093 | cases three times higher than the national growth rates per
1094 | user.

1095 | There is been another factor in those numbers and that
1096 | is that you have seen an increase in the number of
1097 | dependents and retirees who have come into the system, under
1098 | 65 retirees. And so whereas in 2000, I believe the numbers
1099 | were about 75 percent of those who are eligible among family

1100 members, dependents and retirees, that number's gone up to
1101 85 percent. So you have more people joining the system.

1102 Mr. Flores. I think you are making the picture pretty
1103 clear, in other words we are creating obligations for people
1104 who have moved out of the military and are not serving and
1105 are becoming an increasing part of our defense cost. My
1106 question would move more to somebody who is been on the
1107 frontline of this, and that would be for Senator Talent.
1108 What are your suggestions as far as what changes you would
1109 propose to try to mitigate the explosion of costs in this
1110 particular part of our defense budget?

1111 Mr. Talent. Well, if you are talking about military
1112 health care, I think it is really important to meet and talk
1113 with a community of retired folks, and talk about how you
1114 can provide the services that we are providing at lesser
1115 costs. And generally I believe that is to try and make it a
1116 program where you are expanding their choices and therefore
1117 creating greater competitions so that they will hold down
1118 costs. I think that is the way. Now what I said in my
1119 statement was that I think the increase in compensation is
1120 fully justified by the performance of these individuals,
1121 because they have preserved the peace, they have protected
1122 our interests, and they have done it with a declining share
1123 of the federal budget and a declining share of the GDP.
1124 This is the point I was making, rather than thinking of

1125 defense spending as a failure, we should think of what we
1126 have achieved at a small percentage of the GDP that has been
1127 declining basically over time.

1128 Mr. Flores. I agree with you. I think many people
1129 have done a lot for very little.

1130 Mr. Talent. No question.

1131 Mr. Flores. I want to move on to another quick
1132 question.

1133 Mr. Talent. The way it is structured now, we have to
1134 great an incentive for them to leave the service too early
1135 and then we lose the benefit of their experience in
1136 training.

1137 Mr. Flores. One other question, you talked about the
1138 C-17 experience and what Bill Perry was able to do and I
1139 have another experience and that has to do with USS
1140 Missouri, which was built by General Dynamics, it came in
1141 under budget, delivered nine months early. It seems like
1142 those were more the exception than the rule, when it comes
1143 to defense procurement. How do we inculcate those
1144 experiences into defense procurement more broadly?

1145 Mr. Talent. Now that is a really good question. I
1146 personally think it is going to be easier to do; it will be
1147 easier to do in the aircraft side, because you are producing
1148 higher volumes of platforms, and because if you just think
1149 of an aircraft production line as opposed to a ship building

1150 production line, you are not moving as heavy or as big of
1151 stuff. I would encourage you, if you have not done it and
1152 you have an opportunity to visit both lines, and you will
1153 see; and that is why I think there are more successful
1154 experiments on the aircraft side. There are more
1155 contractors who have done really good lean manufacturing
1156 techniques, and really perfected it and gotten us platforms
1157 at low per copy cost.

1158 I think ship building is going to be a bigger
1159 challenge, but if on the government side it can say look
1160 this is the kind of funding we are going to provide. It is
1161 a reasonable funding in terms of the kind of ships that we
1162 expect. We are going to have to do a lot more in terms of
1163 ship building if we want to protect the size of the Navy.
1164 And then set targets for them and hold them accountable, and
1165 supervise them with small groups of empowered people within
1166 the DOD, and avoid what both my colleagues here have been
1167 talking requirements creep. You cannot do everything with
1168 every platform. So get hulls in the water. And I think you
1169 can make it better over time but there is no substitute for
1170 senior people taking responsibility and being accountable
1171 for the outcome.

1172 There is a quote from John Lehman in my statement which
1173 is very interesting because John points out in World War II
1174 we had 1,000 people in the ship building yard. We produced

1175 1,000 ships a year. When he was Secretary of the Navy I
1176 think we had 2,500 people and we were producing like 20
1177 ships a year, something like that. Now we have got 4,000
1178 people, we are producing six ships a year. And it is not
1179 because it is not good people, it is the confused authority
1180 and accountability.

1181 Mr. Flores. Thank you.

1182 Mr. Garrett. Thank you gentlemen. Thank you panel.

1183 Ms. Schwartz.

1184 Ms. Schwartz. Well I really appreciate some of the
1185 conversation we are having and I think it is incredibly
1186 important one to have. So thank you to the ranking member
1187 for asking for this hearing and for us being very attentive
1188 to I think what are really two issues. One is that
1189 certainly on this side of the aisle, but I think all of us
1190 agree very strongly that we are first and foremost committed
1191 to a strong defense to be prepared for any future, current
1192 or future concerns and threats to our nation and that is our
1193 number one priority as members of Congress and as a nation
1194 to be safe and secure.

1195 Secondly, we are very concerned about the debt and in
1196 reducing the deficit, and are well aware of the fact that
1197 the Department of Defense is a good chunk of our budget, and
1198 I think you have talked about how much it is. It is 60
1199 percent of our discretionary budget. We spend a lot of time

1200 on this committee and in other committees focusing on 12
1201 percent of our budget which is the non-defense, non-security
1202 discretionary budget, and yet every external expert, and
1203 many of us I think both Republican and Democrat on this
1204 committee, feel very strongly that everything has to be on
1205 the table. We took a vote in this committee while we were
1206 doing the budget and there was strong support, bipartisan
1207 support, for including Department of Defense in our call for
1208 greater efficiency, greater accountability in the use of
1209 public dollars, and in helping us to be able to reduce our
1210 deficit.

1211 And in fact, ignoring the Department of Defense budget
1212 and taking it out of this process, which as I understand it
1213 we often have done. You could have anything you want, no
1214 accountability for the way they spend the money and it has
1215 really hurt us and it will hurt us in the future if we
1216 ignore the Department of Defense.

1217 So to me it seems, and maybe this is unfair, but just
1218 completely unacceptable to not have the Department of
1219 Defense be a part of helping reduce the deficit. And what
1220 we are talking about is some of the things that Mr. Mosher
1221 you have talked about and Dr. Adams talked about, which is
1222 demanding greater efficiency in what they do and simply in
1223 procurement. Not simple, but in overhead. Do we need this
1224 many administrators? I mean do we need in the rank, in the

1225 Department of Defense how many supervisors do we need? How
1226 many senior officials do we need to be watching the store
1227 that actually still cannot tell us how many subcontractors
1228 they have? How many contractors they have? What they
1229 really spend on procurement. Can they not reduce their cost
1230 by one percent, two percent, three percent, four percent?
1231 Mr. Talent talked about wanting to shift that money into
1232 other ways of doing things. I think there is been some
1233 discussion about wanting to modernized our forces and
1234 modernize our purchasing of equipment. I think many of us
1235 agree with that. But my real question, two areas really
1236 simply is, we talked about some of it and asked Mr. Mosher,
1237 but about the efficiencies. Simply how can it not be
1238 possible to get greater efficiencies out of this large of a
1239 system, these many dollars, to demand that? And my second
1240 question, that may be for either Mr. Mosher or Dr. Adams to
1241 address very briefly the issue of health care costs. We
1242 have been very hesitant to go this direction because of our
1243 commitment to providing quality health care for our active
1244 military, but in fact we are calling on the entire health
1245 care system, certainly under Medicare and Medicaid, and
1246 maybe the private system too, to do greater efficiencies and
1247 to improve quality and coordination, and reduce costs in
1248 that way. Can we not do that in a system we actually have
1249 more control over, if anything, which is the military one?

1250 So, in one minute or less if you would just comment on those
1251 two areas that would be very helpful. Mr. Mosher.

1252 Mr. Mosher. Just very briefly, we did not analyze
1253 efficiency in our case, and we have not looked at it
1254 carefully, but obviously there are always places to get
1255 efficiencies, but I would be hesitant to speak about the
1256 magnitude that you could get from them.

1257 As to health care, you know I think I have shown the
1258 growth and one of the points that I wanted to make when Mr.
1259 Flores was asking a question was one of the reasons you have
1260 seen such growth, well there have been two-fold, is that the
1261 military health care system has other health plans that
1262 become more expensive. The military system for those who
1263 have a choice have seen a cheaper and cheaper option over
1264 time. So you have seen much more of people moving into the
1265 system, and just to give you an example, for retirees for
1266 example, that is the under 65 retirees, according to DOD's
1267 numbers, their out-of-pocket expenses are about \$900 a year
1268 for a family in that system. So let's say you pay your
1269 premium and then you are out of pocket as your co-pays. Co-
1270 pays have not really been adjusted since the early 1990s.
1271 And if you compare that to someone who has health care in
1272 the private sector, their out-of-pocket expenses are roughly
1273 \$5,500 a year. So it is \$900 versus \$5,500; it is a factor
1274 of what you know six. That would be one way if you are

1275 | trying to get the cost of the system under control, we would
1276 | look at that sort of thing. CBO has done this annual volume
1277 | every year that look at options for reducing the budget and
1278 | we have several options in there that look at health care as
1279 | things you might do to try to control the cost of health
1280 | care in DOD's system.

1281 | Ms. Schwartz. I believe we are out of time. I do not
1282 | know whether we would admit Dr. Adams to make a comment
1283 | about the efficiencies would be great.

1284 | Mr. Adams. Just two points Congresswoman. The
1285 | efficiency question is usually subsumed in the phrase
1286 | "waste, fraud and abuse." There is not a line item in the
1287 | Defense Department budget to call waste, fraud and abuse.
1288 | It is in fact, an extraordinarily large infrastructure.
1289 | Everything the US government does, anywhere that it does it,
1290 | is done in the Department of Defense in miniature. Every
1291 | function is performed in the Defense Department and we have
1292 | created an unbelievably large infrastructure to do it. The
1293 | infrastructure the Pentagon estimates is 42 percent of the
1294 | budget. There are 340,000 people doing what are essentially
1295 | commercial functions. There are 560,000 uniformed forces
1296 | who never deploy because they are involved in managing the
1297 | infrastructure. We have probably the worst "tooth-to-tail"
1298 | ratio in terms of combat forces at the point of the spear
1299 | and infrastructure behind it of almost all the

1300 industrialized militaries in the world, according to
1301 McKinsey. It is a huge, huge problem.

1302 CBO, I think, in the report that Dave Mosher referred
1303 to, rightly targets infrastructure or rightly targets O&M as
1304 an area of concern because that is where most of this is
1305 buried. It is somewhere buried in the civilian payroll in
1306 O&M, which is 40 percent of O&M. It is buried in the
1307 functions that they are doing and it is very hard to get
1308 your arms around it and so I encourage CBO to do more arm-
1309 getting-around in this subject because it will help us to
1310 decipher exactly what is going on here. But the rate of
1311 growth in O&M is about one-and-a-half to two-and-a-half
1312 percent per year whether you like it or not and the only way
1313 that it comes down, and I think this is important to note,
1314 is the way budgets come down is they come down, which sounds
1315 just like a tautology, but the reality is when you set a
1316 lower budget level, it induces a level of efficiency.

1317 Usually efficiency does not happen bottom up because people
1318 are used to doing business that way. When at the top the
1319 services say you will have less for base operating expenses,
1320 be more efficient, people find ways, and we did find this in
1321 the 1990s. One of the healthy effects of the build down of
1322 the 1990s was that it is lowering the defense top line,
1323 choices had to be made. And the choices can be very
1324 efficient when they come from the top down so budget

1325 constraint and budget discipline is an important element in
1326 inducing efficiency and operations and lowering the
1327 infrastructure cost.

1328 Ms. Schwartz. Changing the culture. Thank you very
1329 much and thank you Mr. Chairman for your indulgence.

1330 Mr. Garrett. Thank you. The gentleman from South
1331 Carolina.

1332 Mr. Mulvaney. Thank you Mr. Chairman. That actually
1333 ties in to the question I was going to ask. Let's stay on
1334 this topic of the infrastructure and the efficiency because
1335 coming out of the private sector one of the first things I
1336 would try and do if I wanted to get my arms around any
1337 particular situation is try and get as much data as I could
1338 about it and in my world that might imply an audit and you
1339 heard the ranking member, and I think correctly so, identify
1340 the Department of Defense as either one of or the only major
1341 agency that has never been able to audit itself or have an
1342 audit performed on it. I think I have heard even that the
1343 Defense Department claims it is beyond an audit. That it is
1344 not able to be audited.

1345 And I guess my question to you gentlemen is should we
1346 tolerate that? And if the answer is no, because I think the
1347 answer should be no, how do we fix it? How do we at least
1348 start the process of fixing what we seem to recognize here
1349 as a problem without getting the information? How do we

1350 audit the Department of Defense? And I will throw that open
1351 to anybody.

1352 Mr. Mosher. Well, we are not auditors so I would not
1353 presume to tell you how you should audit them. We account
1354 the budget but we are not auditors. That would be GAO with
1355 probably the auditors. I mean I will say that on the O&M
1356 question that Mrs. Schwartz raised, one of the challenges is
1357 getting good data on O&M, and that Gordon raised. It is
1358 very difficult to get good data on Operations & Maintenance
1359 spending.

1360 Mr. Mulvaney. Why?

1361 Mr. Mosher. While we get the data that DOD provides to
1362 us. So I am not saying that it is impossible to get good
1363 data, I am saying that the data that we receive, that we the
1364 Congress receive on Operations & Maintenance is relatively
1365 limited and it makes it difficult to dig into the very
1366 complicated things that go on in the O&M account. One of
1367 the problems that we have and we have a study that we have
1368 released in, I believe, January where we looked at some of
1369 these issues but we had difficulty doing it in large part
1370 because once supplemental money is appropriated for the wars
1371 and when you start looking at what DOD is now actually spent
1372 on O&M, those moneys are comingled. So it is very difficult
1373 to separate what war effort money would be. That is the
1374 very legitimate things that you need to be doing to fund our

1375 soldiers and airmen and sailors overseas fighting wars to
1376 what DOD needs to do in its day-to-day, in its base budget:
1377 activities it gets to get those forces ready, to train the
1378 forces, to develop weapons, and it is very difficult to
1379 separate those moneys once they have been commingled because
1380 DOD does not track it that way.

1381 We have some recommendations where we talk about some
1382 ways to do it but it is not about auditing, that is we did
1383 not take it that far. What we did is we looked at where
1384 additional money, additional information would help the
1385 Congress in trying to understand that O&M account. And just
1386 so you know, we are also doing a study at the request of the
1387 House Armed Services Committee where we are looking at how
1388 DOD models the requirements and how it comes up with its
1389 budget for Operations & Maintenance, operational readiness
1390 specifically. And so we have gone to all the services and
1391 we are in the process of doing that and should have
1392 something on that in the fall.

1393 Mr. Talent. I think the Department absolutely ought to
1394 be tasked to improve its auditing performance. Now I will
1395 just tell you, the O&M budget is not going to go down as
1396 long as we have an inventory that is this old because they
1397 have to spend the money to maintain it. I am sure that we
1398 can reduce some of the combat support, combat service
1399 support personnel. You do not have to have the guy in

1400 uniform taking the tickets at the movie theatre but then you
1401 are going to have to hire somebody privately to do it.
1402 Congress is going to have to authorize privatization by the
1403 way too.

1404 Mr. Van Hollen. Let me press you on this point because
1405 I think you and I generally philosophically would agree on a
1406 lot of things. As a conservative, how can I in good
1407 conscience even contemplate this four percent for freedom
1408 concept? How can I even contemplate plussing up any defense
1409 spending until I solve each and every one of the issues that
1410 Mr. Mosher just addressed? How can I in good conscience go
1411 to the tax payers and say listen I want to spend more money
1412 on defense when I do not have any clue how the money that we
1413 are spending now is being spent?

1414 Mr. Talent. Because there is a tremendous connection.
1415 In the first place, we ought to get the savings and that is
1416 what the Perry-Hadley Commission said, that is what Heritage
1417 says, that is what I say, and then you are going to have to
1418 devote it to recapitalizing the inventory and modernizing
1419 the accounts. If you do not, you are going to generate huge
1420 extra costs that are going to swallow anything that you have
1421 saved. And that is been the history of the last 15 years.
1422 We predicted in the 1990s that the O&M accounts would go up
1423 precisely because of this; and while there is a connection
1424 between the economy and military preparedness, there is also

1425 a connection between military preparedness and the economy.
1426 If we are weak and are perceived as being weak around the
1427 world it increases the level of instability and risk which
1428 decreases economic growth. I gave an example in my
1429 testimony. The United States maintaining stability in the
1430 Northwest Pacific around the Korean Peninsula has prevented
1431 a war there for the last 60 years. How good has that been
1432 for the economy? In the increasing instability last year in
1433 the Western Pacific as China started throwing their weight
1434 around, was not good for economic growth. It caused a lot
1435 of issues among our allies. That is a hugely important part
1436 of the world. So you have to recognize the connections but
1437 yes, let's get the savings. What we are saying is
1438 realistically, there is a no way that Secretary Gates is
1439 talking about \$15 billion a year he hopes he can get. They
1440 have been trying to get this for 15 or 20 years. I would
1441 love to get that. It is not going to be enough to do
1442 everything we need to do. We do not even have a new bomber
1443 program plan and we are flying 50 year old bombers.
1444 Remember, decisions you are making now are going to affect
1445 what this force structure is 10 or 15 or 20 years from now.
1446 Our guys are going to be flying 70 year old bombers and that
1447 is not consistent with the United States protecting its
1448 security.

1449 Mr. Mulvaney. Mr. Adams I apologize I am out of time.

1450 I leave it to the discretion of the Chairman, but thank you
1451 gentlemen.

1452 Mr. Adams. Over to the Chair whether he wants me to
1453 answer or not. Briefly put, we believe that this begins
1454 with mission discipline and one of the things that is
1455 striking about the conversation so far is that there is not
1456 been much discussion about mission discipline in the
1457 Department of Defense. We recommended with the Rivlin-
1458 Domenici Panel that we take 100,000 people out of the active
1459 duty force structure solely in infrastructure positions.
1460 Now, for those who then say well then you are going to have
1461 to hire contractors, you are going to get some civilian to
1462 do it because you are taking out of the combat force, no, it
1463 is linked to mission discipline. If we tell the military
1464 here are the things that are important, here are the
1465 priorities, here is the thing you are going to do, you are
1466 in fact going to need less infrastructure to do it, but my
1467 bottom line here is you start the process of eliciting the
1468 data you want by imposing budgetary discipline in the areas
1469 where you want that budgetary discipline imposed and O&M is
1470 one of the key areas to impose that discipline. So some of
1471 this has to happen through leadership, top down decision,
1472 and mission discipline that says you are going to require
1473 less infrastructure to perform these missions.

1474 Mr. Garrett. Gentleman from New York.

1475 Mr. Tonko. Thank you Mr. Chair. Gentlemen, thank you
1476 for joining us. Senator Talent, have you been employed by
1477 or served as a partner in the Fleishman-Hillard or Mercury
1478 Communications?

1479 Mr. Talent. I was with Fleishman-Hillard and then
1480 there was a corporate reorganization and it became Mercury,
1481 which is the sister company in the Omnicom umbrella.

1482 Mr. Tonko. Because I have a release from Fleishman-
1483 Hillard that says the firm's area of focus is the defense
1484 and aerospace industry and by the firm's own description and
1485 I quote, "We leverage our long-standing relationships with
1486 industry influences." And I assume with something like
1487 defense, those influences include us members of Congress, so
1488 the firm's stated aim here is to help defense industry firms
1489 and I quote, "Win new programs and keep existing projects."
1490 So, Senator, is it as serving as an independent arbiter on
1491 the QDR Review Panel, is it fair to say that either through
1492 your work with Fleishman-Hillard or with Mercury in the past
1493 that your job was to advance defense as an industry?

1494 Mr. Talent. No, not in that. We have defense clients.
1495 I offer strategic advice from time to time. I do not lobby.
1496 My views on this subject date back to 1993. Everything that
1497 I have said and done here is consistent with what I said and
1498 did entirely in my career including when I was in public
1499 life. So this is not something that I have come to lately

1500 when I took this position. Anybody who knows me knows that
1501 through three different administrations, Republican,
1502 Democrat, I have been consistently concerned about
1503 underfunding the military and I have criticized on a
1504 bipartisan basis, policies that I thought contributed to
1505 that.

1506 Mr. Tonko. And it would be fair to state, I believe,
1507 though that their efforts here are to advance new programs
1508 and keep existing projects that firm up investment in
1509 defense. With the acquisition of weapons systems having
1510 been the area of inefficiency and cost growth at the
1511 Pentagon, I would like to focus on in recent years that this
1512 area has been particularly egregious. The GAO recently
1513 estimated that acquisition costs for the Pentagon's major
1514 defense programs grew by some \$300 billion or 25 percent
1515 above initial estimates. The GAO cited two main reasons for
1516 that growth. First, that DOD's processes for funding
1517 programs create, and I quote, "An unhealthy competition for
1518 funds that encourages sponsors of weapon system programs to
1519 pursue overly ambitious capabilities and to underestimate
1520 those costs." So we have a systemic problem that encourages
1521 private contractors to feed us technology of debatable
1522 utility for an unrealistic price.

1523 Second reason, GAO cited for that phenomenal growth
1524 rate in acquisition costs is that the Pentagon's process for

1525 acquiring weapon systems allows, and again I quote,
1526 "Acquisition programs to proceed through key decision points
1527 without sufficiently reliable information on funding,
1528 schedule, and technology upon which to make sound
1529 decisions." So, I would ask the panel, do you agree with
1530 that assessment or do you think that recent reforms to DOD's
1531 acquisition system adequately address these causes? Mr.
1532 Mosher.

1533 Mr. Mosher. We have not looked at that, nor is that an
1534 area that we tend to examine, but Mr. Garrett you did ask a
1535 question earlier and I was remiss in saying that in our
1536 estimates in this work that we did, and the estimates we
1537 always do, we try use those cost growth figures to estimate
1538 what costs will be, and so we try to capture historical cost
1539 growth in the systems that we estimate but we have not done
1540 independent analysis of the causes of these sorts of things.

1541 Mr. Talent. I would say yes and no. Yes there is a
1542 problem with enacting either on the basis of not enough
1543 information. I would say though it is more a question of
1544 there are too many people trying to get the information and
1545 nobody's accountable. And no, they have not done enough to
1546 deal with it. On the issue of infrastructure and
1547 particularly personnel, as personnel costs have grown the
1548 chiefs in particular have made every effort to reduce the
1549 number of personnel in their services because they want to

1550 get the platforms, they do not want to pay for the people.
1551 In particular, the Air Force and the Navy, I think reduced
1552 too far which is why we now have a process for example where
1553 we have to cross deck sailors; sailors come in from one task
1554 force, or steaming in from one helicopter to go on another
1555 task force that is going out. They have had an incentive to
1556 try and reduce personnel and where they could do it, they
1557 have done it because they have been trying to protect other
1558 parts of the budget.

1559 Mr. Tonko. Thank you. Dr. Adams.

1560 Mr. Adams. The last part of the question is the one
1561 that I wanted to address, are the current forms likely to
1562 get a handle on the problem that you have described? And
1563 the honest answer is it is too early to tell. My analysis
1564 of those proposals is probably there are too weak to have
1565 such an impact. I see nothing in the data so far. GAO
1566 provides the most compelling data that we have on cost
1567 growth. Nothing in the present data suggests that the
1568 overall judgment that I have about the ability to control
1569 procurement costs has been fixed by any of the current
1570 procurement reforms. It is really tilting at a windmill,
1571 because the incentive structure is wrong.

1572 Mr. Tonko. Thank you.

1573 Mr. Garrett. Mr. Ribble.

1574 Mr. Ribble. Thank you for your testimony today and

1575 Senator Talent this is a little surreal for me. Back in
1576 1995, when you were chairman of the Small Business Committee
1577 of the House side, I was sitting on that side giving
1578 testimony while you were at the chair. I would like to ask
1579 the same question to you and to Dr. Adams. One of the
1580 things that intrigues me is it seems a little bit like we
1581 are continuing to defend our country as if we are in the
1582 very close post-World War II era. We have tens of
1583 thousands, hundreds of thousands of troops stationed in safe
1584 harbor nations like Germany and Japan, and other places
1585 around the globe. Are those numbers appropriate given the
1586 speed in which we can move people about the globe and
1587 equipment?

1588 Mr. Talent. Well, the basis, first of all with regard
1589 to base closure. We did a number of rounds of domestic base
1590 closure. I voted for all of them and I am not sure you guys
1591 would know, I mean, have they actually determined that we
1592 saved any money? I do not know that we have because we have
1593 to invest upfront costs in closing a base. And the bases
1594 are there to help us get in and out of places. We could not
1595 have done what we have done in Iraq and Afghanistan without
1596 the bases, in Kuwait and Qatar. If we did not have the
1597 troops, or the bases, in Germany we would not have a place
1598 to evacuate the wounded. It is pathways in and out. So if
1599 you do not do that and I think we should be constantly

1600 | looking at infrastructure, but understand that we are still
1601 | going to have the ability to get in and out.

1602 | Mr. Ribble. Yeah, and I am not really looking at
1603 | infrastructure per say, I am looking at troop count.

1604 | Mr. Talent. They have tried to reduce, in fact, have
1605 | in Europe and in Korea, they have reduced footprints. I
1606 | mean, again these are not people who have tried to have more
1607 | personnel. This is why I simply dispute the idea they have
1608 | not made hard choices. They have made a number of hard
1609 | choices. I can submit you a huge list of them, I do not
1610 | have time I guess to talk about it because they have been
1611 | under increasing budgetary pressure. So you have to
1612 | maintain the bases, or you have to substitute something for
1613 | them. You can operate off the naval vessels then you need a
1614 | bigger Navy, or you need more cargo lift. Well you cannot
1615 | shut down the C-17 line because you got to get the people
1616 | and the power from here to there one way or another. So, it
1617 | is not my sense that you are going to get a lot out of the
1618 | foreign bases or reducing those footprints. It may be
1619 | possible, and if you can, you should. I would love to tell
1620 | you there is some silver bullet that you can get out of the
1621 | rest of the budget, but the budget's O&M is going up. The
1622 | budget's personnel, he just said that is going up, its
1623 | overseas contingencies; maybe that will go down. Remember
1624 | even if the draw down in Afghanistan is successful and I

1625 certainly hope it is, we are going to go back to 60,000 to
1626 70,000 troops, which is almost twice as many as we had when
1627 the president took over. And I am not saying he is wrong,
1628 in doing that. The idea we are not going to do
1629 counterinsurgency, I mean I do not know how you can draw
1630 that conclusion given what we have done the last 20 years.
1631 That leaves procurement and modernization basically. So if
1632 you pressure them, it is got to come out of procurement and
1633 modernization, which is where it is come out of.

1634 One other point I want to make about the overall budget
1635 picture. Everything should be on the table. Defense has
1636 been a declining portion, both of the GDP and the federal
1637 budget, which is why I said in this statement, if you
1638 resolve the broader issues between the mismatch between
1639 revenue and entitlement programs, there is going to be
1640 enough money to pay for defense. If you do not, not funding
1641 these basic requirements, is not going to keep the
1642 government from going bankrupt. I think that is just a
1643 statement of fact.

1644 Mr. Ribble. Dr. Adams.

1645 Mr. Adams. Yeah, a couple of points to make. First
1646 off, in the work that we did for the Rivlin-Domenici Panel,
1647 we explicitly come to the question that you asked in the
1648 narrowest sense. That is to say there are areas where the
1649 United States has forward deployed forces where one can, I

1650 think, safely say those forces could be reduced, not
1651 eliminated but reduced. And Europe is the biggest one of
1652 them right now, at about somewhere between 80,000 and
1653 100,000 depending on how you count Naval forces and you
1654 probably could bring that down to 20,000 or 30,000 where you
1655 would be operating the health infrastructures at Ramstein
1656 and places where you need capacity because you are doing
1657 deployments elsewhere and not have the combat for forward
1658 deployed combat forces that you have there today. And in
1659 fact, the Defense Department's considering bringing a
1660 brigade combat team out of Europe, we would say two brigade
1661 combat teams could safely come out of Europe.

1662 The deployment in Asia, we also think could come down
1663 in terms of the ground forces, specifically. It is not a
1664 large presence but we would not bring it down as heavily as
1665 we would in Europe because the security situation is less
1666 certain in the Asian theatre than it is in the European
1667 theatre, but in ground forces terms we are unlikely to be
1668 using those ground forces in areas where we think they are
1669 deployed forward to be used largely Korea. We are certainly
1670 not going to a ground war with China. So there is
1671 opportunity there. The reality in budgetary terms is, of
1672 course, is that you do not save any resources unless you
1673 bring down the size of the force structure to match. So if
1674 you actually bring forces down and a trip to force

1675 structures so you match the numbers that you have brought
1676 back, it may not be the same people, but it may come from
1677 somewhere else. You can easily do that.

1678 Let me address one other question that was raised or
1679 implied by your question, and that is this question of
1680 counterinsurgency. I want to come back to that because it
1681 is maybe the first time in this discussion so far that we
1682 have really addressed a strategic or military mission
1683 related issue. And I think there is a very important
1684 argument that we put on the table here that we have not in
1685 fact been conducting major counterinsurgency operations for
1686 the last 20 years. We have been conducting them for the
1687 last 10 years in countries we did not invade because of
1688 insurgencies. We invaded those countries because we had a
1689 regime change prospect in mind. Explicitly that was policy.
1690 Remove Saddam Hussein, remove the Taliban. We inherited an
1691 insurgency in part stimulated by the capability they would
1692 put in there to remove a force in a country that did not
1693 have a fragile government. The reality is we are not going
1694 to fight insurgents around the world. We are going to
1695 choose where we fight. We are going to choose where we
1696 deploy forces. There are areas with major battles raging
1697 today we would not dream of deploying American military,
1698 Democratic Republic of Congo comes to mind for example.
1699 That we will not engage in counterinsurgency warfare on a

1700 global basis because no sensible president's going to decide
1701 that it is America's military mission to fight whatever an
1702 insurgent is, wherever he or she is, somewhere around the
1703 world.

1704 So it strikes us at least, and this is part of our
1705 strategic analysis for Rivlin-Domenici, that the
1706 counterinsurgency nation building global policing role with
1707 ground forces in a lot of countries doing something called
1708 counterinsurgency is a very unlikely future mission for the
1709 American military. It is if you will the wrong lesson of
1710 Iraq and Afghanistan. We are unlikely to do 250,000 person
1711 deployments in a counterinsurgency mode somewhere else in
1712 the world.

1713 Mr. Ribble. Thank you. I yield back.

1714 Mr. Garrett. Mr. Yarmuth.

1715 Mr. Yarmuth. Thank you Mr. Chairman. Senator Talent I
1716 just want to follow up on the line of questioning that Mr.
1717 Tonko had started. This really is not about credibility but
1718 I am just confused about something because as you said, the
1719 views you expressed today have been long held views and this
1720 is somewhat of a chicken and egg situation but it goes to
1721 also kind of the revolving door that we have these days. I
1722 assume that one reason you are retained by the people who
1723 pay you is because you were, you held these views.

1724 Mr. Talent. No. The reason I was retained, not

1725 | because of any specific view in any particular area of
1726 | public policy, but because of a perception that I understood
1727 | how the Congress operated and could give good strategic
1728 | advice to clients who cared about that and very little of
1729 | what I have done over the years has been related to defense.
1730 | It is mostly in other areas, health care regulation, that
1731 | sort of thing.

1732 | Mr. Yarmuth. Well, and you tried to make a
1733 | distinction. I just asked you to explain because to me it
1734 | is a distinction without a difference. The fact that you
1735 | are not lobbying but you are being paid for it.

1736 | Mr. Talent. No I was just explaining what I do. And I
1737 | felt the question went to what I do.

1738 | Mr. Yarmuth. Okay, fine. Thank you very much. Again,
1739 | your views are your views and I accept that.

1740 | Mr. Talent. It really has gone back 20 years. And it
1741 | is really, whatever else I have done, this has been very
1742 | bipartisan to what I have said and I believe very strongly
1743 | that the views that I hold are necessary to a successful
1744 | foreign policy no matter what point of view you are coming
1745 | from. I wrote an article in 2009, at great length about
1746 | this, advising that these needs be taken care of in order to
1747 | make the incoming president's foreign policy successful, and
1748 | I bet that he wishes right now that he had increased in
1749 | capabilities when he had that Stimulus Bill in front of him.

1750 Mr. Yarmuth. Well, that is water under the bridge
1751 unfortunately. Following up a little bit on the foreign
1752 presence that we have, and I know this differs from country
1753 to country, but I address this to you Mr. Mosher first. To
1754 what extent do foreign countries subsidize our presence
1755 there and is it a significant factor or not? And is that an
1756 opportunity perhaps to write the budget a little bit?

1757 Mr. Mosher. You know, this has obviously been a very
1758 difficult political issue for a long time. There was long
1759 debates about burden sharing within NATO, and in Japan, and
1760 you know there is also this problem that you are not asking,
1761 nor do you want to ask foreign governments to pay for our
1762 forces themselves. That would not be right. So it tends to
1763 boil down to infrastructure and you know paying for bases
1764 and paying for those. And there are varying degrees of
1765 support in different countries, and I said Japan and NATO
1766 being the most advanced, that is the best developed. You
1767 know, that ends up being a political decision that a
1768 president and a congress and another country has to make
1769 about supporting that arrangement, and you know every
1770 country's different. Yes, there are potentially some
1771 savings if you were to do it, but it is not going to solve
1772 our budget deficit problem.

1773 Mr. Yarmuth. Dr. Adams, you mentioned earlier in your
1774 prepared testimony that you would like to have the

1775 opportunity to discuss some other recommendations that the
1776 Quadrennial Commission had come up with ways we might do
1777 things. I will give you remainder of my time to talk about
1778 a few of those, if you want.

1779 Mr. Adams. Well, let me come back for a moment to this
1780 question of mission because I think a strategy driven
1781 conversation is in order at this point in our history. The
1782 major critique that I had of the Quadrennial Defense Review
1783 that we had and one of the major critiques that we had of
1784 the Perry-Hadley Commission was the real failure in both
1785 cases to say some threats are more likely than others. Some
1786 missions are more likely than others, and some elements of
1787 risk are more acceptable than others. Any good strategist
1788 will tell you that that calculated against resources is
1789 exactly what a strategist does. He says, what are we likely
1790 to do, what are we less likely to do, what is not likely to
1791 happen, how much do we really need to hedge? We have
1792 precious little guidance from either of those exercises to
1793 do that because both of them were consciously developed
1794 independently of any sense of limitations on resources. The
1795 consequence is really weighing, for example, what the
1796 likelihood of the use of combat forces is going to be in
1797 Europe, and what would one can then reduce the force in
1798 Europe as a result has not been done.

1799 The real weighing of the likelihood of a major ground

1800 warfare in Asia, has not been weighed. It will not happen
1801 against China, we would be mad to go into a ground war in
1802 China. It might happen in Korea, but the Korean capability
1803 that exists in South Korea is vastly different than what it
1804 was that we faced in 1950 when the North Koreans came across
1805 the 38th Parallel. Where you are going to face conventional
1806 forces? Where are we going to deploy 250,000 in a
1807 conventional mode? And if you start weighing the cases and
1808 saying, is it Iran, unlikely. Is it Pakistan, 160 angry
1809 Pakistanis coming at our military force is not a prospect I
1810 think anybody would lightly weigh. You begin to run out of
1811 cases. You begin to run out of scenarios for major combat
1812 deployments of American forces, and that does not mean you
1813 reduce American combat capabilities to zero. That is not
1814 what we are talking about. It is an appropriate hedge to
1815 then rethink how much you need in the ground force, how much
1816 of it is active duty, how much of it is reserve, how much
1817 you exercise it, where you exercise it, and how you are
1818 likely to use it. And you do a similar analysis in any
1819 mission area that you think is important to American
1820 national security. What is the global steaming tempo of the
1821 United States Navy? What need it be? What should it be?

1822 We have managed to retain global naval superiority for
1823 the last 60 or 70 years, even with a shrinking Navy. In
1824 large part because no other country is as crazy as we are to

1825 develop as large a Navy as we have. So we have the globally
1826 dominant Navy, even at its current size. There is no other
1827 Navy that comes close, and no Navy within reach within
1828 decades. No country that even looks like it has the
1829 intentions of going to that length. So if you are mission
1830 area is global presence at sea, we have and still have and
1831 would have in the future global presence at sea.

1832 I have already mentioned my own views with respect to
1833 counterinsurgency nation building exercises in the military.
1834 We are structuring exercising forming training our military
1835 today in pursuit of DOD Directive 3000.05 and the 24
1836 Doctrine from the United States Army as if we were going to
1837 pursue major large scale insurgency operations on a global
1838 basis. If we look at the global scenario we do not see that
1839 as a likely exercise of American Military Forces, nay if
1840 anything it is not likely to be well received, given the
1841 experiences that we have had in Iraq and Afghanistan.

1842 So you set priorities among missions. We think dealing
1843 with terrorists organizations, particularly global Al-Qaeda
1844 Network is a key priority. Does it demand a large ground
1845 force? No. We specifically tailor our forces and we use
1846 largely Special Forces for that threat to deal with the
1847 kinetic edge of what is a broad problem of law enforcement,
1848 finances, and military operations, and governance stability
1849 in other countries, and so on through the chart. In other

1850 words in each area a hardnosed analysis that says, what is
1851 the threat, what is the issue, what is the real risk, what
1852 are the tools we use, and how do we calculate that risk? It
1853 leads you to a strategist answer which is some risks are
1854 more acceptable than others, and it leads us to the
1855 conclusion that on almost all areas that I can think of, 10
1856 years out and a trillion dollars less than the more than
1857 \$6.5 trillion currently projected, we still have a globally
1858 dominant military in every threat area I can imagine.

1859 Mr. Talent. Mr. Chairman, this is the third or fourth
1860 time that my good friend and colleague on this panel has
1861 criticized Perry-Hadley. Nobody is asked me for a response
1862 to that. Am I going to have an opportunity? I feel Bill
1863 Perry and Steve Hadley would be very upset if I do not say
1864 something.

1865 Mr. Lankford [Presiding]. Let me do this. Senator
1866 Talent, I do concur on that one. I am going to put us back
1867 on schedule with a five minute clock on it just for all
1868 those future that are coming up behind, because we are
1869 bumping up against noon in a hurry, and I know several
1870 schedules are against that. I have the first series of
1871 questions at this point, and I will defer to you to begin my
1872 time and we will honor with the five minute time limit.

1873 Mr. Talent. And I will try and do it quickly. Look,
1874 we did a strategic analysis. The whole first chapter was

1875 | about a grand strategy because you do define what you need
1876 | in terms of defense, in terms of what your foreign policy
1877 | objectives are. So we set forth what we thought the
1878 | enduring national interest and objectives of the United
1879 | States were based on the strategic habits on a bipartisan
1880 | basis of the presidents of the last four years. Identified
1881 | the five threats and decided what force structure would be
1882 | necessary to meet them. We knew we were resource
1883 | constrained. The force structure we recommend it
1884 | specifically says, look it would be nice to increase the
1885 | size of the Army and the Marines, but that is not the top
1886 | priority. The top priority is increasing the size of the
1887 | Navy and recapitalizing the whole force. This is specific
1888 | understanding that resources are not unlimited.

1889 | Now, Mr. Adams, with his usual eloquence and civility
1890 | talks about the strategic analysis they have done instead of
1891 | math, later on you heard him though, and what he said
1892 | described what strategic analysis really is. Which is
1893 | basically, look, tell them what their budget ceiling is,
1894 | subject them to some pain, and force them to make some hard
1895 | choices. In other words, it is a budget driven type
1896 | process. Now he talked about risks that extremely unlikely,
1897 | what you are seeing with that analysis is two things that
1898 | happen all the time. One, an assumption without talking
1899 | about it very much is just suing risks away. You are going

1900 to say we are not going to have to do counter insurrection
1901 again, put a large number of troops on the ground. Exactly
1902 what they said in the 1990s, they cut the force then, we had
1903 to put them on the ground and it created a huge number of
1904 costs.

1905 The other is the assumption that you know more than you
1906 know throughout the planning horizon. We are talking about
1907 planning 10, 20 years down the road. The world is unstable
1908 place. So yes, you have to be resource constrained, but you
1909 have to understand what you do not know and as Secretary
1910 Rumsfeld said one time, "What the unknown unknowns are as
1911 well." And I thank you for giving me the opportunity.

1912 Mr. Lankford. No, I understand. A well equipped
1913 military personnel as far as a well trained becomes a large
1914 part of our edge worldwide and has been in many of our
1915 conflicts.

1916 Mr. Talent. We tend to get hit when we are not
1917 prepared.

1918 Mr. Lankford. Yeah, I understand. That is part of the
1919 frustration that weapons procurement systems, that where we
1920 tend to see large cost overruns at times. There is also a
1921 balance of experimenting we know with a new drug being
1922 formed. Sometimes they go down a long way and it ends up
1923 being a dead end and it does not work and they lose a lot of
1924 money in the process. It is just very painful when we do

1925 that in the public eye with the modernization system. We
1926 also have a frustration right now with the number of times
1927 that Guard and Reserve members are headed back a third or
1928 fourth tour, the way we have cut back on active duty and now
1929 we are very dependent on a very protracted that we did not
1930 expect 10 years ago that now we are deeply into and we have
1931 people that have private lives as well as public service in
1932 that, and that are being asked to serve again and again and
1933 again in these different tours.

1934 Let me come back to a couple of questions on this in
1935 the two minutes that I have. How do we create some
1936 incentives for efficiency? We have talked about it several
1937 times. Whether it be in modernizing weapons and procurement
1938 systems, give me a one-two of the low hanging fruit of how
1939 we create an incentive for efficiencies in some of these
1940 systems. Type of contract, way the contract's overseen, the
1941 frequency of contracts, whatever it may be. Anyone can jump
1942 in but they need to be brief.

1943 Mr. Talent. Look, I think that the people response
1944 over the top and they have their weapons programs that they
1945 like, and you have to exercise control because like the Air
1946 Force always wants fighters. Does not mean that you do not
1947 need fighters, but I think they have an incentive. I mean
1948 they want the cost overrun because it undermines the
1949 credibility of the program, and means they can buy fewer

1950 platforms and have fewer programs. But I think what they
1951 are failing to do, and I have said this several times, I do
1952 not think anybody here is really disagreeing with this
1953 either, they are failing to establish clear chains of
1954 command empowering people in line management, and then
1955 giving them the responsibility and the authority to keep
1956 these programs on budget and on time. The other thing is
1957 they are trying to get too much capability in many cases
1958 with platforms. Instead of settling for something
1959 incremental and getting it out on the field.

1960 Mr. Lankford. Dr. Adams. Can I ask you a quick
1961 question as well? You referred earlier to a private versus
1962 commercial that you are saying that there are some folks
1963 that are military uniformed that should be more commercial,
1964 I think was the term that you used on that. Can you expand
1965 on that some?

1966 Mr. Adams. They are performing essentially commercial
1967 functions, that is to say, they are doing things that you
1968 would do in the private sector in the economy rather than
1969 things that you would do in the Department of Defense. The
1970 answer to that is not necessarily however to convert 100,000
1971 people to private sector entrepreneurs because as I said
1972 earlier, it is mission related. You can shrink the entire
1973 infrastructure and that would be one place to target in
1974 shrinking the entire industry.

1975 Mr. Lankford. You are saying take that task, not say,
1976 10 people did it, the military needs to be 10 people over
1977 here, but that task needs to be pushed over and they bid it
1978 out for a cheaper amount.

1979 Mr. Adams. Exactly. It is not necessarily, the
1980 argument's not necessarily one for privatization. It is
1981 some of those functions when you have shrunk the mission set
1982 and focused on the risks is you may not require a lot of
1983 those functions to be performed.

1984 Mr. Lankford. Okay. Thank you very much. Mr. Ryan.
1985 You are recognized for five minutes.

1986 Mr. Ryan of Ohio. Thank you Mr. Chairman. So Mr.
1987 Talent, Senator. I was interested in what you were saying,
1988 the military equals stability which equals economic growth,
1989 and for example, up in the North Korea region. One of the
1990 issues I know I have, and I think a lot of people on this
1991 Committee have, and I think a lot of people in the country
1992 have, is they see us spending hundreds and hundreds of
1993 billions of dollars in the military, and compared to 30 or
1994 40 years ago, and industrial towns like the one I come from
1995 in Youngstown, Ohio, throughout the industrial Midwest, we
1996 seem to be seeing less and less of that money being spent
1997 and driven back into the economy of the United States.

1998 Mr. Talent. Right.

1999 Mr. Ryan of Ohio. And not only, as I think Mr.

2000 Mulvaney said about auditing, it seems like you are even
2001 saying that \$10 to \$15 billion a year would be great if we
2002 could get to that number in savings.

2003 So I have two issues, one is we are spending a lot of
2004 this military money in Northwest Pacific area as you stated
2005 and now we are going to sign trade agreements with South
2006 Korea. We have huge globalization, which has put thousands
2007 of Americans out of work, and yet those people are still
2008 paying taxes to fund the military, to have the economic
2009 stability, so that we can have a global economy, although it
2010 is kept their wages stagnant for 30 years. So there is a
2011 level of frustration in the country when we are spending all
2012 of this money and we are not seeing it driven back into the
2013 manufacturing defense industrial base in the United States
2014 of America. So four percent of the GDP is a big number, but
2015 many of us here advocate for increases in transportation for
2016 example, where we are at one maybe two percent of the GDP,
2017 when China and India are at nine or 10 or 11 percent of
2018 their GDP. And back in the day, we were at eight, nine
2019 percent of our GDP. So we need to figure out how we are
2020 going to one, get this money driven back in the United
2021 States because we are also advocating for transportation and
2022 that puts our building trades right back to work. How do we
2023 go about doing that? How do we figure out how we start
2024 bringing some of this economic stability to benefit average

2025 | people in Youngstown, Ohio?

2026 | Mr. Talent. I agree. I was a huge advocate for
2027 | infrastructure by the way and I was on your side of the
2028 | table. And I think when you have a debt problem; you have
2029 | to do two things. You have to decide where you do not want
2030 | to spend, and you have to decide where you do continue to
2031 | need to spend in order to support the economy so that you
2032 | can get out of the debt situation.

2033 | Mr. Ryan of Ohio. You believe investments should be
2034 | made?

2035 | Mr. Talent. Yeah exactly. I think, part of the
2036 | problem here is that when you have hugely increased
2037 | deployments, which we have had the last 20 years, you have a
2038 | reduced force in terms of number of personnel. You are not
2039 | buying the platforms, the equipment, you know the ship's
2040 | planes that they need, and you are not modernizing. You get
2041 | huge amounts of stress which costs money. This is basically
2042 | the reason that the operation and maintenance budget has
2043 | gone up and then that has deprived procurement and
2044 | modernization of the funding that it needs. And I think we
2045 | are all in agreement that that is a problem, we have
2046 | different opinions about how it happened and what we should
2047 | do about it.

2048 | One of the things I used to say all the time when I was
2049 | in your position and people would ask me, what do we do for

2050 manufacturing and manufacturing jobs? I said, well one
2051 consensus thing I think it could be a robust defense
2052 manufacturing base.

2053 Mr. Ryan of Ohio. Yeah, we all agree with that, but
2054 that is not the case. These companies take a lot of their
2055 work offshore. They are spending a lot of money in other
2056 countries. The Berry Amendment's got a loophole so big you
2057 can you know drive an Abrams tank through it, and you know,
2058 it is just this problem that we have been having. I know
2059 the nine years I have been here, I have been trying to deal
2060 with, and it is going to be very difficult for anybody to
2061 advocate for four percent of the GDP being spent on the
2062 defense industrial base when we know that money is not going
2063 into RTI Titanium in Niles, Ohio. It is going to a Russian
2064 company for example. And these examples are you know
2065 everywhere, so you know I think we have got to clear that
2066 up.

2067 And the second point I would just like to make and have
2068 you give a brief comment on it because we only have 30
2069 seconds. It seems to me the people making the money in the
2070 United States, the big corporations who benefit from this
2071 military investment and stabilization, I believe should be
2072 helping us pay for these investments. And I do not think it
2073 is a big sacrifice to say go back to the Clinton Era levels
2074 for the top one percent who will benefit from this military

2075 investment, who will benefit from the economic stability,
2076 and who will benefit from the global trade. Quickly if you
2077 can.

2078 Mr. Talent. Look, I am here to talk about defense
2079 issues; I have my opinion about other fiscal policies.
2080 Heritage has written a lot about the tax situation. I would
2081 say to you, I will take the Heritage and the panel hat off
2082 and just say as Jim Talent, I mean my concern about the tax
2083 situation is that what we all want is more tax revenue but
2084 that does not necessarily mean higher tax rates. And there
2085 is a link between the rate of taxation, and the actual
2086 economic growth. I mean, I know there is an awful lot of
2087 research, I'm going into dangerous waters here because I am
2088 certainly not expert, that shows no matter what you do with
2089 the tax system you get what about 18.5 percent of the GDP in
2090 revenue to the government. So if you increase taxes, the
2091 danger is you do not get higher revenue, and you do get
2092 fewer jobs.

2093 Mr. Ryan of Ohio. I would just say it seems like there
2094 is a major service being provided here for multinational
2095 corporations that take advantage of these sea lanes and the
2096 protection of the United States Navy and the stability that
2097 is provided in Asia. That is a service that the
2098 government's providing, and I believe it is not you know
2099 inappropriate for us to ask them to help us continue this

2100 policy.

2101 Mr. Talent. Well, we can agree that everybody ought to
2102 pay their fare share. Thank you.

2103 Mr. Ryan of Ohio. Then we are in agreement.

2104 Mr. Lankford. Thank you. Mr. Young recognized for
2105 five minutes.

2106 Mr. Young. First, thank you to all our panelists and
2107 the fascinating discussion here and as a member of not just
2108 the Budget Committee but the Armed Services Committee let me
2109 share with you the perspective of a freshman member of
2110 Congress. Within days of being sworn in, you can imagine we
2111 are asked to make all manner of different platform sort of
2112 decisions. Expeditionary fighting vehicle, fund or defund.
2113 If you are going to fund, do you decrease the funding?

2114 Next decision, you know, two engines or one engine for
2115 this aircraft platform? Next decision, there is no
2116 strategic context to so many of these decisions articulated
2117 by the administration. This is not meant to be partisan.
2118 These challenges go back a number of years, a number of
2119 administrations. We have to find some way out of this.
2120 Now, both Senator Talent and Dr. Adams to your credit, I
2121 think did discuss the strategic implications of investing
2122 more or investing less in our military. I wish our
2123 administration could articulate the same sorts of things and
2124 I would like perhaps a discussion for another day to get

2125 into some of the mission discipline concerns or perhaps we
2126 need less discipline. I think there are probably
2127 intelligent and intelligible arguments that say, no we are
2128 not committed enough in certain areas, we need to invest
2129 further. I am frankly open to both arguments, but they need
2130 to be made and the administration is just not doing it.

2131 Now, there is a \$400 billion defense savings initiative
2132 that our current President has launched, and Dr. Adams I saw
2133 you quoted recently, perhaps out of context, we know how
2134 that happens around here, but quote, "This review is going
2135 too fast to mean something" is what the press indicated you
2136 had said. And I share those concerns that perhaps it is
2137 going too fast to very critically look at what our grand
2138 strategy should be as a country. What our role should be in
2139 the world. That, of course, should drive what missions we
2140 are asking our military to perform, then prioritize each of
2141 those respective missions. That, in turn, should drive our
2142 force structure, our R&D decisions. Along the way let's cut
2143 out the waste and inefficiency, there are certainly
2144 opportunities to do so and I am open to that. The question
2145 is this, how absent choosing some dollar figure \$400 billion
2146 of cuts to enforce some discipline on our bureaucracy.
2147 Absent that, how can we get the Pentagon, the administration
2148 to articulate what our role should be in the world and all
2149 the other things that fall beneath? Do we need to scrap the

2150 QDR and replace it with something else? Do we need to just
2151 improve the QDR or are we left with this very uncomfortable
2152 situation where we are asking managers of our military, of
2153 our Pentagon, to manage down to a dollar figure? Something
2154 I am entirely comfortable doing, frankly, in the USDA, but
2155 less comfortable doing in DOD. I will give Dr. Adams about
2156 two minutes to answer that, followed by Senator Talent.

2157 Mr. Adams. Happy to take a crack at it. It is a very
2158 big, and I think very important question. We, over the past
2159 30 or 40 years, and particularly over the past 20, have
2160 basically allowed administration after administration,
2161 whether it is Democrat or Republican, to get away with
2162 having the Department of Defense be the primary strategic
2163 planner for the United States government when it comes to
2164 our international engagement. It is quite stunning when you
2165 think about it. Until this past year there has not been a
2166 strategic planning document of any kind from the Department
2167 of State to the Agency of International Development, and
2168 while there is been a national security strategy from the
2169 White House it has followed, most of the time, the Defense
2170 Department's strategic planning document not preceded it.
2171 So, we have allowed it to happen and just as a bracket I
2172 want to say it so that Senator Talent does not think I
2173 disagree with him on everything, I think while I disagreed
2174 with the content, the strategic planning document that the

2175 Bush White House did, the first one they did, was a
2176 masterpiece of strategic thinking. It was actually quite
2177 good. I disagreed with its thrust, but they actually
2178 prioritized what they thought was important and de-
2179 prioritized what they thought was less important.

2180 Mr. Talent. Which Bush White House?

2181 Mr. Adams. The Bush White House. The second Bush
2182 White House.

2183 The other part as I said in my earlier remarks, I am
2184 not sure whether you were here yet or not, Congressman, was
2185 that resources and strategy are always related. So strategy
2186 wears a dollar sign as Bernard Brodie said, it is always
2187 resource constrained so you plan with that knowledge in
2188 mind. You do not plan with it absent from your mind. You
2189 know therefore that you can never reduce risk everywhere all
2190 the time to zero. You have to prioritize your risks and
2191 capabilities.

2192 Mr. Young. Mr. Chairman if I can have 30 seconds to
2193 allow Senator Talent to respond.

2194 Mr. Talent. Look, I agree very much with what you are
2195 saying. I think this is something Gordon and I agree on.
2196 The lack of strategic clarity, I wrote a huge article on
2197 this, the lack of direction from the highest level of
2198 civilian authority since the Cold War ended through now,
2199 almost four presidents, is extremely frustrating. What we

2200 had doing the Perry-Hadley Commission is to look at what
2201 they had actually done from administration to administration
2202 and deduce from that the strategic, what we call the
2203 strategic habits of the United States, and to deduce from
2204 that the interests and objectives that we needed to defend.

2205 Mr. Young. I guess the counterpoint would be, should
2206 those habits change, and I look forward to that robust
2207 dialogue.

2208 Mr. Talent. I do not think DOD is hungering to do
2209 deployments out there. That has never been. They really
2210 want deployments reduced. It is, and I agree with him also,
2211 with Gordon also, it is been a default thing because we have
2212 not planned, and we have not had clarity. We have sent
2213 troops in because we do not prepare anything else, so look I
2214 agree very much with that comment and I think a hearing on
2215 that would be great.

2216 Mr. Young. Great, thank you.

2217 Mr. Lankford. Recognize Ms. Kaptur for five minutes.

2218 Ms. Kaptur. Thank you Mr. Chairman, gentlemen welcome
2219 and I want to associate myself with Mr. Amash's remarks.
2220 There are discussions going on inside DOD right now about,
2221 well, in terms of threat levels, what is the rule of the
2222 Marine Corps in the 21st Century? I think that a hearing on
2223 their perceptions of the threat and then following suit on
2224 systems makes a great deal of sense because often systems

2225 seem to lead us rather than a connection to the threat
2226 level.

2227 I also want to associate myself with Mr. Ryan's remarks
2228 in terms of outsourcing with the F-35 and the amount we are
2229 going to expend on that. I just returned from Italy,
2230 visiting some of our bases there, and the amount of
2231 outsourcing that is going to go on in that, is incredible.

2232 And so those of us who represent states where DOD is
2233 closing facilities, whether it is the dual sourcing on
2234 engines for the F-35, or whether it is the expeditionary
2235 fighting vehicle, Ohio's hit very hard by that. So, I am
2236 very much for production in this country and also very
2237 concerned about what I have learned in my career on
2238 contractors and the amount that that is costing us and
2239 getting a straight answer out of DOD on how much more we are
2240 spending because of this growing reliance on contractors as
2241 opposed to in-sourcing. I hope in your research you will
2242 focus on some of that because I think each of you is really
2243 providing the country with a great service.

2244 I just wanted to say I heard a number yesterday that if
2245 we reduced unemployment to seven percent, we would cut our
2246 deficit in half. That is an astounding number and I want to
2247 focus my remaining short time on those in the military who
2248 are returning to us who have no jobs. It is a staggering
2249 figure. The post-9/11 veterans, according to data from May

2250 of this year, shows the unemployment rate was 12.1 percent,
2251 for younger male veterans aged 18 to 24, 26.9 percent and
2252 they are coming back to places like I represent where the
2253 unemployment rate has been way over the national average.

2254 The suicide rate corresponds to what is happening
2255 there, with what they are facing with the foreclosure rate
2256 and so forth; in our parts of the country are truly very
2257 difficult.

2258 And so my question to you really has to do with we are
2259 wasting an enormous amount of human capital in these
2260 returning veterans. And how would we better position these
2261 returning vets in readjustment to capture their talents and
2262 to get them reemployed? In the work that you are doing,
2263 especially where they are coming back in the economically
2264 distressed areas, how can we leverage the skills of our
2265 returning service members to improve outcomes for them who
2266 have served us, and to gain useful assets for our country
2267 and providing a better outcome across the board? It seems
2268 DOD drops them and the VA does not really completely pick
2269 them up. What do we do in order to reduce this unemployment
2270 level and focus on this large pool of 232,000 veterans, a
2271 quarter of a million veterans just since post-9/11, that are
2272 out there unemployed?

2273 Mr. Adams. Let me take a first crack at that
2274 Congressman. It is a very important question. The issue

2275 for me has always come down to push versus pull. There are
2276 obviously government programs that we can do that help
2277 people try to adjust, transfer skills, move into employment
2278 and so on. That is a push side. My sense, though, is that
2279 the history of base closures which is a proxy here for what
2280 I am about to say, is that the demonstrated evidence from
2281 base closures is the most successful transition for
2282 communities and institutions and businesses and people who
2283 work in communities when a base closes, is the health of the
2284 local economy. The best thing that we can do in my
2285 judgment, to get people like that employed and use their
2286 skills is if we focus on restoring the health of the
2287 American economy because that is going to create the context
2288 in which employers want to hire them, have money that they
2289 can hire them with, they are going to provide them with
2290 opportunities. So you need both a push and a pull approach.

2291 Ms. Kaptur. I hear what you are saying, but it is not
2292 working fast enough.

2293 Mr. Adams. Right, I understand that.

2294 Ms. Kaptur. Right, and it is a real problem.

2295 Mr. Adams. Understood.

2296 Ms. Kaptur. In communities across this country.

2297 Mr. Talent. A concrete suggestion. DOD is, I assume
2298 they are doing because they are supposed to do when Veterans
2299 leave, an examination of their baseline medical condition.

2300 They are supposed to do that when they come in and then also
2301 when they leave, almost an exit type of thing. Now, that is
2302 an opportunity, and I would think you might be able to do
2303 this at very little cost, to sort of expand that to talk to
2304 them about their employment profile, their ambitions, their
2305 skills, et cetera, so that you get that. I do not think DOD
2306 should continue, so then you need to hand that off either to
2307 VA or Labor, and you have got a good profile there and some
2308 guidance for that individual, some opportunity. So you may
2309 want to ask what DOD is doing when people leave. What they
2310 ask, what kind of suggestions they make to them, because
2311 they have got them at that point.

2312 Ms. Kaptur. Well if I use their medical exam as any
2313 indicator of how we should deal with unemployment and
2314 reemployment of these Vets, I would not want to trust DOD on
2315 it.

2316 Mr. Talent. Yeah, I worked on that issue with Senator
2317 Clinton; it's is been like four years, so I am not aware but
2318 they are supposed to be doing that better but you asked and
2319 that was the only concrete suggestion I had.

2320 Mr. Kaptur. Right, I know that my time is up but I
2321 just wanted to say I hope I have sensitized you to this
2322 issue. It is a serious, serious problem, and I can also say
2323 Mr. Chairman, in closing that for instance if they try to go
2324 to community colleges to use their GI benefits, there are

2325 many of them they cannot concentrate in normal classes.
2326 This subset of our society, this is the new America. They
2327 are coming home to us and they are out there. They are
2328 alone many times. They do not group like the World War II
2329 Vets. They are in our homeless shelters. They are in our
2330 food lines. This is not the way to treat America's
2331 returning Vets. Some group of intelligent people has help
2332 us keep a focus on this subset of our population. Thank
2333 you.

2334 Mr. Lankford. Thank you. Dr. Adams I know that you
2335 have an appointment that is coming up soon. You feel free
2336 to be able to step out when you need to. We had asked you
2337 to be able to stay through noon and obviously it is ten
2338 after at this, point.

2339 Mr. Adams. Right. I am going to have to leave
2340 shortly, thank you.

2341 Mr. Lankford. If you need to be able to slip out, feel
2342 free to be able to do that. We are glad to be able to have
2343 you and your time. I recognize Mr. McClintock for five
2344 minutes.

2345 Mr. McClintock. Thank you. I am afraid I had to miss
2346 the last hour so if you have already covered this just tell
2347 me so and we will move on. I agree with Ronald Reagan that
2348 Defense is not a budget issue. You spend what you need to
2349 spend in order to defend your country. If you fail to do

2350 that you end up without a country, but that does not mean
2351 that you spend more than you need to spend. So if I could
2352 ask Mr. Talent and Mr. Adams just in a minute's overview,
2353 what do we need that we do not have and what do we not need
2354 that we do have?

2355 Mr. Adams. I have offered at some sense I think in the
2356 hearing so far of what I think we do not need and can
2357 probably do without and safely build down to, given the fact
2358 that as I said earlier, 10 years out and 15 percent fewer
2359 resources we will still have the world's dominant military.
2360 Now there are a lot of specific inside that about that I
2361 would recommend some things up and some things down, but I
2362 think that is dominant. It is interesting though that you
2363 do cite President Reagan, because President Reagan did have
2364 that view, and when Gramm-Rudman-Hollings passed he learned
2365 that indeed Defense is in part a resource issue. That
2366 resources do constrain our defenses, and the history that we
2367 had of 1985 to 1998, was that our defense resources along
2368 with most federal spending went down as part of the Gramm-
2369 Rudman-Hollings and then Budget Enforcement Act

2370 Mr. McClintock. Mr. Adams, actually I agreed with your
2371 earlier analysis which is you do not set a budget number and
2372 then figure out what you can buy with it, you figure out
2373 what you need and then adjust your budget number to meet
2374 those needs.

2375 Mr. Adams. Well I think you actually do both, it is
2376 interactive. Strategy wears a dollar sign as I said
2377 earlier.

2378 Mr. McClintock. Mr. Talent any thoughts?

2379 Mr. Talent. Well, look, on a very practical level.
2380 What I have recommended is we have increase the size of the
2381 Navy. It is about 285 now, it is headed down because there
2382 is a 30 year average life of the ships, and we are buying
2383 six or seven a year, and you can figure out that means we
2384 are going down.

2385 Now the Perry-Hadley Panel recommended the bottom upper
2386 view force structure, this came out in 1993, I think it was
2387 340 ships or so, and to increase ship building and try and
2388 get us up to there. That was the force structure, it Les
2389 Aspin's force structure, that the government thought we
2390 needed in the 1990s. This was before the global war against
2391 terrorism or whatever it is you want to call it.

2392 So I think increase the size of the Navy and then
2393 recapitalizing the equipment in the rest of the force
2394 because it is impossible to have an Armed Services where
2395 people are flying or driving and trying to maintain and keep
2396 in place you know inventories that are 30, 40, 50, 60, 70
2397 years old, and that is what is driving up your O&M costs.
2398 So I would just say this, you mentioned Reagan, an
2399 investment, getting that done as quickly as possible is

2400 going to save you money, and not doing it is going to cost
2401 you more money, and that is the history really of the last
2402 50 years.

2403 Mr. McClintock. Let me ask you a couple questions been
2404 bothering me about you know what we are paying for that we
2405 probably do not need, and one of them you know screams out
2406 is why we are paying to defend Europe from the Soviet Union
2407 20 years after the Soviet Union ceased to exist?

2408 Mr. Talent. We should not be, it is my view, we should
2409 not be maintaining commitments abroad primarily to serve
2410 somebody else. This should be designed to protect America's
2411 vital interest. Now the Perry-Hadley Commission recognized
2412 four enduring national interests we needed to defend. One
2413 is defense of the homeland, which is increasingly a
2414 challenge in an age of asymmetric weapons. Second is
2415 freedom of the commons, you know the air, the sea, the
2416 space, all directly related to our economy and our quality
2417 of life. Preservation of an acceptable, non-totalitarian
2418 balance of power in the Eurasian space, and if you look at
2419 where we have been involved in the last really 60 years, but
2420 in the last 20 years, I mean look at it; it is from Korea,
2421 the Western Pacific, Southern Asia, et cetera because of a
2422 sense if that spins out of control somehow it is going to
2423 affect the American security negatively. And then a fourth
2424 was, the provision of a kind of humanitarian sort of goods

2425 to people, at least participating in a delivery system.

2426 Mr. McClintock. Is that not Europe's responsibility
2427 with respect to Europe and its area of influence and
2428 interest?

2429 Mr. Talent. Look, I do not believe, personally, I
2430 think we can discuss what the European Allies ought to be
2431 doing that they are not doing. And this question came up,
2432 how do we get the Allies to take more; yes it would be
2433 great. But the precondition to that is a belief that the
2434 United States is going to remain committed. Because if we
2435 do not remain committed and we are not showing leadership,
2436 they are much less likely to step up than they are to try
2437 and come to a deal with the Russians, who invaded Georgia
2438 two years ago.

2439 Mr. McClintock. I cannot get to this final question
2440 but I would appreciate your directing me where I can get
2441 more information on it, and that is a subject that you
2442 brought up, procurement. How is it that we end up ordering
2443 new weapon systems without setting aside the dollars
2444 necessary, not only to meet our needs but also to assure
2445 that we can obtain these copies at an affordable per copy
2446 price?

2447 Mr. Talent. Yeah, because as all of us I think agree,
2448 the procurement system is in many respects screwed up. And
2449 I would, on this subject certainly, I would advise to the

2450 members of the Committee that they take the time to read the
2451 chapter in here. I do not think the chapter on procurement
2452 reform is one that anybody would disagree with on a
2453 philosophical point of view, and I thought it was very
2454 powerful, and I really did not have any hand in it. It was
2455 the people on the panel who had done this, I mean really
2456 savvy type veteran of the system, and it sure makes a lot of
2457 sense to me and that is one of the things, I think, we are
2458 all in agreement, we need to do and do as quickly as
2459 possible.

2460 Mr. Lankford. Thank you. Gentlelady from Florida is
2461 recognized for five minutes.

2462 Ms. Wasserman Schultz. Thank you Mr. Chairman. We
2463 have heard in this committee over the last number of months
2464 many of our Republican colleagues espoused the need to slash
2465 discretionary spending, and Medicare as we know it and
2466 direct some pretty painful cuts. Knowing that 60 percent of
2467 our discretionary budget goes to the Defense Department, if
2468 we couch Defense as a sacred cow that is untouchable, then
2469 everything is a sacred cow because Senator Talent you have
2470 criticized the president for proposing for \$400 billion in
2471 defense cuts, and I think you said at the time, that defense
2472 spending is not the cause of our deficits and those cuts
2473 would not make a large difference in reducing the deficit.

2474 Mr. Talent. I think I said it was fantasy to propose

2475 that.

2476 Ms. Wasserman Schultz. Okay. So that is even
2477 stronger.

2478 Mr. Talent. Right. If I did not say that, I said it
2479 in the first draft and then took it out later.

2480 Ms. Wasserman Schultz. You are underscoring what I am
2481 suggesting that you said, rather than running from it. The
2482 defense budget makes up one-fifth of the entire federal
2483 budget, and I mean we have got bipartisan consensus that we
2484 are going to have to put sacred cows on the table in order
2485 to make a dent on the deficit. By your logic, would you
2486 argue that non-defense discretionary spending should also be
2487 excluded from a deficit reduction because that is even less,
2488 that is even more of a drop in the bucket and further, let
2489 me finish my question please.

2490 Mr. Talent. Oh, I am sorry.

2491 Ms. Wasserman Schultz. By the same logic, conversely
2492 would you argue that more revenues should be part of the
2493 solution because that is an area in which we can, if
2494 significance, in terms of the impact on deficit reduction is
2495 your marker, it would seem to me that you should be for
2496 putting revenue on the table and for making sure that we can
2497 address this effort in a significant way. And against
2498 things that are not significant, like slashing
2499 indiscriminately non-discretionary, discretionary non-

2500 defense revenue, which like you said is a drop in the
2501 bucket.

2502 Mr. Talent. All right. I thank you, and I am sorry to
2503 interrupt, and by the way, before the hearing closes I want
2504 to apologize to Mr. Van Hollen because I insisted on giving
2505 him more answer than he gave me question on a couple of
2506 points.

2507 Ms. Wasserman Schultz. Your apology is cutting into my
2508 five minutes, so if you would.

2509 Mr. Talent. I keep forgetting how disciplined you are.
2510 On defense, my concern here is that if you underfund basic
2511 capabilities that are needed to deal with risks that are not
2512 going to go away, you end up causing a whole lot more in
2513 expenditures than you save. I think a classic example, is
2514 when the government cut the size of the Army in 1990s in the
2515 belief, which I think was a budget driven belief, that we
2516 would not have to put large numbers of troops on the ground,
2517 it meant that we could not prosecute the Afghanistan and
2518 Iraq.

2519 Ms. Wasserman Schultz. So let me just ask you, so your
2520 point was not that we should not touch defense, we just
2521 should not indiscriminately touch it.

2522 Mr. Talent. Right, and we should put the savings back
2523 into things that we do need.

2524 Ms. Wasserman Schultz. So the criticism of the

2525 | president's \$400 billion in proposed cuts is not general
2526 | criticism, was is specific to what he was proposing to cut?

2527 | Mr. Talent. Well, he did not say what he was
2528 | proposing. I am prefer the president's approach of the last
2529 | several years because a part of this, to be frank, is the
2530 | president arguing with himself, because his own
2531 | administration proposed, at least modest real increases in
2532 | the defense budget until that speech. And he has not been
2533 | specific about what he wants to do. I have no problem with
2534 | finding savings but I do not want to cut the top line. Find
2535 | the savings and then put into the things that we need to put
2536 | it in to.

2537 | Ms. Wasserman Schultz. But you would retreat from your
2538 | statement, that we should not touch defense because it just
2539 | does not cause the deficit; it is not a significant impact
2540 | on the deficit and so therefore it should be untouchable.

2541 | Mr. Talent. With respect, I never said defense was
2542 | untouchable. I said the savings that we can achieve in
2543 | defense we should put back into things that we need more
2544 | within the department's budget.

2545 | Ms. Wasserman Schultz. That is not what I have you on
2546 | the record as saying, from what I understand. But let me
2547 | just ask Mr. Mosher a question. We are spending nearly \$50
2548 | billion a year on military retirement benefits, and if we
2549 | look, direct your attention to that chart up there, there

2550 have been a lot of defense analysts secluding the
2551 conclusions of the Quadrennial Review of Military
2552 Compensation, who criticized the current system as not being
2553 fair or efficient. You can only collect military retirement
2554 benefits, unless you are disabled, after serving 20 years.
2555 That means that most of the individuals deployed to Iraq and
2556 Afghanistan, including many in my district, who are not
2557 going to get any retirement benefits, because as you can see
2558 they really only were serving for four, five, six years.
2559 So, to me that does not seem fair, especially given that
2560 members of Congress, Congressional staff, law enforcement
2561 officers, firefighters, can accrue pension benefits after
2562 five years. We accrue them after six. So is the current
2563 retirement system for military fair and efficient, and if
2564 not, how could we make it better?

2565 Mr. Mosher. I cannot speak to fairness and efficiency.
2566 We have not analyzed that in any detailed way. What I can
2567 say is that there have been numerous proposals over the
2568 decades to try to change the military retirement system, and
2569 there are defenders on both sides. You know, there are
2570 advantages as you point out, what that is called cliff-
2571 vesting, you do not get anything until you reach 20 years
2572 except for some disability cases. So you cliff-vest and
2573 that creates an incentive for people to leave afterwards.
2574 Right? Sooner than you might want them otherwise, and for

2575 folks particularly in those first 10 years of service, it
2576 tends not to entice them to stick around for that pension.
2577 You know, once they get beyond ten years then people tend to
2578 stick around because they are a little older, a pension
2579 means more and it is closer to them.

2580 Ms. Wasserman Schultz. It is worth it to them.

2581 Mr. Mosher. It becomes worth it to them but that is
2582 the way the system's designed and there are pros and cons to
2583 it and what you say is absolutely true, people who do not
2584 serve the 20 years do not get the money and a lot of people
2585 enlist and then leave. I mean it is often it is a choice on
2586 their part they do not want the military life. You could do
2587 something that would be like a TSP system which would be
2588 sort of a hybrid, a small defined benefit program infers and
2589 then a contributory program. You could do something that
2590 would be like the old CSR system, which was that federal
2591 system where you had a defined benefit only, you did not
2592 have to worry about the state of the market at the time. Or
2593 you could have something that is much more like a 401k, that
2594 many people have in the private sector; but all those have
2595 advantages and disadvantages and I guess the right people to
2596 talk about this would be the folks at DOD who could talk
2597 about. You know there is a force management issue as well.
2598 There is an equity issue clearly. If I am the managers of
2599 personnel in DOD, how is it that I ensure that I get the

2600 force structure that I want that has the capabilities that I
2601 want, that has the pyramid structure that I want, because
2602 you know as you get move up in rank there are fewer and
2603 fewer people at those ranks. And it is a very complicated
2604 discussion, but yes, clearly there are people who have
2605 argued that it needs to be changed, and there are people who
2606 have argued that you know it has some advantages.

2607 Ms. Wasserman Schultz. Right the point and the concern
2608 is that there is quite a bit of sacrifice without really
2609 anything to show for it at the end.

2610 Mr. Mosher. In terms of a pension, you are absolutely
2611 correct.

2612 Ms. Wasserman Schultz. Yeah. Thank you. I yield
2613 back.

2614 Mr. Lankford. Thank you Mr. Van Hollen, just a quick
2615 question.

2616 Mr. Van Hollen. Thank you Mr. Chairman, about three
2617 minutes ago the chairman turned to me and said to me do I
2618 have any closing statements, I said no and that was until
2619 Senator Talent mentioned that the president's \$400 billion
2620 in proposed defense spending cuts was quote, "a fantasy." I
2621 would just point out that if that is your standard, I would
2622 ask you to look at the members of the President's Bipartisan
2623 Fiscal Commission. The president proposed \$400 billion over
2624 12 years, which would allow the current defense budget to

2625 | grow at the rate of inflation.

2626 | The Bipartisan Commission, recommended a \$1 trillion in
2627 | cuts, so by the standard that \$400 billion over 12 years is
2628 | fantasy, I am assuming that you put such individuals like
2629 | Senator Coburn, Senator Crapo, former Senator Craig, Senator
2630 | Domenici, in the land of the totally delusional. We have
2631 | got to get serious about our budget deficit. To say that 20
2632 | percent of our budget is a trivial contribution to that
2633 | national effort, I think it neglects the very important
2634 | duties that we have. And I will just end by where we
2635 | started. I agree with you that our defense spending has to
2636 | be driven by strategy. We have had that conversation. That
2637 | is why I think putting an artificial GDP percentage on it is
2638 | math and not strategy. Part of that strategy requires
2639 | United States to retain the economic power and full
2640 | potential that it has. If we do not deal with this deficit
2641 | and debt as the current Chairman of the Joint Chiefs of
2642 | Staff has said, we will all be in a world of hurt and that
2643 | will hurt our military, and it will hurt the ability of the
2644 | United States to project its interest, power, and values
2645 | around the world. And so, I just ask you when we throw
2646 | around phrases like fantasy for \$400 billion, put that in
2647 | the context of what Bipartisan Commissions have recommended.
2648 | Thank you Mr. Chairman.

2649 | Mr. Lankford. Thank you. Mr. Talent did you want to

2650 make a quick response to that?

2651 Mr. Talent. Well, what I think it is fantasy to
2652 believe that we can cut that much out of the defense budget
2653 over the next 10 years and protect American security within
2654 an acceptable margin of risk. That happens to be my view,
2655 strongly stated. I understand that the members and the
2656 people you talked about disagree. I do think that the
2657 Simpson-Bowles report, as far as it referred to defense
2658 spending was budget driven rather than strategic driven.
2659 Now as far as the administration is concerned, I certainly
2660 meant no disrespect.

2661 I do think this is a situation where the administration
2662 in its first two years has been proposing, and I thought
2663 this was not everything we needed to do but it was partly,
2664 modest real increases in the defense budget. And now the
2665 president has unveiled this idea of cutting the defense
2666 budget over the next 10 years.

2667 So I think that it is an internally inconsistent
2668 position, and I mean if I were still on the HASK and I would
2669 had officials of the DOD in front of me, I would say well,
2670 if this new position is right then does that mean the old
2671 one was wrong? And if the old position was right, does that
2672 mean the new one is wrong? But I appreciate what you are
2673 saying and I agree with much of it. And now I get a chance
2674 to apologize personally to you, like I said, giving you more

2675 answer than you gave me.

2676 Mr. Van Hollen. No apology's necessary on the front
2677 Senator.

2678 Mr. Talent. Thank you.

2679 Mr. Van Hollen. Thank you both for your testimony.

2680 Thank you Mr. Chairman.

2681 Mr. Lankford. Thank you and we are still waiting on
2682 the details of what that \$400 billion cut is over the next
2683 decade, and so that is part of the ongoing pursuit of this,
2684 as well and when to recommend it, but it is another one to
2685 be able to get the details of that. Obviously defense
2686 spending is falling dramatically over the last 50 years and
2687 a percent of the federal budget and what we are doing. I
2688 bet it is just a matter of being judicious with that
2689 process. So and I do appreciate you all coming and being a
2690 part of the panel today. With that we are adjourned.

2691 [Whereupon, at 12:27 p.m. the Committee was adjourned.]