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**DEPARTMENT OF DEFENSE PLANS FOR
SEQUESTRATION: THE SEQUESTRATION
TRANSPARENCY ACT OF 2012 REPORT
AND THE WAY FORWARD**

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

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DEPARTMENT OF DEFENSE PLANS FOR SEQUESTRATION: THE SEQUESTRATION TRANSPARENCY ACT OF 2012 REPORT AND THE WAY FORWARD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,

Washington, DC, Thursday, September 20, 2012.

The committee met, pursuant to call, at 10:02 a.m., in room 2118, Rayburn House Office Building, Hon. Howard P. “Buck” McKeon (chairman of the committee) presiding.

**OPENING STATEMENT OF HON. HOWARD P. “BUCK” MCKEON,
A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, COMMITTEE ON ARMED SERVICES**

The CHAIRMAN. The committee will come to order.

Good morning, ladies and gentlemen. The House Armed Services Committee meets today to receive testimony on the Department of Defense planning for sequestration, the Sequestration Transparency Act of 2012 and the way forward. Thank you all for being here.

This will be the last week the House is in session until mid-November. Today’s hearing will provide Members a final opportunity before the lame-duck session to inform themselves and their constituents about how sequestration will be implemented and how those decisions will affect our men and women in uniform and our national security.

We had hoped that the President would provide this information in the report required by the Sequestration Transparency Act. Unfortunately, he failed to comply with both the letter and the spirit of the law. Not only was the report late, but the report submitted to Congress merely paid lip service to the dire national security implications of these cuts after the President has had over a year to consider this crisis.

Moreover, the White House has even gone so far as to instruct the Department of Defense not to make preparations for sequestration. Nevertheless, as previous testimony of this committee has provided, many of our military leaders believe initial preparation for sequestration must occur well in advance of the January 2, 2013, implementation date.

For example, when the Secretary of the Army John McHugh was asked this spring if plans for sequestration were underway, he stated, “We are not doing as yet any hard planning. That would probably happen later this summer.” Today, we are following up with the Department to review and understand the mechanics of sequestration, how would they implement it, and the timelines necessary

to develop a comprehensive and complete strategy if sequestration were to occur.

This morning, we will hear firsthand from the Honorable Robert F. Hale, Under Secretary of Defense, Comptroller of the Department; General Lloyd J. Austin III, Vice Chief of Staff of the Army; Admiral Mark Ferguson, Vice Chief of Naval Operations; General Larry O. Spencer, Vice Chief of Staff of the Air Force; and General Joseph F. Dunford, Assistant Commandant of the Marine Corps.

Let me make one final observation and appeal to our witnesses. As the recent violence throughout the Middle East has reminded us, we are living in the most dynamic and complex security environment in recent memory. The decisions we make with regard to sequestration will have a tangible and lasting effect on that global security environment.

Last month, in testimony before the committee, the White House budget director stated, and I quote, "The impact of sequestration cannot be lessened with advance planning and executive action." He misses the point. Planning can't resolve sequestration, but the lack of planning and the failure to exercise leadership now can make a dire situation worse.

Gentlemen, we understand that there are no easy choices here, but now is not the time for ambiguity. In your testimony, I urge each of you to be as clear with us as you possibly can about what the road ahead portends for the implementation of sequestration. This could well be the last opportunity for our military to get these facts on the record before the deadline for a legislative remedy has passed.

With that, I look forward to your testimony and again thank you for your service and thank you for being here today.

Mr. Smith.

[The prepared statement of Mr. McKeon can be found in the Appendix on page 47.]

STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. SMITH. Thank you, Mr. Chairman. I appreciate that we are having this hearing. I think sequestration is unquestionably the most important issue facing our Government, figuring out how to deal with it, and it is important that we learn more about it.

And it is clear, and I believe the President, the Secretary of Defense and numerous other executive branch officials have made it clear that they see sequestration as having a devastating impact on defense. That was the point, I believe, of the OMB [Office of Management and Budget] director's remarks—was "Don't think that you can somehow, you know, make this work in a way that is not going to have a huge negative impact on our national security."

That is the main point that has been made by countless witnesses and folks in a very bipartisan way. I don't think there is any disagreement whatsoever on that. Even if you think that savings can be found in the defense budget, and I do, this is not the way to do it. It is going to be a \$57 billion cut at the absolute last minute, in the middle of fiscal year 2013, after all kinds of planning was done to try to set it up.

It is also, you know, across the board. Every program has to be cut by the same amount, for the most part—so the very limit in terms of any flexibility in terms of handling this. So we have established beyond a shadow of a doubt that this is not good policy and no one has claimed that it is.

As for the issue that somehow the Pentagon and the White House has done nothing to plan for it, I don't think that is at all accurate. We had Under Secretary Ashton Carter here about a month ago. He went for about, I don't know, 5, 6 minutes chapter and verse right down the line of the programs that were going to be cut and how they were going to be cut.

The executive branch has said which programs, in their interpretation of the law, will be exempt. Personnel programs are going to be exempt. They have said specifically this is going to be, and I may be off on the number here, a 9.6 percent across-the-board programmatic cut in everything.

So I don't think it is accurate to say that we have not been planning for it. We have been planning for it. There is a limited amount that you can do. There is some ambiguity in the law. We have heard a variety of different interpretations as to how you can sort of work with that ambiguity in terms of what programs count and what programs don't. The President has said now here is what it is.

So we know what it is. The challenge is trying to stop it from happening. And the only way to do that is to pass a comprehensive plan to reduce the deficit. That is what the Budget Control Act required—find savings so that we don't have a deficit that is uncontrollable; that we get it under control. The requirement is \$1.2 trillion over 10 years.

There have been various plans out there to get us up as high as \$4 trillion over 10 years, and we simply have to choose to do that. I have said it before. I will say it again. I think revenue has to be part of that equation. If you are absolutely committed to the need to provide for the national security of this country; if you are deeply concerned, and I share the chairman's views about the complexity of the threat environment and our need to be prepared for it, then you ought to be prepared to raise the revenue necessary to pay for that national security that we want so badly.

Thus far, we have been unwilling to do that. That puts us in the box that we are in. I think it will be interesting to hear from all you gentlemen about, you know, how you are working out the details of that, but I don't think it is the huge mystery that some have portrayed it to be. We know how much is going to be cut; roughly, we know what it is going to be cut from; and a number of different studies both, you know, in the Government and outside, have attempted to assess the damage that will be caused by that. And there is a variety of different opinions on that, but it is not something that has gone unexamined, let us put it that way.

What I would like us to do is spend the time trying to make sure that we stop this thing that just about everybody agrees is bad policy from happening. And the way to do that is to be realistic about our budget deficit. Stop pretending that we can bang the table about how awful the deficit is and then shy away from any of the steps necessary to cut spending or raise revenue to deal with it.

That is the fundamental denial that we have to deal with to prevent this problem from becoming very, very great come January.

So I look forward to the testimony from the witnesses and trying to deal with this very, very difficult issue. I yield back.

[The prepared statement of Mr. Smith can be found in the Appendix on page 49.]

The CHAIRMAN. Thank you.

Mr. Secretary.

**STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY
OF DEFENSE (COMPTROLLER)**

Secretary HALE. Thank you, Mr. Chairman, members of the committee. Thanks for the opportunity to discuss the drastic effects that sequestration would have on the Department of Defense if it goes into effect, as well as the recently released report required by the Sequestration Transparency Act.

I am joined today by the vice chiefs of staff of our armed forces. We submitted a joint statement. I will summarize that briefly and then the vice chiefs will present some oral statements of their own.

As Secretary Panetta has repeatedly said, sequestration would have devastating effects on the Department of Defense. A few days ago in response to the requirements of the Sequestration Transparency Act, the Office of Management and Budget transmitted a report that spells out the dollar consequences of sequester. Our testimony today provides you some high level assessment of the impacts.

These consequences really can't be avoided or even substantially mitigated by planning alone. The reason is simple: Sequestration was designed by law to be inflexible. It was never intended to be implemented. It was enacted as a prod, as I think you all know, for both Houses of Congress to devise a comprehensive plan to reduce the Federal deficit. And the only way to avoid these bad consequences now is for Congress to enact a balanced deficit reduction plan that the President can sign and that halts sequestration.

If that action is not taken, we are faced with the dollar consequences that the Sequestration Transparency Act, STA, report spells out. Cut in the national defense function will total \$54.7 billion in discretionary and direct spending in fiscal 2013 under the assumptions of that report. Of this amount, \$52.3 billion would come out of the DOD [Department of Defense] budget.

Each of our nonexempt budget accounts will take a hit of 9.4 percent. The only major exempt accounts involve those that fund military personnel. The President has exercised his authority to exempt military personnel spending from sequestration.

So what effects will these have on DOD? Let me give you some examples.

Funding for our overseas contingency operations, our OCO, or wartime budgets, will be subject to sequestration. We will protect the wartime operating budgets to the extent that we can. Support of our warfighters is our highest priority. But that will mean greater cuts in the base budget portion, especially of the operation and maintenance accounts, and particularly in the Army and the Marine Corps, and that will result in reductions in training. Reduced

training would affect our ability to respond to a new warfighting contingency should one occur.

Sequestration would almost certainly force us to reduce spending for civilian personnel in the Department, which would lead to hiring freezes and probably unpaid furloughs. This could leave us without enough personnel to fix our weapons, including the ones that are damaged in war, to maintain a strong program of contracting, and to sustain financial management and audit efforts, as well as many other support functions.

Sequestration would also have substantial effects on DOD investment programs. While there would be no impact on prior year funds already on contract—and I think that is an important point, those aren't subject to sequestration—there would nonetheless be substantial adverse effects. The 9.4 percent cut would affect each of the budget accounts that fund procurement, fund research, development, technology and evaluation, and military construction.

In most cases we would have to buy fewer weapons, which would drive up unit costs. In the case of ships and others where you can't reduce the number of weapons, sequester would result in delays.

Sequestration would adversely affect our military retirees and families. We would have to cut family housing maintenance. We would have to cut base operating support. We try to protect families wherever we can, but we would have to make some of these cuts.

We wouldn't have enough funds. There would be cuts in the Defense Health Program that would leave us without enough money to pay TRICARE bills in the last month unless we could find a way to offset that, and it will be difficult. We are going to be faced with delaying payments to providers, which could result in denials of service.

These are the consequences that would come to play in fiscal year 2013. But the law that would go into effect on January 2nd actually not only imposes sequestration in 2013, it cuts the discretionary caps out through fiscal 2021. In the longer term, the cuts would in fact double the reductions already imposed by the Budget Control Act, forcing us to make substantial reductions in military personnel and units. Otherwise, if we don't do that, we would end up with more units than we have funds to train and equip.

Over time, sequestration would lead to reduced forces, fewer aircraft carriers, brigade combat teams and fighters. We would have fewer options to respond quickly to emerging crises. Inevitably, this will require changes to the national security strategy that was put into effect last January and which we think remains the right one for the times.

For all of these reasons we believe that a sequestration is a very bad policy. We hope that Congress will pass a balanced deficit reduction plan that the President can sign and that halts sequestration.

Mr. Chairman, this concludes my opening statement, and after the vices have completed theirs we would welcome your questions.

[The joint prepared statement of Secretary Hale, General Austin, Admiral Ferguson, General Dunford, and General Spencer can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you.

General.

STATEMENT OF GEN LLOYD J. AUSTIN III, USA, VICE CHIEF OF STAFF OF THE ARMY

General AUSTIN. Good morning, Chairman McKeon, Ranking Member Smith, the distinguished members of the committee. I first want to thank you for the steadfast and strong support that you have shown to our men and women and their families. And I appreciate this opportunity to appear before you today on their behalf to discuss the potential impacts of sequestration on your United States Army.

I look forward to answering your questions after my colleagues have concluded their opening comments.

As we are all well aware, these are challenging times for our Nation and for our military. Tough choices must be made, and the Army stands ready to do its part. Indeed, we are already operating under the Budget Control Act, which will cut defense spending by about \$490 billion over 10 years.

However, sequestration would mean another \$550 billion cut. What is more, sequestration represents a rigid solution that would apply these cuts in an indiscriminate and arbitrary fashion nearly across the board. And as such, these cuts will adversely affect just about every aspect of our Army.

And of particular concern, cuts will apply to war funding, or OCO, which supports training and forces deployed to Afghanistan.

We will do everything we can to ensure that our deployed and next-to-deploy soldiers have everything that they need to be successful.

We will also do all that we can to maintain support for our soldier and family programs. However, making these necessary adjustments will require even deeper cuts to be made within our other accounts, and these further reductions will adversely affect our readiness, and specifically our ability to respond to contingencies.

Such mechanical cuts will significantly increase risk in what is a most complex and volatile global operating environment, thus potentially requiring us to relook our national military strategy.

And so, ideally, Congress and the Administration will work together to halt sequestration as soon as possible. If not, and if sequestration goes into effect, we must be afforded the necessary flexibility to adjust resources in order to avoid wasteful penalties and inefficiencies and to focus appropriately on our highest priorities.

Indeed, we must continue to work together to ensure that our battle-tested Army remains our Nation's force of decisive actions, ready today and prepared for tomorrow.

Mr. Chairman, Ranking Member Smith, members of the committee, I thank you again for your continued support and demonstrated commitment to the outstanding men and women of the United States Army and their families, and I look forward to answering your questions.

[The joint prepared statement of General Austin, Secretary Hale, Admiral Ferguson, General Dunford, and General Spencer can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you, General.
Admiral.

**STATEMENT OF ADM MARK FERGUSON, USN, VICE CHIEF OF
NAVAL OPERATIONS**

Admiral FERGUSON. Chairman McKeon, Ranking Member Smith and distinguished members of the committee, good morning. It is an honor to represent the men and women of the Navy and discuss sequestration with you today.

Based on our preliminary review, sequestration will reduce funding for the Navy in fiscal year 2013 by nearly \$12 billion. Should sequestration occur, it would force the Navy to make difficult choices in the second half of the fiscal year across three broad categories: fleet operations and maintenance; procurement; and force structure.

The immediate impact of sequestration will be to our operations and maintenance account, with a reduction of over \$4 billion. This account funds our fleet operations; maintenance; spare parts; civilian personnel and training; and directly supports fleet readiness.

These reductions will translate to reduced flying hours for our air crews, fewer underway days, and training for our ships and submarines, and less maintenance for the fleet.

This will impact our industrial base and the expected service life of our platform.

We will prioritize expenditures to ensure that our forward-deployed forces continue to be properly manned, trained and equipped. As a result, non-deployed forces will see a disproportionate share of reductions under sequestration.

We will make every effort to preserve quality-of-life and family support programs for our personnel. However, we may be forced to make selective reductions in base support services and infrastructure sustainment.

These reductions will have cumulative effects to our readiness in fiscal year 2014 and beyond.

Sequestration will also reduce the fiscal year 2013 shipbuilding and aircraft procurement accounts by over \$4 billion. It will require adjustments to major acquisition and modernization programs and will reduce funding for research laboratories and technology development centers.

At this point it is difficult to assess the impact on any individual program or family of programs since each contract contains unique and complex provisions, dates and pricing. Also, a change in one program may have cascading effects on investments and other interrelated programs in the future.

We will carefully examine each of our programs to understand the full impact. In some cases, our assessment will be we are unable to execute a procurement action. In others, we will face delivery delays and higher unit costs as we negotiate reductions in scope and quantity.

While we will work to sustain our shipbuilding and procurement programs, the prescriptive and mechanical nature of sequestration affords limited flexibility to mitigate the impact of these budget reductions.

Our fiscal year 2013 budget submission already reflects difficult choices beneath the Budget Control Act. Our request balances our investments in infrastructure, future capability, operations, maintenance and training to sustain a ready force.

The potential reductions to the Budget Control Act beyond those reflected in our fiscal year 2013 budget submission will translate over time to a smaller force, with less presence, longer response times, and reduced ability to provide surge forces in support of our major operational plans and other emergent needs.

Under these reductions we will be unable to execute the requirements of the current defense strategy.

Mr. Chairman, last month I visited Central Command region. I had the opportunity to visit both of our aircraft carriers, *Enterprise* and *Eisenhower*, our minesweeper force, our patrol craft and other ships in the region. I talked to over 10,000 of our forward-deployed sailors.

At every forum, sailors from the most junior to our operational commanders expressed concern regarding what sequestration will mean to our Navy and their service. The uncertainty of our fiscal future is increasingly on the minds of our force.

Mr. Chairman, Ranking Member Smith and distinguished members of the committee, we appreciate the continued support of Congress and this committee for the men and women of our Navy serving around the globe. On behalf of them and their families I appreciate the opportunity to discuss this important issue and look forward to your questions.

Thank you.

[The joint prepared statement of Admiral Ferguson, Secretary Hale, General Austin, General Dunford, and General Spencer can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you, Admiral.
General.

STATEMENT OF GEN LARRY O. SPENCER, USAF, VICE CHIEF OF STAFF OF THE AIR FORCE

General SPENCER. Chairman McKeon, Ranking Member Smith and distinguished members of the committee, good morning and thank you for the opportunity to share the Air Force's perspective on sequestration.

As we built our fiscal year 2013 President's budget submission, we carefully balanced risk across all mission areas while protecting readiness and essential future investments and proposed the minimum force structure required to support the defense strategic guidance within the resource provided by the Budget Control Act. It was difficult, but doable.

Further reductions through sequestration would affect this balance and our ability to execute the strategic guidance as currently defined.

More than two decades of sustained combat operations and routine missions at home and around the world have stressed our force, decreased our readiness and limited our ability to replace our old aircraft and invest in advanced capabilities.

Further reductions in readiness, such as in training programs and maintenance, would not only affect our ability to fulfill current

wartime deployments, operational requirements and defense of the homeland, but it would also significantly impact our ability to prepare for future operations.

The same is true for investments in modernization. Sequestration would also drive us to reevaluate and in some cases curtail our contracts. This could drive unit cost increases and inefficiencies. We don't know to what extent because we have not yet had those discussions with industry partners. However, these factors would impact the future of vital aerospace technology, one of our key competitive advantages.

Mr. Chairman, and committee members, our Nation is fortunate to have world-class people who work hard to produce world-class air power every day.

Sequestration will leave the Air Force with people who are not adequately trained, who lack the equipment they need and who must make do with weapons systems that are not fully equipped, representing a hollow force unable to support the current defense strategic guidance.

The United States Air Force and our sister services comprise the premier fighting force on the planet. And our Air Force leadership team is fully committed to ensuring we do our part to remain the world's greatest air and space force for the future.

Thank you, Mr. Chairman. I look forward to your questions.

[The joint prepared statement of General Spencer, Secretary Hale, General Austin, Admiral Ferguson, and General Dunford can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you, General.

General.

STATEMENT OF GEN JOSEPH F. DUNFORD, USMC, ASSISTANT COMMANDANT OF THE MARINE CORPS

General DUNFORD. Chairman McKeon, Ranking Member Smith, members of the committee, thank you for the opportunity to appear before you today. And thanks for your efforts to highlight the impact of sequestration in attempt to halt its implementation.

Much has been said about how sequestration would affect both the budget and the strategy. For the Marine Corps, we would experience similar challenges to the other services.

We would suffer a significant degradation in readiness. We would be unable to properly support our military strategy. We would incur costs and scheduled delays across our investment account and would be unable to properly maintain our infrastructure.

We maintain readiness by balancing the allocation of resources across our pillars of readiness. To remain ready we have to recruit and retain high quality people. We have got to maintain the capabilities and capacities necessary to support the strategy.

We have got to sustain high levels of unit readiness for both those units that are forward deployed and those at home station. We have got to properly maintain our infrastructure.

And we have to be able to modernize in a way that allows us to remain relevant in the context of future security challenges.

If the inflexible cuts associated with sequester are implemented, because of the nature and the relative size of our budget we will

not be able to maintain balance across those pillars. We will not be able to do what you expect your force in readiness to do.

In fact, in fiscal year 2013 we will begin to set the conditions for a hollow Marine Corps.

I am prepared to provide more detail on the implications for the budget and strategy during your questions. But I share the perspective previously offered by the Secretary of Defense, the Commandant and other senior leaders.

Sequestration will have a chaotic effect on the force during a time of extraordinary challenges to our Nation.

But before I close, I would like to share another concern that I have about sequestration. For the last 10 years our Marines, soldiers, sailors and airmen have done all we have asked them to do.

The competence, responsiveness and flexibility of our force was seen again last week when Marines responded in hours to reinforce embassies in the Middle East and North Africa. That type of response has occurred so often over the last several years we might take it for granted.

The majority of our young men and women in uniform, like those in the Fleet Antiterrorism Support Teams that deployed last week, or those that are in Afghanistan, are too busy doing their jobs right now to worry about the exact details about how we develop and pass budgets.

They care about and they are affected by what we do in Washington, but they actually don't think about much about us on a daily basis, nor should they have to.

Frankly, given all they do for us, they have a right to expect that whatever it is we are supposed to be doing to properly support them, that we are actually doing it.

Our ability to provide our young men and women with the wherewithal to accomplish their assigned tasks is the very foundation of the special trust and confidence that they have in us. And that trust and confidence is the foundation of their spirit, their mettle and their combat effectiveness.

One of my greatest concerns about sequestration and all the associated second and third order effects is that we will lose the trust and confidence of the All-Volunteer Force that we have worked so hard to build.

My point is that this is not just about quantifiable impacts on budget and strategy as significant as they may be. Equally at risk are the intangible qualities that make our military the very best in the world. Should we lose the trust and confidence of the force by failing to properly support them, it will take a very long time to earn it back. That fact needs to be a key part of the debate as we move forward.

Thank you again for the opportunity to be here this morning. I look forward to your questions.

[The joint prepared statement of General Dunford, Secretary Hale, General Austin, Admiral Ferguson, and General Spencer can be found in the Appendix on page 51.]

The CHAIRMAN. Thank you, General.

Thanks to each of you for your testimonies.

I am sure everyone in this room understands the Nation is in a serious situation. We have a debt now of \$16 trillion and growing by leaps and bounds.

In the last election there was, I am sure, people campaigning on the idea that we need to get our spending in line with our revenues. We have to get our deficit in order and everything needs to be on the table.

Military leaders have stepped up, and they are all patriotic, and said we understand this and we want to do our part.

The Deficit Reduction Act was passed and that was set up in a couple of different tranches of cuts. The first cut was almost a trillion dollars, half of it, almost a half a trillion dollars, coming out of defense.

When defense actually accounts for 17 percent of our budget, 50 percent of the savings were taken out of defense. I would contend that that is probably not fair. And I think it puts our defense in jeopardy.

However, military leaders stepped up and said we can do that. We had to change our strategy, strategy that we have had since World War II, but over a month's—over a year's time, really, our leaders managed to work that out in the budget that starts October 1st.

The strategy was changed. We agreed we are not going to be able to do all the missions that we have done in the past. We can't answer every phone call that, yeah, we are there. We will be there.

But they did that without complaint.

The second part of the deficit reduction said that we would have a super committee that will look at other ways to find savings in the mandatory spending side.

If we took all discretionary spending out, eliminated defense, eliminate homeland security, eliminate transportation and infrastructure, eliminated education, all Federal spending that we get a chance to vote on every year, we would still be running a deficit at this point of a half trillion dollars a year.

Defense is not the problem. We need to address the mandatory spending side. The super committee was not able to carry out their mandate. We all understand that. We understand the political pressures.

But the fact was it didn't happen. And so sequestration that was supposed to be so terrible it could never be actually put into place is getting closer. We are now 3 months away from full implementation.

I contend that we are already in sequestration. The jobs are already being lost. The decisions are already being made to slow things down or cut things off and people are losing their jobs.

There are two impacts. One is a big cut on our defense, which puts our security at risk. The second side is the impact on our economy. And the CBO [Congressional Budget Office] said that if this thing goes through that we will go right back into another recession, starting next January.

So this is very, very serious. But the sequestration, the way it is outlined, if it should take effect, full effect in January, is another \$500 billion, \$600 billion out of defense and it is without any

thought or any planning, just you go down every line item and cut without any kind of planning.

A couple of you mentioned training. When I applied for this job to our steering committee, I said, "As I see this job, the requirement is to make sure that our men and women in uniform, when we send them into battle, they have all of the training, the leadership, the tools, everything they need to carry out their missions and return home safely."

This cuts into that. It means we will not be able to do it.

The ports and the camps that I have been visiting recently, a lot of emphasis is on IED [improvised explosive device] training. That is the biggest problem that we are dealing with in Afghanistan—severe injuries and deaths, most of them are coming from IEDs.

A lot of training at all of these bases was being put into that effort. When you say that we will be cutting back on training, that can cost lives and that to me is over the top. We have gone way too far.

The budget year for next year starts October 1st. We have already passed now a continuing resolution [CR] that causes all kinds of problems for the Defense Department and other agencies of the Government for the first 6 months of next year. And then sequestration kicks in January 2nd.

The CR keeps Government open for 6 months. As far as I am concerned, the Defense Department shuts down January 2nd because sequestration will hit on top of that. As I have looked at how we have to cut every line item evenly by 9.6 percent—was it, Mr. Secretary?

Secretary HALE. By 9.4 percent.

The CHAIRMAN. By 9.4 percent. If OCO is also included, which it is, that includes ammunition for our troops in Afghanistan. Correct?

Secretary HALE. Yes.

The CHAIRMAN. Is that a line item? How is that handled?

Secretary HALE. The ammunition accounts would be in procurement and if we end up cutting procurement at the line item level, yes it would be a line item or could be. I would need to look back and see exactly where ammunition is funding in the OCO budget.

The CHAIRMAN. So nothing has more priority over anything else? None of us would agree with that. I mean, that means cutting the lawn out at Fort Myer would have the same—

Secretary HALE. Right.

The CHAIRMAN [continuing]. Priority as troops have in Afghanistan.

Secretary HALE. We will have some opportunity. We budget separately for OCO and the base budget, and you approve each budget. When we actually begin executing, the budgets merge.

So there is one operation and maintenance Army account for actives that has both OCO and base spending in there. We would have some authority to move money within that account and we would use it to try to protect the wartime operating budgets.

But I don't want to make that sound easy, because what that means is we would have to make disproportionately large cuts on the base side, and that will have some of the effects on readiness and training that are of such concern to us.

So we would have some ability and we would move to use it to protect the actual wartime operating budgets.

The CHAIRMAN. I have more questions than we have time, but I, again, appreciate your service and all that you are doing to protect us from threats abroad.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I don't actually have questions—a quick comment.

First of all, I agree with the chairman, again, on the impact of this. Clearly, it limits flexibility. I think all of you gentlemen have explained that you are trying to, you know, do it in as common-sense a way as you can within the limitations of the Budget Control Act, but those are fairly severe limitations.

The main comment I have is how anyone could listen to our comptroller and our four vice chiefs and conclude that somehow the Pentagon isn't planning for this is just utterly beyond me. Clearly, you are planning for it. Clearly, you are considering on a programmatic basis issues that are a very, very thorny problem to deal with.

So, you know, I appreciate your efforts on that. You know, for my part, we will continue to work here to try to make sure that you don't have to do what you are planning now to do. So, we appreciate your efforts and I yield back.

The CHAIRMAN. Thank you.

Mr. Bartlett.

Mr. BARTLETT. Thank you very much.

I would like to reemphasize what our chairman said and kind of put our discussion in context. About every 6 or 7 hours, there is another billion dollar increase in our deficit. That drives our debt up more than a thousand billion dollars a year, more than \$1 trillion a year, our debt increases.

As the chairman said, if we were to zero out everything that we vote on here—if we had no NIH [National Institutes of Health], we had no military, we had no homeland security, no Department of Transportation—it is all gone; no Department of Education. If we zeroed all of that out, we would still have a deficit.

We borrow about \$0.42 out of every \$1 we spend. So clearly the sequester does not solve our deficit-debt problem.

If the sequester occurs, defense will be cut something a bit more than \$50 billion this next year. Defense is a bit less than one-fifth of our spending. So if you are going to cut defense and the other discretionary programs, let us be fair and cut across the board all of the programs.

That would mean about \$250 billion that we would cut from our spending next year. That would include Medicare, Medicaid, Social Security—across the board, discretionary and nondiscretionary programs.

These cuts by most people are considered draconian and impossible, so let us put that in context. This \$250 billion cut would represent less than a fourth of our deficit next year; closer to a fifth of our deficit next year. If you can't cut a fifth of our deficit, how will you ever get there?

If this sequester occurs, this would represent—and this was the drawdown from these wars—after wars, we always have draw-

downs—it would represent about half the percent drawdown that we had after the Cold War and after Vietnam. Now, we ended up with hollow militaries then. We simply don't want to do that again. But it kind of puts this cut in perspective.

As the chairman indicated, if the sequester is implemented as written, it would be totally devastating. I know there are some argument as to what precisely the wording of the sequester law means, but if you had to renegotiate more than 2,500 contracts, prime contracts, and many thousands of subcontracts and reduce them by 9.6 percent, we would grind to a halt very quickly. Obviously, you can't do that.

Mr. Secretary, if Congress continues to be irresponsible and we do not address this problem, are you prepared to recommend to us an implementation procedure for the sequestration that would cause the least harm to the military?

Secretary HALE. Yes. We will be prepared to implement this in the best way that we can. You know, I am reminded of that analogy—

Mr. BARTLETT. Sir, excuse me. That was not my question. I know you have a little wiggle room with this, but not a whole lot, sir. Are you prepared to recommend to us a change in the law that we can then vote on so that this can be implemented at much higher levels, rather than at the specific levels that the sequester indicates?

Secretary HALE. I mean we would have to look at that, Mr. Chairman, or Mr. Bartlett. You know, in the abstract, I don't know what that law would be. We need to avoid this thing, not try to make it better. I would like to offer you an analogy. If you are driving into a brick wall at 60 miles an hour, let us find a way to avoid the wall, not figure out a way to pick up the pieces after we hit it.

I believe that is true. We need to halt this thing, rather than try to make it better because we are not going to be able to make it fundamentally better.

Mr. BARTLETT. My question anticipated that, sir. I said if Congress is going to continue to be irresponsible, then the Administration can be responsible and recommend to us an implementation procedure which is going to cause the least harm to the military.

Are you prepared to do that?

Secretary HALE. Yes. Within the law, we will prepare to do that. Whether we are going to recommend another law, I think I need to think about and I will, and I will be glad to respond to that for the record; but within the law, we will recommend the best plan that we can if we have to, but it won't help that much.

[The information referred to can be found in the Appendix on page 67.]

Mr. BARTLETT. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Reyes.

Mr. REYES. Thank you, Mr. Chairman.

Gentlemen, thank you for being here.

You know, that old cliché of the devil being in the details? We don't like the details that we are hearing, even though it was us. And I couldn't agree more with my subcommittee chair, Chairman

Roscoe, that it is our fault. It is Congress' fault for putting you in this position.

It is a lot like somebody holding a gun to your head, wanting to take your possessions. You don't have enough possessions, so we are saying, "Well, give us a plan on how you are going to get possessions so you can give them to me." It is ludicrous.

Every time that we come up with how we are going to deal with sequestration, I can't help but tell my colleagues in Congress to look in the mirror. We did this. We passed that idiotic law that now have put you in a situation where we now want you to solve the dilemma that we didn't have the courage not to do.

So, I don't have any questions, Mr. Chairman. I just think that we have, as a Congress, have to accept the responsibility. We have to find a way to solve it. And we shouldn't be asking the generals that are here and the secretary that have been so gracious and patient with us all these months, to give us a solution. It is up to us. It is up to us.

And I say that even though I didn't vote for this idiotic, stupid law, I accept responsibility as part of Congress, and I think it is up to us to find the solution. However we do that, we better do it fast.

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

The CHAIRMAN. Thank you.

Mr. Wilson.

Mr. WILSON. Thank you very much, Mr. Chairman.

And thank for being here today.

Two days ago, I had the privilege of being with Congresswoman Vicky Hartzler at the University of Central Missouri. And while I was there, we were hosted by the university and the issue was sequestration. We have persons all over our country—Whiteman Air Force Base, Fort Leonard Wood—that I had the opportunity to visit. The American people are very concerned.

And I want to thank you for your service, but also we really are counting on you to make sure that, again, the American people understand what is going on.

I am particularly concerned, General Dunford. I have the privilege of representing Parris Island, Marine Corps Air Station, Beaufort Naval Hospital. My late brother-in-law was a Marine who received the Navy Cross at Okinawa.

So I grew up with a great appreciation for the Marine Corps. And it is my understanding that the personnel costs of the Marine Corps are significantly higher than the other services. Approximately 58 percent of the budget is spent on personnel. Is that correct?

And then additionally, I am very grateful that indeed the personnel accounts are exempt, but what does that do in regard to force level, in regard to readiness, research, procurement, training? Secretary Panetta has indicated this could lead to a hollow force. And how will the Marine Corps address the issues before us?

General DUNFORD. Congressman, first, you are correct. Fifty-eight percent of our total obligated authority goes toward personnel. Our cost per Marine is not higher, but the proportion that we spend in our budget on personnel is higher.

As a result of personnel being exempt in 2013, what I alluded to in my opening remarks is that we would then have to find a preponderance of funds out of operation and maintenance, infrastructure and our modernization accounts. So we will continue to do things like run Parris Island. We will absolutely continue to support those Marines and sailors that are in harm's way in Afghanistan. We will support those that are forward deployed.

But where we will see the biggest impact from a training perspective and where those resources will come from are those units that are at-home stationed. And I think you know that right now two-thirds of our units that are at-home stationed are already in a degraded state of readiness. They are in a C3, C4 status already.

And these cuts will further exacerbate deficiencies in home station readiness.

We will also be unable to support the strategy. One of the things that we are beginning to do now and had intended to do in fiscal year 2013 is reconstitute our 3rd Marine Expeditionary Force, which is the core of our contribution to the U.S. Pacific Command and the resources that are necessary to support that are unlikely to be available.

And then what we will see across the board in our modernization accounts are delays and so forth that will cause us to delay programs and in some cases do more with less.

Mr. WILSON. And, of course, I want to point out the challenges you have: facing an asymmetric enemy not in uniform; illegal enemy combatants; persons who truly are bloodthirsty and act with no regard to the civilian population.

And, thank you for the success and the hard work that has occurred. General Spencer, it has been reported that the U.S. Air Force might have to cancel its contract with Boeing to buy refueling tankers, the KC-46, as a result of sequestration. The Air Force would then have to negotiate a new contract possibly for fewer KC-46. How many fewer KC-46s would the Air Force buy? What sort of per unit cost increase will this cause?

General SPENCER. Well, Congressman, I would say upfront that we wouldn't at this point plan to cancel the contract. And, depending on the cuts—and I think the chairman mentioned earlier, if sequestration is triggered, the first thing we would do is look at those accounts or those areas that we would want to try to protect, and OCO, or overseas contingency operations, would be one of those.

So, once you do that, then that drives more of a cut into the other accounts. And so assuming we would protect wartime operations, that would drive higher than a 9.4 percent cut into our other accounts, like our procurement accounts.

So what we would have to do—we have not had specific conversations with the contractor for the KC-46. But depending on the amount of the cut, the issue would be, we would have to—because we have a firm fixed-price contract—we would have to open up that contract.

And so, we would have to then talk to the contractor about revising our payment schedule. And, I would guess the contractor would then talk to us about, "Okay, well, we can't give you as many airplanes on the schedule that you asked for," or, "We may have to

stretch out the airplanes,” or, “By the way, we may have to charge you more because now the contract’s back open.”

So, clearly, as we go down—I think, as Mr. Bartlett mentioned, as we go down the thousands of contracts and thousands of lines, that is the type of process that we have to go through with every contract.

Mr. WILSON. And I am concerned about the cost, and thank you for addressing that.

I yield.

The CHAIRMAN. Thank you.

Mr. Andrews.

Mr. ANDREWS. Thank you, Mr. Chairman.

I would like to thank the witnesses.

I commend the chairman for his persistent and continued interest in focusing on the severity of this issue, which he has done throughout the year.

I, frankly, wish that the same degree of interest was being demonstrated on the House floor this week. The House is leaving town tomorrow until after the election. There will be an adjournment resolution at some point today or tomorrow. I am going to vote no, because I think for us to walk away from our responsibilities—we have heard about this morning—without making some effort to pass some legislation both Houses and the President could sign is not very responsible.

And, I think it is an interesting contradiction that this hearing has set forth chapter and verse about the urgency of this problem and the response of the institution is to leave town for 6 weeks.

Now, having said that, let us talk about the importance of some of the decisions we may have to make. And I want to preface this by saying, I fully embrace the principle that anyone who served this country is deserving of high-quality health care for the rest of their life. I fully embrace the principle that you shouldn’t ever change the rules in the middle of the game for someone who is retired or who is near retirement. I don’t think you do that to people.

However, Secretary Rehnquist, Secretary Gates and now Secretary Panetta have come here and laid out for us year after year chapter and verse the hard reality that retiree health care costs are eating up a larger and larger share of the defense budget. We all pretend that is not true, because raising the issue is a political landmine.

But I think if we are serious about not having the sequester but equally serious about balancing the budget, one of the things that we have to talk about is whether it is possible to have a fair and equitable system of having more contributions from retirees into the military health care system.

I want to reiterate: I am not for that for present retirees or people near retirement. I don’t think that is fair.

I want to ask you this question: If we came up with a system that was equitable, that phased in such contributions over time so that youngest had the longest to plan for it and it was fair in the sense that those at the top of the pay grade had a relatively greater contribution than those at the bottom, do any of you gentlemen think that such a change would retard or impair your recruitment or retention of people in the armed services of our country?

General AUSTIN. We would have to see the actual details of the proposal, but certainly I think any change is going to create some concern. But having said that, you know, I think if it is, as you have described, fair and equitable, I think that there are a sizable amount of folks that would view it positively.

Mr. ANDREWS. I am painfully aware that there will be disagreement over definitions of fairness and equity, but I appreciate that.

Admiral, what do you think?

Admiral FERGUSON. Congressman, I think we have the gold standard of health care in our country for our people, and they richly deserve it, as do our retirees and our dependents.

I think we would have to examine very carefully the details of the proposal in order to give you a better assessment of that point.

Mr. ANDREWS. Yes, sir.

Admiral FERGUSON [continuing]. We have to preserve it, in my view, on a fiscally sustainable basis into the future to ensure—

Mr. ANDREWS. I agree with that. I don't want to make a promise that we can't keep 20 years from now.

Admiral FERGUSON. Exactly.

Mr. ANDREWS. Yes, sir.

General SPENCER. Congressman, I agree with my colleagues.

One of the things that is interesting about retirement, as an example, is you would think that folks newly coming into the military wouldn't be worried or thinking about retirement, but they do, as I think we all found out as we went around and talked to people the last time it came up.

Mr. ANDREWS. Yes.

General SPENCER. My daughter is married to a soldier in Fort Hood in Texas. And when it came up before, she called me and asked me, "Are they going to take my retirement away?"

So I think, as my colleagues have mentioned, we would have to see the details of it, but certainly there is some potential there.

Mr. ANDREWS. I appreciate that.

Yes, sir, General.

General DUNFORD. Congressman, I think it is important that we remember the end state of compensation, which is to recruit and retain a high quality force, and you alluded to that.

Mr. ANDREWS. Right.

General DUNFORD. You know, I think it would be very dangerous for us to isolate any aspect of compensation without a comprehensive review of compensation writ large. And I think that really is what the Secretary and the chiefs concluded last year and have come over and recommended, is that we not isolate any aspect of compensation, that we not focus singularly on health care; that we take the opportunity to look at compensation in a holistic way by an independent panel to provide choices then that senior leadership could look at in order to deal with the very real problem that you outlined—

Mr. ANDREWS. I thank each of you gentlemen. And I see my time has expired.

I just want to say that I have been encouraged by the dialogue in this committee which has been sober, serious, and factual, I think, all year.

I am equally discouraged by what we don't hear on the floor, that this is the kind of question we are going to have to come to grips with if we are going to cancel out the sequester and reduce the national debt.

Thank you, Mr. Chairman.

The CHAIRMAN. Appreciate the gentleman bringing that point forward.

And in our authorization bill that this committee passed and the floor passed and the House and the President signed last year did increase the co-pay on our retirees. It was about \$5 a month for a single person; about \$10 for a—

Mr. ANDREWS. I heard about it. I remember.

The CHAIRMAN. And that was first time in many, many years that that had been addressed. And we also face the issue in this year's bill. That hasn't become law yet because, again, we are waiting for the other body to act—

Mr. ANDREWS. As I said, this is the kind of sober deliberation that will help fix this problem, as opposed to sequester, which is across the board.

The CHAIRMAN. Thank you.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

And gentlemen, thank you for being here and thank you for your service to the country.

General Austin, I know you are from Thomasville. That is part of my district—and happy to have you in the district. Any time you are down there, let me know.

And General Spencer, Robins Air Force Base is the largest industrial complex in Georgia, the largest employer in my district.

So I have opposed sequestration from the start. I understand that we have to have some reductions in total spending, and certainly I think that you gentlemen are better equipped to provide for where those cuts should come than Members of Congress and certainly the way sequestration would implement those cuts and tie your hands. I think it is probably the least efficient thing we could have done.

The world is a more dangerous place today, is one of my other concerns with sequestration. We have seen this with the embassy attacks and other places.

And General, I know that some Marines have been denied access to even get in to provide additional protection for our embassies in some parts of the world. I think that is something we have got to review, as well.

But I want to go, if I could, to Secretary Hale and to your comments. You said that you would consider whether or not Congress should pass another law before you made that recommendation. And your written statement says, "very much hope that Congress will pass a deficit reduction plan that the President can sign and avoids sequestration."

Just set the record straight here—this Congress, the House of Representatives in this Congress, has passed five different measures to avoid sequestration, and the President and the Senate, neither one of them have shown leadership in giving us any indication

of what they will sign. All they say is they won't sign what we have passed.

It is time for the United States Senate to pass a piece of legislation that deals with sequestration, and quite honestly it is time for the President to show leadership on this issue as well.

And I guess, Mr. Hale, can you tell us what the President's proposal is that he would actually sign, going back to your written testimony?

Secretary HALE. Well, Mr. Scott, the Administration has made two proposals, one last October to the Joint Select Committee on deficit reduction and then one in the President's budget. I think that he would sign either of those.

Mr. SCOTT. Mr. Hale, can I remind—

Secretary HALE. Both of them—

Mr. SCOTT [continuing]. Can I remind you that the President didn't get a single vote from a Democrat or a Republican on his budget? That is how fiscally out of balance his proposal was. He didn't get a vote in the Senate, a single vote in the Senate on his budget.

I apologize for interrupting, but is it realistic for the President to hold to a plan that of 535 potential votes did not get a single vote from a Member of either party, and he wants to hold to that plan? Is that leadership?

Secretary HALE. The Administration also said in the Sequestration Transparency Act that they would work with Congress to find a way to solve sequestration.

Mr. SCOTT. Well, that is just words—

Secretary HALE. So I have to take them at their word that—

Mr. SCOTT. Well, Mr. Hale, with all due respect, that is just words. This Congress has passed five—the House, I should say, I apologize, let us not confuse the do-nothing Senate with the House—we have passed five measures to avert the potential devastation of sequestration on national security. What is the President's plan other than a budget that got zero of a potential 535 votes?

Secretary HALE. Mr. Scott, I am the Comptroller of the Department of Defense. I know what he has proposed—

Mr. SMITH. Will the gentleman yield? I am sorry. You have asked the question of these people and I am happy to answer it.

Mr. SCOTT. Sure.

Mr. SMITH. I mean the White House has made two proposals that Congress rejected. The House has made five proposals that the Senate doesn't accept.

Mr. SCOTT. Mr. Smith, did you vote for the President's budget?

Mr. SMITH. So I fail to see how you are in a better position on that.

Mr. SCOTT. Did you vote the President's—

Mr. SMITH. We have all kinds of proposals that the other side doesn't agree to—

Mr. SCOTT. Did you vote for the President's budget? You did not vote for the President's budget.

Mr. SMITH. The President's budget was not presented on the House floor.

Mr. SCOTT. So you rejected the President's plan as well as I did.

Mr. SMITH. The President's budget was not presented on the House floor. You put something up that was not the President's budget and you have spent all the time since then claiming that it was. That, too, is not helpful.

Mr. SCOTT. That is simply not true, Mr. Smith, with all due respect. I mean, the President got zero votes out of 535 potential on his budget. It is time for him to lead, follow, or get the hell out of the way of this country.

Thank you, Mr. Chairman, and I—

The CHAIRMAN. Thank you.

Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman. And, again, thank you for the series of hearings, starting with the industrial workforce and leading up to today's hearing this morning, for focusing on this, and, again, following on the transparency report, which was just released, which, by the way, also set out the impact in terms of non-defense areas of the Government that would be devastated by sequestration.

I mean, all the way from food supply, because of the cuts in terms of food inspection that would paralyze the delivery and production of food in this country; the impact in terms of health care services with the across-the-board Medicare cuts; K-12 Title 1 that would be devastated.

You know, again, the whole purpose of this was to be indiscriminate, to be unacceptable. And you have to look no further than the granddaddy of sequestration, who was Senator Phil Gramm, who constructed the original sequestration mechanism back in 1985. He testified after the Budget Control Act was passed and his language was it was never the objective of Gramm-Rudman to trigger sequestration; the objective of Gramm-Rudman was to have the threat of sequestration force compromise and action.

And what we just heard, you know, shows that we have still got a gap in terms of the two sides. But in the past our predecessors, starting in 1985 through 1992, kind of, you know, grinded away in terms of getting proposals, which were very hard for both sides to get to, but nonetheless did what was right for the country.

And, you know, General Dunford, your description of, you know, the folks that serve under you, who responded to the call a few weeks ago and did their job, and how they, frankly, are counting on us to do our job, you know, to me was probably the most powerful statement this morning in terms of, you know, what the real issue is here, about whether or not the people of this country have any confidence in this institution to do its job.

And I would just say, you know, I don't have a question, I just—you know, the decision on Friday by the leadership of the House to basically cancel all the session days that were scheduled in October, to basically leave town for 7 weeks, you know, that does not comply with the spirit of Senator Gramm's description of what sequestration is supposed to be about. It is not about an end, it is about a process, and it is about people doing their job.

And, you know, I personally believe that there still is a center in this place that is ready to roll up its sleeves and find a path between the two sides which we just heard a moment ago. And, again, the example of the Marines who are deployed, or whether

it is sailors who are, you know, all across the globe, or whether it is the amazing work that the Army is doing.

And, again, I visited with you in Iraq, General Austin, and, you know, commend you again for your amazing service in the Air Force, which are patrolling the skies.

By the way, the Coast Guard would also get hit by sequestration, the folks in New London at the academy. I was talking about sequestration with them a short time ago. They are impacted, too. You know, we know now, I mean, what is the consequences. It is completely unacceptable for our country both in terms of domestic and nondomestic sectors. And what we have got to do is do our job.

And I just hope, frankly, that the motion to adjourn is going to fail and that people are going to roll up their sleeves and get it done.

By the way, there has been some positive signals from the Senate in terms of some negotiations. Senator Lindsey Graham this morning talked about a mini-Simpson-Bowles to try and sort of get some savings and avoid the January 2nd timeline.

I commend him. I mean, you know, that is somebody who is rising to his constitutional duty to try and start finding a middle ground and avoid what is looming on January 2nd. And hopefully the spirit of Senator Graham's comments this morning is going to be heard in this Chamber and that we are going to maybe at least during the recess have some people talking about ways to stop this sequestration from going into effect.

And with that, I yield back, Mr. Chairman.

The CHAIRMAN. Thank you.

Just a reminder that the House has passed a bill that cuts mandatory spending. It was hard, a lot of tough votes, but we did pass it. It pays for the first year of sequestration, not just defense, but all of the sequestration, pays for the first year, which would move the discussion back onto a less politically volatile timing that we could be discussing it.

The Constitution lays out how we function, and it says one body will pass legislation, the other passes legislation, a conference is called, and you work out your differences.

I understand the Senate doesn't like our bill, but they have not passed a bill that would take us to conference where we can really discuss those differences. Rather, they can sit and say, "We don't like what was done."

So I guess then what their interpretation of the Constitution is, they can say that, then we have to pass something and ask them, "Is this okay, Mr. Senator?" If that isn't done, then I guess we pass another bill and ask them, "Is that okay?"

But the way I read the Constitution is it says, until they put up the votes and actually pass something, we can't move forward. And that is the big bottleneck that we have facing us right now.

Our bill was based on cutting spending. If they want to pass a bill that is totally based on new revenue, then we come together and try to work out our differences. But they would have a lot more credibility if they did something, if they passed a bill that we could go to conference on and actually work on. The only reason the Senate is still in town is because one Senator is holding them up and

they can't get the votes yet to pass the CR. And eventually the time will run out and they will leave town also.

Mr. SMITH. Mr. Chairman——

The CHAIRMAN. I yield.

Mr. SMITH. I actually agree on the last point, the CR. But the helpful place that we need to get here is the problem in the Senate is, while, as you see, one person can hold the whole thing up, we don't have that rule in the House. We have a much more efficient and effective way of moving things forward. So the problem in the Senate is it takes 60 votes to do anything. So before they can pass a bill they need bipartisan agreement.

So all I would say, in a note of what I hope is, you know, trying to bring us back together here, is, you know, who passed what, where? The bottom line is right now Republicans and Democrats have not agreed on what needs to be done. And until we do, it is not going to get done. It is not like one side is doing it and the other side is not.

It is the nature of the way the Senate is set up that they have to get bipartisan agreement before they can pass anything. In some instances they have to get unanimous agreement before they can do anything. It is the nature of their rules, not that one side is showing leadership and the other isn't. We both need to come up with a plan that is bipartisan. We need to get working on it.

The CHAIRMAN. Actually, the bill that we passed, we passed under reconciliation. So they only need 50 votes in the Senate to pass this bill. And until they do something, we will not be able to solve this problem.

Mr. West.

Mr. WEST. Thank you, Mr. Chairman, and Ranking Member also, and thanks to the panel for being here.

And, General Austin, I want to thank you for being a role model for me as a young paratrooper, and it is a pleasure to see you.

My question for General Austin and General Dunford—when you look at my friends and a lot of e-mails they send me, five, six, seven tours of duty into the combat zone—the second, third order effects that has on the family, my big concern right now with the sequestration is what are we going to look at as far as the personnel strength, because there is going to be a reduction on personnel strengths for our Army and for our Marine Corps, our ground forces?

So with that being said, when we are looking at implementing these personnel reductions that is going to be part of this overall sequestration for the Army and Marine Corps?

General AUSTIN. Thank you, sir. And, again, thanks for your service and thanks for your support.

We are reminded that as we have this conversation, as some have pointed out, that there are 61,000 or so soldiers deployed to Afghanistan in support of that effort and they are doing a magnificent job.

As we have discussed earlier, personnel under the plan, if this plan does go into effect—and we hope that it doesn't. We hope that Congress will work with the Administration to make that not happen, that is the best case, best course of action—but if it does, then

the personnel accounts are protected in fiscal year 2013—or exempted.

So we would be looking at shaping a force further in the out-years. And as what you have heard our chief say earlier is that this would probably drive our end strength down by 80,000 to 100,000 over time. So that is our back-of-the-envelope assessment at this point.

General DUNFORD. Congressman, as I think you know, we are in the process of drawing the Marine Corps down from a high of 202,000 in the active component to 182,000. And we have got a plan to do that between now and fiscal year 2016, a very deliberate plan that keeps faith with people.

Manpower is exempt this year. The thing that we realize is that if sequestration takes effect, manpower is exempt in fiscal year 2013. What I alluded to earlier is that it would be impossible for us to balance those pillars of readiness and maintain 182,000 past fiscal year 2013.

So what the Commandant has really said was once we find out what our topline is, inside of that topline we will build the very best Marine Corps that we can build in a balanced way, so that we don't have more force structure than we have the ability to train, properly equip, and to take care of the families, as you alluded to.

What I would tell you is though that at 182,000, we are exactly at the line of our ability to respond to a single major contingency operation. So as we look forward, if we have significant reductions below 182,000, that will cause our force structure to be below the level of a single major contingency operation.

Mr. WEST. Next question is, you know—you gentlemen taught me a great thing about anytime you prepare a military operation, you look at the most dangerous course of action; so with this being the most dangerous course of action, where do you all see the two preeminent places where you are going to have to accept risk if this continues to go forward, especially when we look at the volatility of the world today?

General AUSTIN. Well, sir, what we would do is continue to support those soldiers that are deploying to Afghanistan, and the next-to-deploy soldiers. We would make sure that they are adequately resourced to get the job done. That remains our top priority.

In addition to that, we would also make sure that we support those programs that are enabling and supporting our soldiers and families so that we don't break the faith that we have established with our soldiers and families.

You know, the fact of the matter is that we have fought with an All-Volunteer Force for over a decade. And as I have said before in other places, that if you had asked me 15 years ago if we could do that with an All-Volunteer Force, I would say absolutely not; that is probably not possible.

But we have done it. We have done it because we have taken good care of our soldiers and families. And so we would want to keep those programs in place. So where we think we would begin to see eroding capability would be in those forces that are at home training and preparing to deploy for contingencies. We think that, you know, as you make decisions to transfer resources to cover

other shortages, that eventually that it will erode your readiness to respond to contingencies.

So, we want to maintain the faith that we have established with our soldiers, and we also want to be able to respond to contingencies in addition to supporting the fight in Afghanistan.

General DUNFORD. Congressman West, similar to the Army, our priority regardless will remain supporting those Marines and sailors that are forward deployed. We will continue to do that. You asked for the two main areas that we would take risk, I don't see any way that we could maintain a proper modernization profile where we could continue to move forward, and we would not be able to sustain our investment in infrastructure as well.

And to put that last point in some perspective, we fund to a low C-2 level in our infrastructure. If sequestration were to take place, we would see almost an immediate drop into C-3 and below with our infrastructure.

Again, to maintain current operations at the level that we need to maintain them, as well as to try to maintain as many of those family programs that we need to keep faith with our Marines—but modernization, infrastructure would certainly suffer and they would suffer in a way that would be very, very difficult to recover in the years ahead, and frankly be very inefficient as we did that.

The CHAIRMAN. Thank you.

Mrs. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman.

Thank you all for your leadership and for joining us today.

At the beginning of your statement, Secretary Hale, you emphasized, I believe, that we need a balanced budget deficit reduction plan. Is there anything in this discussion that we have had today that would suggest that perhaps it doesn't need to be balanced or that there is something about that in terms of all the areas that we are looking at, not just defense, that is not part of that discussion?

Secretary HALE. The Administration favors a balanced program of deficit reduction. I realize there are differences of opinion, but that would suggest both cuts in spending and some increases in revenues. That has to be worked out between the two Houses of Congress and the Administration, but I believe that they continue to favor that.

Mrs. DAVIS. Do any of you feel that that doesn't necessarily reflect your services?

Secretary HALE. I am going to intervene and ask that our military leaders not be asked to comment on that particular issue, if that is acceptable to you, Mrs. Davis.

Mrs. DAVIS. All right.

Secretary HALE. And that you stick with me on that one.

Mrs. DAVIS. Okay. I will stick with you, sir. Thank you.

I wanted to go to the issue that you really have discussed in terms of high priorities—obviously, the warfighter. But when we think of the personnel accounts, sometimes I think it is difficult for people to recognize the impact of these personnel accounts on readiness—childcare centers as an example.

If they were to be drastically reduced, would that have an effect on readiness? Is that an area that perhaps needs to be looked at as even a higher priority when we are talking about these issues?

Admiral FERGUSON. Well, Congresswoman, you know, we have made it a priority within the service because many of those are funded by the operations and maintenance account, that we would have some flexibility to make movements within that account to sustain our family support programs, our people programs. We think they are the cornerstone of readiness for both families and our service members.

But that does cause reductions in other programs within the account in facility infrastructure, sustainment, modernization, some base support operations. But I think that we feel very strongly due to the deployed nature of our forces that we would have to make an effort to sustain those.

General AUSTIN. I would echo what Admiral Ferguson just said. It is absolutely imperative that we continue to take care of our soldiers and families. And it does have an impact over time on the ability of the family to be resilient. And that is a thing that we are very, very focused on.

General SPENCER. Congresswoman, I also agree with my colleagues that we would try our best to protect family programs, health care, that sort of thing. But I will add though, as Admiral Ferguson mentioned, as we look at what we want to protect, that is going to squeeze out other accounts.

And they are all in that sort of organizational and maintenance account, the O&M [operation and maintenance] readiness account which, you know, has things for the Air Force like flying hours to train our combat crews, weapons systems sustainment to maintain our aircraft, to have aircraft available for our depots.

We have got our civilian pay—180 civilians or so in the Air Force in that account; training; ranges; spare parts. You can go down the list—engine overhaul.

So as we look at—obviously, we would want to protect programs like that, but then that would just squeeze out other readiness issues as well and make the problem even more difficult.

General DUNFORD. Congresswoman, what I think you are really highlighting is the need for all of us to take a comprehensive look at readiness. And as I alluded to in my opening remarks, you know, we have got pillars of readiness. And one of those pillars is the need to recruit and retain a high-quality force.

And those programs that you spoke to are inextricably linked to our ability to recruit and retain a high-quality force, so they are inextricably linked to readiness as well.

And as General Spencer and the other members of the panel have outlined, once you assume risk in one area, you are going to accept risk in another area. This is about balance. And the difficulty with sequestration is it actually makes it difficult to balance across those pillars of readiness.

So you are going to do things that are inherently things you wouldn't do if you had the ability to do this logically and manage risk. And that is the difficulty, I think, for all of us is that the way the cuts are being applied will not put us in a position to manage risk.

Mrs. DAVIS. And when we look at—you mentioned health care, of course, and that is a great concern, particularly if our TRICARE physicians choose not to accept military personnel. Is there something you wanted to just mention about that, in terms of awareness of what we should be thinking about in that area?

Secretary HALE. Let me take a shot at that and see if I can be helpful. The Defense Health Program is a budgetary account. Under the sequester rules, it would receive the same percentage reduction as all the other accounts; in the case of the STA report, 9.4 percent.

The only thing we could do would be to try, if that actually came to pass, would be to try to move money into that account. It will be very difficult, frankly. We could only do it through reprogramming and you have got to find something to cut. And as I have learned painfully over the last 4 years, that is very hard to do.

So I think we would be faced to some extent with not being able to pay all of our TRICARE bills probably right at the end of fiscal year 2013. We would try to avoid it, but I think it would happen. I am not quite sure what our providers would do in that case. We would be just late, and then we would try to fix it in 2014, but it is not a good situation and not one that I think any of us—I certainly don't want to go through.

The CHAIRMAN. Thank you.

Mr. Brooks.

Mr. BROOKS. Thank you, Mr. Chairman.

I would like to first thank our men in uniform for your service. It is quite impressive to see three four-stars and an admiral here and the dedication that those emblems represent on behalf of our country, and also, Mr. Hale, your presence here.

And I have heard a good bit about why we are here today. And I wanted to add my thoughts to it, and people can digest them for what they are worth. But we are here today because we have had a United States Government that for years now has been reckless with the American treasury.

We have had three consecutive trillion-dollar deficits. We are now in our fourth year of a trillion-dollar deficit. Our country has never seen this kind of financial irresponsibility in its history prior to the last 4 years.

And it has reached the point where, in the very chairs where you all sit, both in 2010 and in 2011, the Chairman of the Joint Chiefs of Staff has appeared before the House Armed Services Committee and testified that this accumulated debt is the greatest threat to America's national security. He did not name Al Qaeda. He did not name North Korea. He did not name Iran. He did not name anybody else. He said number one threat is our debt.

Now, if you look at the numbers, the debt has one trigger point primarily—a lot of factors, but one trigger point. Spending has gone up over 40 percent in the last 6 years.

It doesn't take much of a mathematician to figure out what the cause of the problem is when spending has gone rampant. And it has gone rampant in large part because the entitlement programs, that some of my colleagues have pointed out.

And in that vein I want to emphasize one point. We are in this process of sequestration not only because of this history of deficits

that have accumulated to \$16 trillion in debt that have put us in a very hazardous position financially, where we are risking insolvency and bankruptcy as a country, which in turn if that happens could destroy our national defense capabilities, far worse destruction than sequestration would ever do.

We all know how bad sequestration is. But then we get to the solution aspect of it and in August of last year an agreement is reached.

But let us be very, very clear about this point. The agreement that was reached with respect to sequestration was because that is what the White House demanded.

First, they wanted tax increases on top of tax increases we already have in play. I have a list of 12 pages of tax increases that are going to hit American families this year, next year and the year after that and maybe the year after that too—12 pages.

But that is not enough. They want even more. And so the House of Representatives said we are going to protect family incomes. And so the President came up with this sequestration idea that attacks and puts at risk our national defense capabilities.

And so I am very much in accord with Mr. Scott's comments earlier that I believe that if the President is sincere in his desire to avoid these national defense cuts, then he should also be sincere in proposing a specific plan that is in writing, in the form of a bill that can be introduced into the United States Congress by at least one person who agrees with him.

And to date I have not seen that plan introduced in the House of Representatives where at least one Member of the United States House of Representatives has seen fit to agree with its terms and conditions.

And if the President is going to continue to be the Commander in Chief and if he is going to continue to rightfully complain through his Secretary of Defense about the adverse effect of sequestration on our national defense capabilities, and I believe those concerns are legitimate, then I pray that Barack Obama, as Commander in Chief, will propose a specific bill that is introduced in the House of Representatives with some semblance of support, if not bipartisan, at least by Democrats, that details what his plan is so that the American people can see it and they can digest it and decide where they want to go with it.

Now, Mr. Hale, if you are familiar with a specific bill that the President has proposed that has been introduced in the House of Representatives that is confined to this issue, and I am not talking about a smorgasbord where it has got a thousand different points, one point happens to touch on sequestration.

I am talking about a sequestration-fix bill, one bill that has been introduced in the House that has the support of Members. Please share it with me.

The CHAIRMAN. The gentleman's time has expired.

If you could, please answer that for the record, Mr. Secretary.

Secretary HALE. I will do that.

[The information referred to can be found in the Appendix on page 67.]

The CHAIRMAN. Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman.

Secretary Hale, in your written testimony you are worried about a different type of problem. You mention it in your next steps and it is the effects of if we don't have sequestration but that the process starts.

And you talk about you don't want to alarm employees. You don't want to hold back on obligation of funds for weapons projects or operating programs.

And a statement at the end of this one paragraph says we will continue normal operations unless sequestration is actually triggered. So does that mean that although it is in the back of everyone's minds, the Department of Defense is marching forward as if sequestration is not going to happen?

Secretary HALE. Well, I wouldn't put it that way. We don't want to sequester ourselves.

And so, yes, consistent with OMB's guidance and our own guidance, we are not going to start cutting back right now in anticipation of sequestration. But we know it is there. It is more than in the back of our minds.

And we have begun steps to look at impact assessment. We have worked closely with OMB to understand how the law would work. And as we get closer to this event, we will have to move toward specific planning to do it.

But we don't want, as I said, to sequester ourselves——

Mr. CRITZ. Right.

Secretary HALE [continuing]. And start in advance to say, "Well, let us cut back this weapons system because maybe we will have to do it."

Mr. CRITZ. Right. Right.

Secretary HALE. We are still hopeful that we won't go through this.

Mr. CRITZ. And there is a series of information here that says that, you know, and obviously we have already received, this committee, testimony that indicates that there is actually an observable slowdown and reduction in contracts and orders.

So there are things happening. And in your testimony, and we have heard it too, it from the private sector, everybody is doing this sort of scenario.

And the one thing that I would ask you, and I don't know if you can quantify it or not or if the service chiefs, vice chiefs can quantify it, is how much effort is being put into starting to put the pieces of the puzzle together, looking at what if sequestration happens.

Is there a concerted effort within the Secretary of Defense or within the services that there are people assigned now to start looking because there is a point, and I am trying to think, where you mention, "We are working with OMB to understand this complex legislation and are assessing the impacts."

So although you are not sequestering, you are in process of addressing this. And I mean to my point every day that we kick the can down the road, you are expending funds for something that may not happen.

Secretary HALE. I think that is right. And it will pick up in its pace. We largely do now understand the laws, even if we don't like them.

And we have done high-level impact assessment. You have seen that in our testimony today.

Mr. CRITZ. Right.

Secretary HALE. And we will have to pick up the pace, working with the services and the defense agencies in terms of guidance on how we will implement this, hoping at every point that we can stop.

But if it does not get halted, we will eventually have to do detailed budget planning. And that will be enormously costly in terms of time within the Administration.

Let me just go back to one of your other points. In the aggregate, we don't see a slowdown in obligation rates, at least through the data we have, which is about a month lag.

I am not saying there is not some program out there that is doing it.

Mr. CRITZ. Right.

Secretary HALE. And there may be industries that are making advance preparations. But we do not see for the Department as a whole a slowdown in obligation rates through maybe a month ago.

Mr. CRITZ. Okay.

Now, are you making any assumptions as you plan for fiscal year 2014 with regards to sequestration?

Secretary HALE. No. The fiscal guidance that we have from the Administration is the same as last year, last year's plan for fiscal 2014, and does not take into account sequestration.

Again, we are not going to do this to ourselves. We are still hopeful that Congress and the Administration will find a way to avoid it.

Mr. CRITZ. Okay.

And if any of the chiefs want to address if there is particular folks who have been assigned to getting prepared for possible sequestration, please chime in.

With that, I—

Secretary HALE. We have a team set up that is working on and looking at impacts and will move toward guidance for planning. So they are all represented in various forms.

Mr. CRITZ. Okay.

Admiral FERGUSON. Yes. Congressman, I would characterize the effort—is that our normal staff function is that individuals are assessing the impacts. Now that we have the Transparency Act report, we understand what the budget amounts are.

The planning involves understanding what your top-line is ultimately and the assumptions and the planning factors you use to shape the future fiscal target shapes the decisions in 2013.

So that type of planning is not going on.

Mr. CRITZ. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman, Ranking Member.

I would thank all of you for being here today. I know these are unique challenges that we are all confronting and trying to find our way through, so appreciate your service.

The first issue I would like to touch on. You know, my district is in south central southern Indiana. And we have a number of assets that support the missions of DOD in particular, from NSWC [Naval Surface Warfare Center] Crane to Camp Atterbury to the Muscatatuck Urban Training Center. Even Indiana University has an important role in defending our Nation and supporting our military.

One of the questions I have pertains to the actual cost of the sequester. This committee has received testimony from a number of industry experts including a former deputy director of OMB, who has testified to the fact that the actual budget impact of sequestration is going to go far beyond what is in the Budget Control Act, \$55 billion in fiscal year 2013 top-line reduction.

Instead, informally the committee has heard estimates of \$70 billion for equitable adjustments to contracts or by my calculation what is 50 cents on the dollar. Ashton Carter has also referenced the so-called hidden tax.

I would ask Mr. Hale, if you could answer, do you agree or disagree with this observation and why? And if you could give us an estimate of how much in additional cuts could be required as a result of contract cancellations, claims, personnel severances and other things. Please let us know.

Secretary HALE. Well, let me start by trying to clarify a bit how sequestration would work.

If we have already signed the contract and obligated the funds, especially with prior year money, that contract is not going to be affected; obligated balances, prior year obligated balances are not affected by sequestration.

So I would not anticipate that contracts signed before January 2nd are going to be significantly affected. They won't be canceled and so we won't encounter fees in that regard. We would be forced not to pick up options.

We would be forced to change contracts that were planned to be signed after January 2nd. We would be forced into some personnel actions in the civilian area that—we will avoid rifts because frankly that would cost us money in that year.

So I think the bottom line is we are going to, both because of the law and the way we would implement it, I don't see those sorts of large cancellation fees. There could be some but I don't see them occurring.

And I think that we will just have to find ways to avoid the severance cost because we won't be able to afford them.

Mr. YOUNG. Well, thank you for that response.

I will pivot a bit and talk strategy here for a second because you, Mr. Hale, have indicated that, by your estimates and presumably of others, I think some of the service attendees here have indicated that some adjustments will need to be made, should sequestration go into effect, to the national security strategy and to the missions we are asking our military to perform on our behalf.

What I have been struck by, though, is multiple indications from different individuals on our panel, all of whom I have great respect for, that there is seemingly little to no contingency planning going on. We don't know which strategy changes will be required, and presumably you are the strategic thinkers of our military. To me,

that seems most irresponsible for this freshman Member and former captain in the Marine Corps.

I think it would be revealing if we could get more information on this team that was referenced who is in the early stages of, quote—"looking at the impacts of sequestration on our strategy." That would be revealing, I think, because it would tell us what risks are in fact regarded as greater and lesser risks to our Nation; what missions we are going to ask our military to perform in the future. And we could infer from the changes to our strategy what missions are of higher and lower priority.

And finally, we could determine which spending is more important or less important, is exactly the sort of analysis we don't receive on this committee. And therefore, we are asked to make superficial spending decisions based on parochial interests and the limited information we receive from the Administration.

So if we could get any information, I would most appreciate it.

Thank you, gentlemen, again for your service.

The CHAIRMAN. Thank you.

Ms. Hanabusa.

Ms. HANABUSA. Thank you, Mr. Chair.

Secretary Hale, you know, I have sat through so many of these meetings regarding the effects of sequestration, whether it is in this full committee or it is in the Readiness Subcommittee. I even sat in on Seapower, which I am not a member of, because I represent Hawaii and you can imagine how important these issues are to us.

Today's hearing was called "Department of Defense Plans for Sequestration, the Sequestration Transparency Act of 2012 Report, and the Way Forward." That is the title.

And the one thing I have got to say is that in all the prior hearings and testimony that we have had, including Chief of Naval Operations Admiral Greenert, as well as Army Secretary John McHugh, that the theme seems to be the same. It is whether someone above them has said not to really plan for sequestration, or the Office of Management and Budget has said just plan your budget for the upcoming year without any consideration of sequestration.

Would that be a correct statement as to how the Defense Department has been proceeding on this specific issue?

Secretary HALE. Well, we are certainly planning our fiscal 2014 budget without regard to sequestration, and that is consistent with fiscal guidance from the Office of Management and Budget.

We made a decision not to plan in detail for sequestration, again in the continued hopes that there will be an agreement between the Administration and Congress to halt it. I think as we get closer to this event, we will have to move towards guidance to the service and specific planning. And if it does go into effect, I can assure you we will be ready to implement it and we will move toward the planning that is required to do that.

Ms. HANABUSA. Can you tell me how long you think it is going to take to get to that point? Because some of these testimonies we got from February of this year—the chairman has always expressed his great concern about sequestration, which all of us share. So I am just curious. I mean, you knew that sequestration

was going to be an across-the-board cut, so the report that was done by OMB is a 9.4 percent literally across-the-board cut.

So how long will it take you to then drill down from all these different program IDs which have the 9.4 percent across-the-board cut? How long will it take you? I just kind of want to know when the chairman is going to call us back in and we are going to hear the actual plans.

Secretary HALE. Well, the first thing we will have to do is come up with guidance, as we would do in a regular budget to the services. That probably will take place over the next month or so. I would say 6 weeks or so after that guidance has gone to come up with detailed plans.

Ms. HANABUSA. So probably a 2-month period, and then we will be able to know how each one of these different programs—

Secretary HALE. We will wait as long as we can to begin this process. You know, I feel like I spend most of my time these days planning for things I fervently hope don't happen. And I think we will wait as long as we can to begin this process, again in hopes that it is halted, but we won't wait so long that we won't have this Department ready if in fact it goes into effect on January 2nd.

Ms. HANABUSA. Now, one of the statements made by OMB in their report is this. It says with the single exception of military personnel accounts, the Administration cannot choose which programs to exempt or what percentage cuts to apply. These matters are dictated by a detailed statutory scheme.

Just so anyone listening in on us, when you say you are going to start to study how the cuts are going to take place, you are talking about the 9.4 percent within each program ID. Is that correct?

Secretary HALE. That is correct.

Ms. HANABUSA. So would you say as frustrating as it may be for us to try and figure out what is going to happen, so when we get home and people ask us how it is going to be cut, from your vantage point, it is really up to Congress and the President to make everything right.

Secretary HALE. Well, we are depending on Congress and the President and the Administration to halt this. We certainly hope that is true. But as I said before, if it happens on January 2nd, we will take the steps that are needed to make this Department ready, and OMB has said they will do that across the Federal Government.

Ms. HANABUSA. And Mr. Hale, many of the testimonies that we have had all say that Defense Department has taken its share of cuts already in the first part of the Budget Control Act. And I believe that Secretary Panetta said that if we have got to take an additional series of cuts, throw everything out the window. Would you agree with that?

Secretary HALE. Well, I don't know if he said it quite that way, but if we take substantial additional cuts, whether it is sequestration or in some other way, we will have to reconsider the security strategy that is put in place. And I know I can speak for Secretary Panetta in saying he believes that strategy is the right one for current times.

Ms. HANABUSA. When you say "the strategy," you are talking about the 2014 budget that—

Secretary HALE. The strategy that was put in place last January and is the basis for the fiscal 2013 budget he believes is the right strategy and he would like to continue it. But if there are significant additional budget cuts, we will have to revisit that strategy.

Ms. HANABUSA. Thank you.

Thank you, Mr. Chair. I yield back.

The CHAIRMAN. Thank you.

Mr. Schilling.

Mr. SCHILLING. Thank you, Chairman.

And it is great to be amongst you fellows. We really do appreciate what you do for our country.

Just a couple of things to Mr. Hale—a couple of questions. One of the things that I am concerned about—we have the Rock Island Arsenal in our district. Dave Loebsack from Iowa and I share that. And, you know, I truly believe that sequestration is here, it is now and it is happening.

Just this morning, I got a message—“Good morning, Congressman Schilling. We just were told that if we don’t get another \$45 million worth of work by October the 1st, we won’t be able to maintain current workforce. Our contracting people are on it, but apparently significant job loss is a possibility. I am thinking we are in a bad way, brother; any news on your end?”

You know, so one of the things that I think, you know, coming from a small business perspective, is that you are constantly planning. And, you know, when we talk about the Senate, their inability to pass the 30-some jobs bills and so on and so forth.

But the one thing that I think is critical as a country, that both sides of the aisle need to do, and also on the Senate side, is there is a word called “compromise” and coming together and try to find that common ground. And what I have seen—this is my very first time ever holding a public office. I got to the point to where I just could not take it anymore and decided to run for Congress, and hence the reason why I am here.

But what I have found is with this Senate is the fact that every time there is something that they don’t like, they pick up their toys and they leave the toy box and they go home, just like what they did with the payroll tax back in the holiday that they had back in December.

But I guess there are a couple of things. I mean, we definitely need to sit down and address this, but what I would like to do is, if you could, sir, when we talk about—one of my concerns is contracts that are written prior to sequestration taking hold, is what do we do—I mean, we have a lot of cost overruns that are out there. I guess, how do we put an exact value on these to be able to say that these things are good?

I mean, we see constantly the cost overruns are there, but that is what we are trying to—I would like to have clarified is how do we project? I mean, if you have got a couple million or billion-dollar cost overruns, how are we going to deal with that?

Secretary HALE. You are not talking about sequestration. You are talking about cost overruns that would occur in a regular budget, if I understand you correctly?

Mr. SCHILLING. Well, primarily when sequestration hits, and you are saying we are going to guarantee the contracts that are already

in effect prior to sequestration hitting, how are we going to deal with the overruns that are going to be there? I mean, we have no way to calculate those out.

Secretary HALE. Well, what I said is under the law, if we have already obligated the funds, especially prior-year funds, they would not be affected by sequestration. So the contract, if already signed, would go forward with the amount of money we had obligated.

Now, if that contract needs more funds and has to be modified, it would be subject—any additional funds would be subject to sequestration. And I think we would have to judge whether or not the added funds were sufficiently important in a period of budgetary stringency, and that kind of decision would be made by our program managers with guidance from senior leaders.

I don't know if that is helpful, but I think that is the process that we would go through.

Mr. SCHILLING. Right. Another thing that I, you know, we, constantly look at, when I talk to people out in the district, most Americans are willing to pay more in taxes. Some here call it revenues. I call it what it is. It is an increase in taxes on the hard-working American folks out there.

And most folks that I talk to tell me, "You know what? We are willing to pay a little bit more under one condition—stop wasting our money." No more tunnels for turtles. No more swamp mice in California, and so on and so forth.

But until then, to raise taxes so that this Government can continue to waste our hard-earned tax dollars, I think it is pretty difficult in this House to get that through, and we can't get that guarantee. So I just wanted to have my two cents in there.

I really appreciate you all's service to the Nation, and keep doing what you are doing. I yield back.

The CHAIRMAN. Thank you.

Mr. Barber.

Mr. BARBER. Thank you, Mr. Chairman.

First of all, I apologize for being late. Just got through with a hearing on "Fast and Furious," which is, of course, very important in my district since that was where Border Patrol Agent Terry was killed.

I appreciate the opportunity to ask some questions—first question for Secretary Hale.

At the last committee meeting when we discussed sequestration, I said at that time that the lack of action on this important issue is really a failure on both our part and others to getting our fiscal house in order.

And we will be voting on adjournment tomorrow. I will vote against it. I think we should stay here and not go home. We shouldn't be so much worried about our own contracts and with our constituents and saving our jobs if we can't save the jobs of our community and our constituents from this threat.

Secretary Hale, as we see this looming threat just over the horizon, can you say how it is affecting the morale of our service members, how this uncertainty is affecting both them and their families?

Secretary HALE. Well, let me take a shot at that. And I would certainly invite the vices who are probably better able.

I am particularly worried about our civilian members. For fiscal year 2013 we will exempt military personnel, so it won't have a direct effect on the number of military personnel, though it may have effect on their confidence, generally.

I am particularly worried about our civilians. They will be directly affected. We would probably have to have a hiring freeze and I suspect we would have to consider unpaid furloughs.

And I think there is starting to be increasing unease in our workforce about how this is going to affect individuals, and I don't blame them. I am very worried for them. But I would invite my colleagues here to comment if they would like.

General AUSTIN. Thank you, sir.

From an Army perspective, you know, as I go around to different installations and talk to soldiers and families, we are beginning to hear more and more of them ask the question of, "What does this really mean for us in terms of support for family programs or what does it mean in terms of end strength? Will my soldier be caused to leave prematurely?" Those types of things.

And so the issue is that they are beginning to focus on it more so than we would like to see them worry about it.

And, again, our concern is that we don't want to break the faith with the soldiers and families that we have established over the years. I think that is one of the things that has enabled us to do what we have done and support two fights for over a decade.

Let me commend our families for what they have done to date. And with your support we have been able to take good care of them.

So they will continue to be with us, but, again, they are focusing on it a bit more than we would like to see.

Admiral FERGUSON. Congressman, as I mentioned in my opening, I just returned from a tour to Central Command to Middle East, and spoke to about 10,000 sailors on our aircraft carriers, mine force, patrol craft. At every forum, from the most senior commanders to the most junior sailor, they ask about sequestration and what it means to them, their families. And I sensed a growing anxiety over the uncertainty of our fiscal future and what it means to them and their service to the Nation.

And I would just offer that they are looking very strongly to us to solve this and to give them certainty so they can plan their lives and their aspirations and their future. And I think we owe them that great debt as we go forward.

General SPENCER. Congressman, I have a similar experience. There is, I think, some growing anxiety, particularly with our civilians in depots, and that, you know, overall our aircraft engine repair, et cetera, because of the uncertainty. They don't know what is going to happen.

And as I have gone out and talked to military folks—I mean, it is pretty heartwarming, I guess, to hear—all they want is parts and to get airplanes off the ground and get satellites launched. They just want to get the mission done, and as Admiral Ferguson said, they are looking to us to get this thing behind us so we can move forward.

General DUNFORD. Congressman, I would just reemphasize a point I made in my opening statement, and that is our folks over

the past 10 years have done what they have done because of the trust and confidence they have in us. They trust that they will have the wherewithal to accomplish the mission when they go in harm's way. They trust that we will take care of their families when they are deployed.

And I honestly believe they still trust that that will be the case. They still trust us to resolve this issue and make sure that they have the proper resources.

But my point would be, our inability to resolve this, our inability to assure them that they will have the wherewithal when they go in harm's way the next time to have what they need to accomplish the mission I think is a significant risk. And the point I would make about civilians is, there is significant angst in the civilian community—civilian Marines, as we call them—about their future. And that concerns us a great deal. Because just like Marines, our success with civilian Marines—and what they do is important. They participate in our training. They fix our equipment. They take care of our families.

And our ability to recruit and retain high-quality civilians is equally important. And I think the way we treat them and the ability that we have to provide them with some predictability in their future is also important.

So those are some of the concerns I have.

Mr. BARBER. Thank you, Mr. Chairman.

Mr. THORNBERRY [presiding]. Thank you, Mr. Barber.

Mr. Coffman.

Mr. COFFMAN. Thank you, Mr. Chairman.

And I first want to say that I believe that the Congress of the United States should stay in session until we resolve this problem of sequestration, as well as some of the other issues facing this country, such as bumping up against another debt limit and the fiscal cliff that we face. And so I will be voting against adjournment tomorrow.

Let me just say, first, I differ with a lot of my colleagues. I think that we are capable of more cuts in the Department of Defense. I just disagree in the manner that they are going to be done through sequester; that is it is going to fall disproportionately on weapons and equipment that are so vital to our fighting forces.

But let me just say first, I think that prospectively, I would like to see cuts. I think that the Department of Defense is far too top heavy—more admirals than ships in the United States Navy. And it is that top heavy across the board in the other services, as well.

I think we ought to look at some of the permanent overseas military bases that we have: 79,000 troops still in Europe. Our NATO [North Atlantic Treaty Organization] allies, most of them are spending less than 2 percent of their economy on defense. We are at 4.7 percent.

South Korea—28,000 troops. We are at, again, at 4.7 percent of defense spending as a share of the economy. They are at 2.7 percent. It seems like we care more about defending South Korea than the South Koreans.

This whole notion of nation building, which has been so incredibly costly—that we could invade, pacify and administer whole countries based on the premise that at the end of the day they real-

ly just want to be like us, if only given the opportunity they will be like us.

You know, I volunteered to go to Iraq with the United States Marine Corps out of retirement—not because I believed in the war; because I believed once we were in it we had to finish it. But how costly that was not just in terms of lives, but in terms of tax dollars spent.

And as long as I am on this committee, if I can do one thing, it would be making sure that this country never goes down the road of nation building again. And I am glad to see that we are phasing out of Afghanistan.

On the issue of Libya today, I mean, it is stunning the lack of coordination between the intelligence community and the State Department. And now that we are being reactive when we could have easily been proactive, didn't even have a Marine Corps security detachment on the ground in Tripoli in the embassy. Pretended as if it was a permissive environment, which was stunning to me, and it cost the lives of a U.S. ambassador and two of his co-workers.

With that said, let me put one question out to the United States Marine Corps. And with our ability to respond in that region right now with FAST [Fleet Antiterrorism Security Team] teams and NEO [Non-combatant Evacuation Operation] ops, how does sequester impact that capability?

General DUNFORD. Congressman, when we look at sequester, what we will make every effort to do is make sure that our current operations don't suffer. So the expectation would be that the Marines that are in Afghanistan, our fleet anti-terrorism support teams, and the forces necessary to do the kinds of things you alluded to a minute ago would be resourced.

Where you would see the price being paid is units at home station, again already in a degraded state of readiness. This would further exacerbate that home station readiness. But it would not degrade the readiness of those forces that are forward deployed. We would make every effort to make sure that wasn't the case.

Mr. COFFMAN. Let me just say I would never support a cut that compromised the national security or the capability of this country to defend itself. And I think, fundamentally, sequester and the manner that these cuts are going to be done will in fact compromise national security, will in fact compromise the capability of this country to defend itself.

You know, I guess another question for the Marine Corps—if sequester would occur, what would be the permanent damage to the United States Marine Corps in terms of its ability to respond to incidents across the board?

General DUNFORD. Congressman, the permanent damage would be hard to explain at this point. What we would experience, as I mentioned to Congressman West, is we would pay for current operations.

Our modernization account, our infrastructure would suffer, and then those units that are home stationed would suffer. But the immediate impact would be—that is the bench that you expect the Marine Corps, as the Nation's crisis response force, to be ready when the Nation is least ready in the unexpected crises and contin-

gencies that are supported by those forces that are at home stationed.

And so the degraded readiness that we would see in those forces at home station would impact our immediate crisis and contingency response capability.

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

Mr. THORNBERRY. Thank you, Mr. Coffman.

Gentlemen, thank you again for joining us today. We appreciate your service to our Nation.

And I wanted to make a little statement before we got into my line of questioning, and that is, there is an issue out there that I think hasn't gotten as much attention as I think it needs to. We all talk about sequester, but we haven't talked a lot about Afghanistan and recent events in Afghanistan, with the attack there at Camp Bastion and the Taliban's efforts there. I think that is something that we all ought to be looking at.

I see we had two brave Marines there defending that airfield perished. We see six of our AV-8B Marine Corps harrier jets being destroyed, a number of other ones damaged. We see that type of brazen attack there in Afghanistan.

And while at the same time we are here talking about sequestration, talking about cuts to the overseas contingency operation funds while at the time that we are under, I think, some pretty challenging times here in Afghanistan, I think it is unconscionable that this body is preparing to go home while we look at these challenges.

That is just not right. This body can do better than that. It must do better than that. It must stay in town. Make sure this sequester gets set aside.

As the debate took place earlier—I know folks were talking about, “How do we make reductions to the budget?” Nobody had any intention of ever getting to this point of making these types of cuts across the board to our national defense. It is not where this Nation needs to be.

We need to stay in town and get this done. And I, like other Members here, have stated I will be voting against this body going home. We have to get this job done for our men and women that serve this Nation.

With that being said, Admiral Ferguson, I wanted to point to you and ask your estimate about what will happen in one area of the Navy, specifically aircraft carriers.

We know the U.S. law says you have to maintain 11 carriers. We know that about seven or eight are at sea at any one time, based on maintenance schedules, based on time sailors have to be resting a little bit or retraining, whatever the case may be, making sure that the refueling is taking place.

That being said, we know that those challenges are there. And we know that if you look at sequestration and look at what challenges that is going to place on carrier OPSTEMPO [operations tempo], on maintenance schedules, on refueling schedules, I want to get your estimate on how you believe sequestration will affect that.

Also manning, how a 9.4 percent reduction in your budget is going to affect maintenance schedules and manning schedules.

Also, are we looking at 9-plus-month deployment schedules and shorter dwell times, shorter times for our men and women who serve in this Nation's Navy to be at home? Is that going to change?

And thirdly, with the new Asia-Pacific strategy, with that shift in strategy, will sequestration allow the Navy to attain the goals set forth in that strategy so, Admiral?

Admiral FERGUSON. Well, thank you for the question, Congressman.

Let me speak about the carrier force and then I will go into the broader strategic questions that you have posed.

Firstly, we have an issue right now, and I will digress a second, in the continuing resolution is that we need authority to complete the refueling overhaul in the *Theodore Roosevelt* and we need additional congressional authority to begin *Abraham Lincoln*, which is prepared to start after the first of the year.

And that we are working with Congress through reprogramming action to achieve that and so I would ask support of that initiative because not having those carriers complete their availabilities or start their refueling will greatly impact future availability of aircraft carriers.

We have a single refueling yard located in Virginia. And that single facility has to process the carriers and they are stacked up to come through.

On the broader question of sequestration, what the impact will be is that we will have to defer maintenance and we are presently supplying two aircraft carriers in the Middle East, *Enterprise* and *Eisenhower*, now.

And we are accelerating the preparations and training of additional aircraft carriers to replace them as well as sustain an aircraft carrier in the Western Pacific.

Under sequestration we will divert as many resources as possible to prepare those air wings, the escort ships and the carriers to meet the schedule. But we will be creating a deficit in the forces beyond the next group to deploy where we will have insufficient funds to offer them sufficient training, flying hours and maintenance.

And over time under sequestration you will see the Navy get smaller. We have testified previously to a force of around 230 to 235 ships in the future if this is sustained for 10 years.

And you will see less presence forward. You will see an inability to complete maintenance periods in a timely fashion to meet the requirements of the combatant commanders.

And it will result in a smaller force that is less available to respond to crises and to deploy.

For those existing forces we are seeing already, because of the heavy demand for the Navy, both in the Middle East and in the Pacific, longer deployments. Our carriers are operating at about 8 months or so.

Our ballistic missile defense ships are operating at 9 months, with very rapid turnarounds to go back. And those portions of the force in most demand are operating at a very high tempo.

We would not be able to sustain that going forward, under sequestration.

Mr. THORNBERRY. How about the new Asia-Pacific strategy? How do you see this affecting that in the long term? Would we be able to maintain meeting the goals of that strategy?

Admiral FERGUSON. Yes. As part of the broader security strategy of the Department of Defense, we would be unable to sustain that because we would be a smaller force and with less presence and less ability to surge.

And that puts that at risk as we go forward in the future.

Mr. THORNBERRY. Very good. Thank you, Admiral.

General Dunford—wanted to ask you a question and kind of put things in perspective. The Marine Corps has been extraordinarily busy in recent years.

As you know, last year a Marine Corps MEU [Marine Expeditionary Unit] during a single deployment was able to take up a variety of different operations: humanitarian aid in Pakistan, combat operations in Afghanistan, anti-piracy efforts there in the Horn of Africa, and then being a significant part of Operation Odyssey Dawn there in Libya.

Very, very busy times—your forces being stretched; we all know where the Navy is right now as far as the number of amphibious ships and being able to really meet the requirement that is there and questioning where that goes in the future with being able to build additional amphibious ships.

You lay on top of that the new Asia-Pacific strategy that looks at dealing with issues there in that particular region, many of which are a need for Marine Corps capability that goes with that.

I wanted to get your perspective, based on this current scenario, how do you see your current posture in relation to potential sequestration and then laying on top of that the new Asia-Pacific strategy, if you can give me your perspective on what that means for the Marine Corps?

General DUNFORD. Congressman, with regard to the crisis response, you know, you alluded to the things that we have done over the past 2 years.

And we would expect we would continue to do those things, even under sequestration.

In other words, there is not a call that we have missed yet. And there is no expectation that we will miss a call in the future.

The impact, though, will be on that crisis contingency response depth at home that I have talked about. In other words, our forward-deployed, forward-engaged forces, we are committed to make sure that they go out the door as ready as possible.

But the bench back at home is going to get thinner and thinner over time. We have a readiness challenge today. It will be exacerbated.

The critical piece about the Pacific is that we are in the process of reconstituting our unit deployment program in the Pacific. That really is the core of our contribution to the United States Pacific Command and that is the force that would execute the combatant commander's theater campaign plan.

As a result of sequestration, in our initial impact assessment we would not have the resources available in order to continue to resource the unit deployment program in 2013 and beyond.

And that will, again, preclude us from meeting the goals that have been assigned to us in the theater campaign plan by the U.S. Pacific Command.

So it absolutely will have a strategic consequence.

Mr. THORNBERRY. Very good. Well, thank you, General Dunford.

Gentlemen, Secretary Hale, General Austin, Admiral Ferguson, General Spencer, General Dunford, I want to thank you all again for your service to our Nation, for your leadership, for your direction during what is a very challenging time both for us abroad and here at home.

And I thank you again.

And with that, if there are no other questions or business to come before the House Armed Services Committee, the hearing is now adjourned.

[Whereupon, at 12:05 p.m., the committee was adjourned.]

A P P E N D I X

SEPTEMBER 20, 2012

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

SEPTEMBER 20, 2012

Statement of Chairman Howard P. "Buck" McKeon

**Department of Defense Plans for Sequestration: The Sequestration
Transparency Act of 2012 Report and the Way Forward**

September 20, 2012

This will be the last week the House is in session until mid-November. Today's hearing will provide Members a final opportunity before the lame duck session to inform themselves and their constituents about how sequestration will be implemented and how those decisions will affect our men and women in uniform and our national security.

We had hoped that the President would provide this information in the report required by the Sequestration Transparency Act. Unfortunately, he failed to comply with both the letter and the spirit of the law. Not only was the report late, but the report submitted to Congress merely paid lip service to the dire national security implications of these cuts – after the President has had over a year to consider this crisis.

Moreover, the White House has even gone so far as to instruct the Department of Defense not to make preparations for sequestration. Nevertheless, as previous testimony to this Committee has provided, many of our military leaders believe initial preparation for sequestration must occur well in advance of the January 2, 2013 implementation date. For example, when the Secretary of the Army, John McHugh, was asked this spring if plans for sequestration were underway, he stated "[w]e are not doing as yet any hard planning. That would probably happen later this summer."

Today we are following up with the Department to review and understand the mechanics of sequestration – how would they implement it – and the timelines necessary to develop a comprehensive and concrete strategy if sequestration were to occur. This morning we will hear firsthand from the Honorable Robert F. Hale, Under Secretary of Defense – Comptroller; General Lloyd J. Austin III, Vice Chief of Staff of the Army; Admiral Mark Ferguson, Vice Chief of Naval Operations; General Larry O. Spencer, Vice Chief of Staff of the Air Force; and General Joseph F. Dunford, Assistant Commandant of the Marine Corps.

Let me make one final observation and appeal to our witnesses. As the recent violence throughout the Middle East has reminded us, we are living in the most

dynamic and complex security environment in recent memory. The decisions we make with regard to sequestration will have a tangible and lasting effect on that global security environment.

Last month, in testimony before the Committee, the White House budget director stated, "The impact of sequestration cannot be lessened with advance planning and executive action." He misses the point – planning can't resolve sequestration. But the lack of planning and the failure to exercise leadership now can make a dire situation worse. Gentlemen, we understand that there are no easy choices here, but now is not the time for ambiguity. In your testimony, I urge each of you to be as clear with us as you possibly can about what the road ahead portends for the implementation of sequestration. This could well be the last opportunity for our military to get these facts on the record before the deadline for a legislative remedy has passed.

Statement of Ranking Member Adam Smith**Department of Defense Plans for Sequestration: The Sequestration Transparency Act of 2012 Report and the Way Forward****September 20, 2012**

Thank you, Mr. Chairman. I appreciate that we are having this hearing. I think sequestration is unquestionably the most important issue facing our government, figuring out how to deal with it, and it is important that we learn more about it.

And it is clear, and I believe the president, the secretary of defense and numerous other executive branch officials have made it clear that they see sequestration as having a devastating impact on defense. That was the point, I believe, of the OMB [Office of Management and Budget] director's remarks—was, "Don't think that you can somehow, you know, make this work in a way that is not going to have a huge negative impact on our national security."

That is the main point that has been made by countless witnesses and folks in a very bipartisan way. I don't think there is any disagreement whatsoever on that. Even if you think that savings can be found in the defense budget, and I do, this is not the way to do it. It is going to be a \$57 billion cut at the absolute last minute, in the middle of fiscal year 2013, after all kinds of planning was done to try to set it up.

It is also, you know, across the board. Every program has to be cut by the same amount, for the most part—so the very limit in terms of any flexibility in terms of handling this. So we have established beyond a shadow of a doubt that this is not good policy and no one has claimed that it is.

As for the issue that somehow the Pentagon and the White House has done nothing to plan for it, I don't think that is at all accurate. We had Undersecretary Ash Carter here about a month ago. He went for about, I don't know, 5, 6 minutes chapter and verse right down the line of the programs that were going to be cut and how they were going to be cut.

The executive branch has said which programs, in their interpretation of the law, will be exempt. Personnel programs are going to be exempt. They have said specifically this is going to be, and I may be off on the number here, a 9.6 percent across-the-board programmatic cut in everything.

So I don't think it is accurate to say that we have not been planning for it. We have been planning for it. There is a limited amount that you can do. There is some ambiguity in the law. We have heard a variety of different interpretations as to how you can sort of work with that ambiguity in terms of what programs count and what programs don't. The president has said now here is what it is.

So we know what it is. The challenge is trying to stop it from happening. And the only way to do that is to pass a comprehensive plan to reduce the deficit. That is what the Budget Control Act required—find savings so that we don't have a deficit that is uncontrollable; that we get it

under control. The requirement is \$1.2 trillion over 10 years.

There have been various plans out there to get us up as high as \$4 trillion over 10 years, and we simply have to choose to do that. I have said it before. I will say it again. I think revenue has to be part of that equation. If you are absolutely committed to the need to provide for the national security of this country; if you are deeply concerned, and I share the chairman's views about the complexity of the threat environment and our need to be prepared for it, then you ought to be prepared to raise the revenue necessary to pay for that national security that we want so badly.

Thus far, we have been unwilling to do that. That puts us in the box that we are in. I think it will be interesting to hear from all you gentlemen about, you know, how you are working out the details of that, but I don't think it is the huge mystery that some have portrayed it to be. We know how much is going to be cut; roughly, we know what it is going to be cut from; and a number of different studies both, you know, in the government and outside, have attempted to assess the damage that will be caused by that. And there is a variety of different opinions on that, but it is not something that has gone unexamined, let us put it that way.

What I would like us to do is spend the time trying to make sure that we stop this thing that just about everybody agrees is bad policy from happening. And the way to do that is to be realistic about our budget deficit. Stop pretending that we can bang the table about how awful the deficit is and then shy away from any of the steps necessary to cut spending or raise revenue to deal with it. That is the fundamental denial that we have to deal with to prevent this problem from becoming very, very great come January.

So I look forward to the testimony from the witnesses and trying to deal with this very, very difficult issue.

Statement of

The Honorable Robert F. Hale
Under Secretary of Defense (Comptroller)

General Lloyd J. Austin III
Vice Chief of Staff, U.S. Army

Admiral Mark Ferguson
Vice Chief of Naval Operations

General Joseph F. Dunford
Assistant Commandant, U.S. Marine Corps

General Larry O. Spencer
Vice Chief of Staff, U.S. Air Force

before the

House Armed Services Committee

September 20, 2012

Embargoed until released
by the House Armed Services Committee

We appreciate the opportunity to testify today regarding the effects of the potential sequestration triggered by the failure of the Joint Committee to reduce the deficit. We will discuss the report recently issued in response to requirements in the Sequestration Transparency Act (STA) of 2012.

Secretary Panetta has emphasized for many months that sequestration would have devastating effects on the Department of Defense (DoD) and virtually every other federal agency. While we can discuss the STA report and provide assessments of the effects of sequestration, we cannot create a plan that eliminates these consequences, or even mitigates them substantially. The reason is that sequestration was designed to be an inflexible policy that was never intended to be implemented. Instead, it was enacted as a prod to Congress to devise a comprehensive package to reduce the federal deficit. All of us continue to urge Congress to pass a deficit reduction plan that the President can sign and that halts sequestration.

Sequestration Transparency Act report

The STA report provides insight into the size of the cuts to the FY 2013 DoD budget that would occur under the Joint Committee sequestration. The report assumes that discretionary appropriations are funded based on a continuing resolution that provides a rate of operations as in FY 2012. Based on this and other assumptions, the report estimates that reductions in the national defense function would total \$54.7 billion for discretionary and direct spending; about \$52.3 billion of these reductions would apply to the DoD budget.

In the report the DoD budget cuts are allocated proportionally among all non-exempt budget accounts in the defense budget, with each such account absorbing a reduction of 9.4 percent of its sequesterable resources. The report reflects the exemption for military personnel funding. Based on authority granted by the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the President has indicated his intention to exempt military personnel from sequestration, and the STA report reflects this decision. With the exception of the military personnel accounts, the Administration cannot choose which programs to exempt or what percentage cuts to apply. The exempt and non-exempt determinations are based on requirements in the law.

The STA legislation also included a requirement to show reductions at the program, project, and activity (PPA) level. Because of the STA's reporting deadline of 30 days, the large number of PPAs across all agencies and budget accounts, and inconsistencies in the way PPAs are defined, the STA report states that additional time is necessary to identify, review, and resolve issues associated with providing information at this level of detail.

The STA report also notes that its estimates are preliminary. If sequestration were to occur, the actual reductions would differ based on changes in law and ongoing legal, budgetary, and technical analyses. Joint Committee sequestration would be governed by the Balanced Budget and Emergency Deficit Control Act of 1985, including the amendments in the Budget Control Act of 2011.

Implementation of Sequestration in DoD

For purposes of this testimony, we assume that a sequestration of the sort described in the STA report actually occurs starting on January 2, 2013. Non-exempt resources in each discretionary account in the DoD budget would be reduced by 9.4 percent. The basic across-the-board nature of the cuts would leave us with limited flexibility.

We could try to offset the across-the-board nature of sequestration by using techniques such as reprogramming — a method used by DoD to shift funding from lower to higher-priority projects during the year when funds are being executed. However, it is important to note that reprogramming at most offers a limited ability to moderate the effects of sequestration. Under current law, the amount of funds that can be transferred is limited. Moreover, any reprogramming that adds funds to a program or project must be offset by a cut to another program or project, which may be difficult because, as a matter of policy, we seek congressional approval of reprogramming actions. Reprogramming is also often a time-consuming process. While reprogramming might be used to mitigate some effects of sequestration, realistically it would not offer a means for making wholesale revisions. However, in some cases, our analysis assumes some ability to reprogram to mitigate serious problems.

Effects on Training Readiness

The reductions described in the STA report would apply to Overseas Contingency Operations (OCO) funding — which pays for the added costs of wartime activities. Supporting our warfighters in combat is DoD's highest priority. If sequestration were actually to occur, we would endeavor to protect wartime operating budgets as much as possible by making disproportionately large cuts in the base-budget portions of the operation and maintenance (O&M) and other accounts affected by sequestration. For example, the Army and Marine Corps would give priority to wartime operating budgets and, to do so, their other O&M programs would need to be reduced by a significantly greater percentage than the overall sequestration rate.

We would try to minimize the effects of these base-budget reductions on readiness. For example, we would consider imposing disproportionate cuts in funding for facilities sustainment, restoration, and modernization except for those funds related to safety and critical missions. We would also consider disproportionate cuts in selected administrative costs and in base operating funding. We might consider limited reprogramming. However, we would not be able to avoid some cuts in funding for direct readiness, which would result in reductions in training. Under some circumstances, this reduced training could impact our ability to respond to a new contingency, should one occur.

Civilian Personnel Effects

Sequestration would almost certainly force us to reduce funding for civilian personnel. Although it is premature to describe in detail how sequestration would affect the DoD civilian workforce, it might be necessary to impose a hiring freeze (though we would seek to exempt certain critical positions), consider unpaid furloughs, and take other actions. These actions would reduce our capability in important ways: fewer people to fix our weapons including those damaged in war; less expert time and attention available to enter into well-crafted contracts, including those affecting war zones, and to handle financial transaction and audit efforts; and less support for other critical functions that benefit the warfighter and the taxpayer.

Effects on Modernization

Sequestration would generally not affect prior-year funding already obligated on contracts. But it would nevertheless have substantial adverse effects on DoD's investment programs. Under the assumptions required in the STA report, there would be a 9.4 percent reduction in each of the discretionary budget accounts that fund procurement; research, development, test, and evaluation; and military construction projects. In many cases we would have to buy fewer weapons in order to accommodate the budget reductions, which would drive up unit costs. In cases where we cannot feasibly reduce the quantity of items bought – ships come immediately to mind – we would have to delay projects. Thus there could be delays in ship deliveries for vessels such as the new CVN-78 class aircraft carrier. While we would attempt to mitigate effects, sequestration would in many cases have adverse effects on the industrial base supporting DoD.

Impact on Forces

In this statement, we focus on sequestration's immediate and drastic effects in FY 2013. However, sequestration and the lowering of the discretionary caps would reduce DoD budgets by \$50 to \$55 billion in each year from FY 2013 through FY 2021. The required reductions beyond FY 2013 would not have to be implemented through across-the-board cuts. But the cuts would still be large, in effect doubling the reductions already imposed by the Budget Control Act. Even though the President has indicated his intent to exempt military personnel funding from any FY 2013 sequestration, the outyear cuts would force the Department to make substantial reductions in military personnel and units in the years beyond FY 2013. Otherwise, we would end up with too many units and not enough funds to train and equip them. While specific decisions would need to be made carefully, it is clear that sequestration and the lowering of the defense topline would, over time, lead to fewer of many types of forces, possibly including aircraft carriers, brigade combat teams, and fighters.

Sequestration, and lowered budget caps, would also affect our forces in ways other than just size. Our senior military leaders assess that sequestration would mean fewer day-to-day global military activities, notably exercises and training. We would have fewer options for responding quickly to emerging crises, and our ability to deter potential adversaries would be diminished. We anticipate that we would have to reduce exercises and training with partners, which may affect political and physical access when we need it in the future. Over time, the total Joint Force would become less capable to respond across a range of missions, less adaptable to emergent challenges, and less modern relative to the forces of potential adversaries, particularly those with anti-access/area denial capabilities. With a smaller force, we would need to increase end strength rapidly when committing to a major contingency, and we would face greater risk in how fast and how well our National Guard and Reserve forces are able to respond.

Impact on Strategy

Significant cuts in military units and their readiness caused by sequestration and the lowering of the discretionary caps in the outyears would, in turn, require that we revisit the national security strategy that the President put in place last January. While it is premature to outline specifics, sequestration would force DoD to revise a strategy that was carefully crafted and designed to meet current national security needs.

Impacts on Morale and Health of the Force

Our senior military leaders are also concerned that the morale of the force will be affected in ways that are unpredictable. We could face recruiting and retention problems, particularly among the most talented in the force. While we will attempt to ensure that reductions do not cause us to break faith with our troops, potential reductions to family and retiree programs could undermine our ability to recruit and retain an all-volunteer force and to keep families supported. Our senior military leaders are committed to keeping the force in balance as the best trained, best led, and best equipped force on the planet. In their assessment, sequestration risks driving the force out of balance.

Military families and retirees would also be adversely affected by sequestration. While we would make every attempt to preserve quality-of-life and family support programs, we could be forced to cut back on base support services, facility maintenance, and maintenance of government owned family housing. Commissary hours might have to be reduced. Funds for the Defense Health Program -- which provides health care for retirees and military dependents -- would be sequestered, resulting in delays in payments to service providers and, potentially, some denial of service.

Next Steps

While we can foresee the harmful impacts of sequestration that we have just described, we cannot devise a plan that eliminates, or even substantially mitigates them. We are working with the Office of Management and Budget (OMB) to understand this complex legislation, and we are assessing impacts. Congress still has the time to enact a deficit reduction plan that the President can sign and that halts implementation of this inflexible law. In the unfortunate event that sequestration is actually triggered, we will work with OMB and – like all the federal agencies affected by the law – we will be ready to implement.

While the Administration will be ready for sequestration if it occurs, we are equally worried about a different type of problem. This would occur if sequestration does not happen but we end up triggering some of its bad effects anyway. For example, we do not want to alarm our employees by announcing adverse personnel actions or by suggesting that such actions are likely. We do not want to hold back on the obligation of funds – either for weapon projects or operating programs – that would have been obligated in the absence of a possible sequester, since this would introduce inefficiency and waste and delay receipt of needed military capabilities. Nor do we want to cut back on training, which would harm military readiness in a period when we face a complex array of national security challenges. In the charged budgetary environment in which we are operating, the risk of triggering adverse effects early is real. To avoid these problems, and consistent with OMB's guidance issued on July 31, we will continue normal operations unless sequestration is actually triggered.

Finally, we understand that private companies that serve the Department of Defense and constitute important members of our national security team will be making decisions on issues related to sequester. They face many of the same dilemmas we do, and many of these companies have expressed alarm about the potential effects of sequestration. The best thing that can happen for private companies is for Congress to take steps to stop sequestration.

Conclusion

In sum, sequestration and the lowering of the discretionary caps would result in a less-capable, less-modern, less-ready force and risks creating a hollow military. It would also require a change in our current national security strategy, which we believe is the right one.

In an era of multiple national security crises and challenges, this is a particularly unfortunate time to allow such deep and mechanical cuts to take effect. We very much hope that Congress will pass a deficit reduction plan that the President can sign and that avoids sequestration.

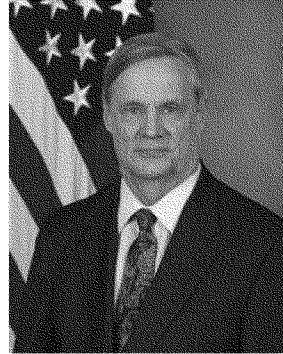


Robert F. Hale
Under Secretary of Defense (Comptroller) and Chief
Financial Officer



As Under Secretary of Defense (Comptroller), Robert F. Hale is the principal advisor to Secretary of Defense Leon E. Panetta on all budgetary and fiscal matters, including the development and execution of the Defense Department's annual budget of more than \$600 billion. As Chief Financial Officer, Mr. Hale also oversees the Department's financial policy, financial management systems, and business modernization efforts.

At the time of his nomination by President Barack Obama in January 2009, Robert Hale was Executive Director of the American Society of Military Comptrollers (ASMC), the professional association of Defense financial managers. For three-and-a-half years, he led the society's certification program (the Certified Defense Financial Manager program), as well as training programs, a professional journal, and other activities, including ASMC's National Professional Development Institute, an annual conference which attracts more than 3,500 participants.



From 1994 to 2001, Mr. Hale served in the Pentagon as the Assistant Secretary of the Air Force (Financial Management and Comptroller), where he was responsible for annual budgets of more than \$70 billion, efforts to streamline Air Force financial management, and compliance with the Chief Financial Officers Act.

For the 12 years prior to his Air Force service, Mr. Hale headed the National Security Division at the Congressional Budget Office (CBO), developing quantitative analyses of major defense budget issues and testifying frequently before Congressional committees.

Earlier in his career, Mr. Hale was a senior fellow and head of the acquisition and grants management group at LMI, a consulting firm specializing in service to the Federal government. He also spent three years as an active duty officer in the U.S. Navy and served as a staff analyst and study director at the Center for Naval Analyses.

Mr. Hale graduated with honors from Stanford University with a B.S. in mathematics and statistics. He also holds a Master's degree in operations research from Stanford and an MBA from the George Washington University. He is a Certified Defense Financial Manager (CDFM), a fellow of the National Academy of Public Administration, and a past member of the Defense Business Board.



General Lloyd J. Austin, III
Vice Chief of Staff for the U.S. Army



General Lloyd J. Austin III, hails from Thomasville, Georgia. He was commissioned an Infantry second lieutenant in 1975 upon graduation from the United States Military Academy at West Point, New York.

General Austin has served in a wide variety of command and staff positions throughout his 36-year career. His early assignments included duty with: the 1st Battalion, 7th Infantry, 3d Infantry Division, U.S. Army Europe and Seventh Army; 2d Battalion, 508th Infantry, 82d Airborne Division, Fort Bragg, North Carolina; U.S. Army Recruiting Battalion, Indianapolis, Indiana; United States Military Academy, West Point, New York; 2nd Battalion, 22nd Infantry and 1st Brigade, 10th Mountain Division (Light), Fort Drum, New York.

General Austin then returned to Fort Bragg in 1993 and served as Commander, 2d Battalion, 505th Parachute Infantry Regiment, 82d Airborne Division; G-3 82d Airborne Division; and later as the Commander, 3d Brigade, 82d Airborne Division 1997 to 1999. Following duty at Fort Bragg, he was assigned to the Pentagon where he served as Chief, Joint Operations Division, J-3 on the Joint Staff.



More recently, General Austin served as the Assistant Division Commander (Maneuver), 3d Infantry Division (Mechanized), Fort Stewart, Georgia and OPERATION IRAQI FREEDOM, from July 2001 until June 2003; and Commanding General, 10th Mountain Division (Light), Fort Drum, New York from September 2003 until August 2005 with duty as Commander, Combined Joint Task Force-180, OPERATION ENDURING FREEDOM, Afghanistan. He then served as the Chief of Staff, United States Central Command from September 2005 until November 2006 followed by assignment as the Commanding General, XVIII Airborne Corps in December 2006 where he commanded, Multi-National Corps – Iraq, OPERATION IRAQI FREEDOM, from February 2008 until April 2009. He was then assigned to the Pentagon as the Director, Joint Staff from August 2009 to August 2010. General Austin commanded United States Forces – Iraq from September 2010 through the completion of OPERATION NEW DAWN in December 2011.

His military education includes the Infantry Officer Advanced Course, United States Army Infantry School, Fort Benning, Georgia; United States Army Command and General Staff College, Fort Leavenworth, Kansas and United States Army War College, Carlisle Barracks, Pennsylvania.

He holds a Bachelor of Science Degree from the United States Military Academy, a Master's Degree in Education from Auburn University, and a Master's Degree in Business Management from Webster University.

General Austin's awards and decorations include the Defense Distinguished Service Medal (with Three Oak Leaf Clusters), the Distinguished Service Medal (with Oak Leaf Cluster), the Silver Star, the Defense Superior Service Medal (with Oak Leaf Cluster), the Legion of Merit (with Oak Leaf Cluster), the Defense Meritorious Service Medal, the Meritorious Service Medal (with Four Oak Leaf Clusters), the Joint Service Commendation Medal, the Army Commendation Medal (with Six Oak Leaf Clusters), Army Achievement Medal (with Oak Leaf Cluster), Combat Action Badge, Expert Infantryman Badge, Master Parachutist Badge, the Ranger Tab and the Joint Chiefs of Staff Identification Badge.

Vice Chief of Naval Operations**8/22/2011 - Present****Admiral Mark Ferguson**

Following graduation from the U.S. Naval Academy with the Class of 1978, Adm. Ferguson completed nuclear power training prior to entering the fleet as a surface warfare officer.

His afloat assignments include service on board USS *South Carolina* (CGN 37), USS *Fife* (DD 991) and USS *Dwight D. Eisenhower* (CVN 69). He commanded the USS *Benfold* (DDG 65) and Destroyer Squadron 18.

In addition to various staff assignments, he served as a Special Assistant to the Supreme Allied Commander, Europe, in Mons, Belgium. He has also served as the assistant commander, Navy Personnel Command, chief of legislative affairs, and chief of naval personnel.

Ferguson holds a master's degree in computer science from the Naval Postgraduate School and completed a National Security Fellowship at the Harvard Kennedy School. His awards include the Navy Distinguished Service Medal, the Defense Superior Service Medal, and various unit and campaign awards.



Updated: 19 April 2012

General Joseph F. Dunford, Jr.

ASSISTANT COMMANDANT OF THE MARINE CORPS

General Dunford was promoted to General and assumed the duties of Assistant Commandant of the Marine Corps on 23 October 2010. A native of Boston, Massachusetts, General Dunford graduated from St. Michael's College and was commissioned in 1977.

General Dunford's assignments in the operating forces include Platoon and Company Commander, Co K, 3rd Battalion, 1st Marines; Company Commander, Co A, 1st Battalion, 9th Marines; and Company Commander, Co L, 3rd Battalion, 6th Marines. He served as the Operations, Plans, and Training Officer in 2d ANGLICO and the Regimental Executive Officer, 6th Marines. He commanded the 2nd Battalion, 6th Marines and the 5th Marine Regiment. He served as the Chief of Staff, 1st Marine Division.

Other assignments include Aide to the Commanding General, III MEF and a tour in the Officer Assignment Branch, HQMC. He has also served as the Marine Officer Instructor, College of the Holy Cross; as a member of the Commandant's Staff Group; and as the Senior Aide to the Commandant of the Marine Corps. Joint assignments include service as the Executive Assistant to the Vice Chairman, JCS; Chief, Global and Multilateral Affairs Division (J5); and Vice Director for Operations (J3).

As a general officer, he has served as the Assistant Division Commander, 1st Marine Division; the Director, Operations Division, Plans, Policies and Operations, HQMC; and the Deputy Commandant for Plans, Policies and Operations; and most recently as Commanding General, I MEF and Commander, Marine Forces Central Command.

General Dunford is a graduate of the U. S. Army Ranger School, Marine Corps Amphibious Warfare School, and the U. S. Army War College. He holds an M.A. in Government from Georgetown University and an M.A. in International Relations from the Fletcher School of Law and Diplomacy.





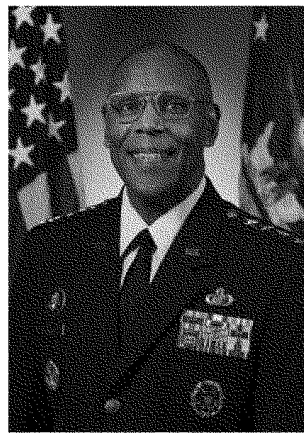
BIOGRAPHY

UNITED STATES AIR FORCE

GENERAL LARRY O. SPENCER

Gen. Larry O. Spencer is Vice Chief of Staff of the U.S. Air Force, Washington, D.C. As Vice Chief, he presides over the Air Staff and serves as a member of the Joint Chiefs of Staff Requirements Oversight Council and Deputy Advisory Working Group. He assists the Chief of Staff with organizing, training, and equipping of 690,000 active-duty, Guard, Reserve and civilian forces serving in the United States and overseas.

General Spencer was born in Washington, D.C. He received his Bachelor of Science degree in industrial engineering technology from Southern Illinois University, Carbondale, and was commissioned through Officer Training School in 1980 as a distinguished graduate. General Spencer has commanded a squadron, group and wing, and he was Vice Commander of the Oklahoma City Air Logistics Center. He was also the first Air Force officer to serve as Assistant Chief of Staff in the White House Military Office. He served as the Comptroller and then Director of Mission Support (A7) at a major command; and held positions within the Air Staff and Secretary of the Air Force. Prior to his current assignment, the general was Director, Force Structure, Resources and Assessment, Joint Staff, the Pentagon, Washington, D.C.



EDUCATION

1979 Bachelor of Science degree in industrial engineering technology, Southern Illinois University, Carbondale
 1980 Distinguished graduate, Officer Training School, Lackland AFB, Texas
 1983 Distinguished graduate, Squadron Officer School, Maxwell AFB, Ala.
 1987 Master of Science degree in business management, Webster College, St. Louis, Mo.
 1990 Marine Corps Command and Staff College, Quantico, Va.
 1994 Distinguished graduate, Master of Science degree in resource strategy, Industrial College of the Armed Forces, National Defense University, Fort Lesley J. McNair, Washington, D.C.
 2005 Logistics Executive Development Seminar, Wright-Patterson AFB, Ohio
 2005 AFMC Senior Leader's Maintenance Course, Wright-Patterson AFB, Ohio
 2005 Logistics Technology, University of North Carolina, Chapel Hill
 2005 Black Sea Region Seminar, John F. Kennedy School of Business, Harvard University, Cambridge, Mass.
 2006 Lean Six Sigma Green Belt Training Program, University of Oklahoma
 2007 Systems Acquisition Management Course, Defense Acquisition University, Fort Belvoir, Va.
 2011 Pinnacle, Joint, Coalition and Interagency Studies, National Defense University, Fort Lesley J. McNair, Washington, D.C.

ASSIGNMENTS

1. February 1980 - July 1982, Chief, Cost Analysis Branch, Headquarters Air Force Reserve, Robins AFB, Ga.

2. July 1982 - August 1986, cost and budget officer, Headquarters U.S. Air Force, Washington, D.C.
3. August 1986 - July 1989, budget officer and executive officer, Headquarters Military Airlift Command, Scott AFB, Ill.
4. July 1989 - June 1990, student, Marine Corps Command and Staff College, Quantico, Va.
5. June 1990 - August 1993, Commander, 4th Comptroller Squadron, Seymour Johnson AFB, N.C.
6. August 1993 - June 1994, student and research fellow, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
7. June 1994 - August 1996, Assistant Chief of Staff, White House Military Office, Washington, D.C.
8. August 1996 - January 1998, Commander, 72nd Support Group, Tinker AFB, Okla.
9. February 1998 - July 1999, Commander, 75th Air Base Wing, Hill AFB, Utah
10. September 1999 - June 2003, Command Comptroller, Headquarters Air Combat Command, Langley AFB, Va.
11. June 2003 - August 2005, Director of Mission Support, Headquarters AFMC, Wright-Patterson AFB, Ohio
12. August 2005 - August 2006, Vice Director, Oklahoma City Air Logistics Center, Tinker AFB, Okla.
13. August 2006 - October 2007, Director, Budget Operations and Personnel, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller, the Pentagon, Washington, D.C.
14. October 2007 - March 2010, Deputy Assistant Secretary for Budget, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller, Headquarters U.S. Air Force, Washington, D.C.
15. April 2010 - July 2012, Director, Force Structure, Resources and Assessments, Joint Staff, the Pentagon, Washington, D.C.
16. July 2012 - present, Vice Chief of Staff of the U.S. Air Force, Washington, D.C.

SUMMARY OF JOINT ASSIGNMENTS

1. June 1994 - August 1996, Assistant Chief of Staff, White House Military Office, Washington, D.C., as a lieutenant colonel
2. April 2010 - July 2012, Director, Force Structure, Resources and Assessments, Joint Staff, the Pentagon, Washington, D.C.

MAJOR AWARDS AND DECORATIONS

Defense Distinguished Service Medal
 Distinguished Service Medal
 Defense Superior Service Medal
 Legion of Merit with two oak leaf clusters
 Meritorious Service Medal with four oak leaf clusters
 Air Force Commendation Medal
 Air Force Achievement Medal
 Air Force Recognition Ribbon with oak leaf cluster

OTHER ACHIEVEMENTS

1982 Air Force Cost Analysis Officer of the Year
 1987 Outstanding Young Man of America
 1988 Budget Officer of the Year, Headquarters Military Airlift Command
 1991 Air Force Comptroller of the Year
 1991 Department of Defense Financial Initiatives Award
 1992 Wing Comptroller of the Year, American Society of Military Comptrollers
 2000 Author of the Year, Office of the Assistant Secretary of the Air Force for Financial Management and Comptroller
 2002 Best Major Command Comptroller in the DOD, ASMC
 2007 Eugene M. Zuckert Management Award

PUBLICATIONS

"Stress and the Workplace," Air Force Comptroller Magazine, July 1990
"Comptroller Wartime Role in Action," Air Force Comptroller Magazine, October 1991
"Managing Base Operating Support Like a Business," Air Force Comptroller Magazine, April 1999
"Take a Walk on the Wild Side: The Thrill of Group and Wing Command," Air Force Comptroller Magazine, October 2000
"The Green Eyeshades of War," Air Force Comptroller Magazine, January 2001

EFFECTIVE DATES OF PROMOTION

Second Lieutenant Feb. 14, 1980

First Lieutenant Feb. 14, 1982
Captain Feb. 14, 1984
Major Dec. 1, 1988
Lieutenant Colonel April 1, 1992
Colonel Jan. 1, 1998
Brigadier General July 1, 2004
Major General Aug. 29, 2007
Lieutenant General April 3, 2010
General July 27, 2012

(Current as of August 2012)

**WITNESS RESPONSES TO QUESTIONS ASKED DURING
THE HEARING**

SEPTEMBER 20, 2012

RESPONSE TO QUESTION SUBMITTED BY MR. BARTLETT

Secretary HALE. Our assessment phase has not been completed and as such, our planning phase has not commenced.

The Department remains hopeful that Congress will halt sequestration through legislation. If it does not, we will be ready to implement sequestration. [See page 14.]

RESPONSE TO QUESTION SUBMITTED BY MR. BROOKS

Secretary HALE. The President put forward comprehensive deficit reduction packages with sufficient deficit reduction to avoid the sequester on two occasions.

First, he submitted a package of proposals in the President's Plan for Economic Growth and Deficit Reduction for consideration by the Joint Committee that included over \$4 trillion in deficit reduction and short term measures for job creation. This package was not required and the Administration took the nearly unprecedented step of drafting legislative language to assist the Joint Committee and expedite consideration of the plan.

Second, in light of the Joint Committee's failure in November of last year, the President used the FY 2013 Budget to again propose a comprehensive deficit reduction agreed to in the BCA. When combined with legislation signed into law last year, the President's Budget proposed over \$4 trillion in balanced deficit reduction. In total, it includes \$2.50 in spending cuts for every \$1 dollar of additional revenue. And the budget was clear in its intent to avoid the sequester.

Now it is Congress's responsibility to enact balanced deficit reduction that the President can sign and avoid the devastating, across the board cuts that would occur under the sequester. [See page 28.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

SEPTEMBER 20, 2012

QUESTIONS SUBMITTED BY MR. FRANKS

Mr. FRANKS. What are the top three risks to national security that you believe will become even greater liabilities if sequestration is not avoided; in what way will they become greater liabilities?

General AUSTIN. In accordance with guidance from the Office of the Secretary of Defense (OSD), the Army is not planning for sequestration. The Office of Management and Budget and OSD continue to assess the impact of the sequestration process on all of the Department of Defense should this event occur.

Our areas of greatest concern are the ability to conduct operations and win decisively; our ability to preserve, protect, and maintain the All Volunteer Force; and a potential hollowing out of the force. Reduction of significant resources will increase the risks of a mismatch between strategy and resources.

First, the Army will seek to minimize the effects of sequestration on training and readiness. However, we would not be able to avoid some cuts in funding for readiness, which would result in immediate reductions in training. Furthermore, the complex operational environment demands that we continue to empower Soldiers and small units with significant investments in technologies and equipment. While the Army has maintained investments in modernization, sequestration cuts would add considerable risks to the execution of many of our programs. These impacts will increase risk to our depth and ability to cover the full range of missions contained in our defense strategy.

Second, sequestration could also impact our ability to preserve, protect, and maintain the all-volunteer force. The Army must sustain the bonds of trust with Soldiers and their Families. The men and women of our Army and their Families need to know with certainty that we will meet our commitments to them. It is important to note that the health of the force and sustaining an all-volunteer Army also depend not just on personnel compensation and benefits, but also on leader and Soldier development programs and a high state of readiness.

Finally, sequestration could put us on a path toward a hollow force. If sequestration occurs, it is imperative that the Army is afforded the necessary flexibility to adjust resources and conduct comprehensive strategic analysis, so we can execute our highest priority missions. We must ensure that we preclude hollowing the Army by maintaining balance in force structure, readiness, modernization efforts, and commitments to the all-volunteer force.

Mr. FRANKS. What are the top three risks to national security that you believe will become even greater liabilities if sequestration is not avoided; in what way will they become greater liabilities?

Admiral FERGUSON. The Department has not begun planning for Sequestration; however, the prescriptive and mechanical nature of sequestration affords limited flexibility to mitigate the impact of these budget reductions. A detailed review directed by OMB would be required to determine the specific impacts to national security from sequestration.

Based on our preliminary review, sequestration will reduce funding for the Navy in FY13 by nearly \$12B dollars. Depending on available transfer authority to consolidate these cuts, sequestration would severely limit the ability to preserve major acquisition or readiness programs. It will also affect our industrial base and the expected service life of our platforms.

The potential reductions will translate over time to a smaller force with less presence, longer response times, and reduced ability to provide surge forces in support of our major operational plans and other emergent needs. Under these reductions, we will be unable to execute the requirements of the current defense strategy.

Mr. FRANKS. What are the top three risks to national security that you believe will become even greater liabilities if sequestration is not avoided; in what way will they become greater liabilities?

General SPENCER. To meet the objectives set forth in the January 2012 Defense Strategic Guidance (DSG), the Air Force must maintain the highest degree of capability and capacity. Imposition of the funding cuts in sequestration will result in long-term sacrifice of our ability to maintain the capability and capacity that is required to meet the challenges inherent in the future security environment. In the

event that sequestration is triggered, the following three risks threaten the Air Force's ability to provide compelling air, space, and cyber capabilities: 1) a decreased ability to maintain readiness and proficiency; 2) increased cost to continue sustaining weapon systems while newer, more capable systems are delayed due to program restructures; and 3) increased cost of next-generation systems procurement due to the renegotiation of cancelled contracts and loss of economies of scale. Without the ability to mitigate some or all of these risks, they will challenge the Air Force's ability to meet our Nation's defense priorities.

Air Force operations and maintenance and investment accounts are stretched to meet current readiness and modernization requirements. Sequestration effects would require the Air Force to cut operational flying hours and an already strained weapon system sustainment program; curtail training; reduce civilian hiring, as well as implement potential furloughs and reductions in forces; reduce daily operations to emphasize mission critical operations; and defer/stop infrastructure investments. It will also negatively impact the Air Force's ability to recapitalize aging weapon systems, requiring the Air Force to continue to sustain legacy weapon systems until newer, more capable systems can be procured.

DSG directs the Air Force stay focused on strategic priorities. Sequestration will have a clear and immediate adverse impact on our ability to maintain force readiness and provide capabilities to the combatant commanders (CCDR). To perform full spectrum operations while avoiding the creation of a "hollow force," readiness must remain a top priority while recapitalizing an aging, smaller force structure. It is imperative that priority modernization programs receive full funding: the F-35 Joint Strike Fighter, the KC-46A Refueling Tanker, and the Long-Range Strike Bomber. Aside from military personnel costs, which have been exempted, sequestration calls for indiscriminate across the board cuts. Without the ability to manage cuts and prioritize among modernization and other programs, sequestration will result in increased costs due to contract termination fees and weapons system per-unit cost increases due to contract re-negotiation.

In summary, the Air Force identifies sequestration's three significant risks to national security as: decreased readiness for the next major contingency; a reduced capability due to the increased costs to maintain legacy systems due to delays in modernization programs that have to be restructured; and reduced funding flexibility for new, non-conventional technology due to increased cost of renegotiated procurement programs. In addition to significantly increasing the Air Force's operational risk, the cuts to procurement programs will prohibitively limit the Air Force's ability to invest in new systems, degrading our ability to regenerate capabilities that might be needed to meet future, unforeseen demands.

Mr. FRANKS. What are the top three risks to national security that you believe will become even greater liabilities if sequestration is not avoided; in what way will they become greater liabilities?

General DUNFORD. The Marine Corps will always seek to optimize the nation's investment in our capabilities, regardless of funding levels. Even under sequestration, the Marine Corps will continue to strive to field the most effective force the nation can afford. The top three risks to the Marine Corps are decreased readiness in the Nation's ready force, a disproportionate impact on modernization funding, and an inability to maintain progress towards a rebalance to the Pacific.

Risk 1. Decreased Readiness in the Nation's Ready Force.

The Marine Corps carries the mandate from the 82d Congress to be "the most ready when our Nation is the least ready." As the Nation's forward engagement and crisis response force, the Marine Corps supports a globally responsive rotational presence in the Pacific Ocean, Indian Ocean, and a transitory presence in the Mediterranean Sea. This forward presence buys time and decision space for national leaders. The Marine Corps is also forward deployed to influence foundational strategic activities and for strategic deterrence. The expeditionary nature of the Marine Corps makes it a good friend to allies and partners and a lethal combined-arms force in the event of an unforeseen crisis.

The foundation of this role is the Marine Corps' five readiness pillars: high-quality people, unit readiness, infrastructure, modernization, and capability and capacity to meet Combatant Commanders' demands. If sequestration were to occur, the Marine Corps risks severe weakening of these pillars to include decreased personnel readiness because of insufficient manning and training resources; significant shortfalls in required modernization and infrastructure investments; and decreased unit readiness due to inadequate resources for training and maintenance. All of these factors will contribute to a steady decline in both capability and capacity to meet combatant commanders' foundational forward presence requirements.

Sequestration could also quickly become a national liability by forcing political leaders to make a difficult choice between rapid maritime capacity (which also con-

tributes to global foundational activities) or reducing capacity in the Asia-Pacific region, an enduring strategic priority. While it is important to prioritize particular global regions, history suggests that the United States must remain globally responsive, anticipating the destabilizing and disruptive security environment throughout the world. The United States requires a Marine Corps that is a ready crisis-response force prepared to respond to the most-likely security challenges—this readiness and responsiveness will be severely impacted by sequestration.

Risk 2. Disproportionate Impact on Modernization Funding.

The decision to exempt military personnel from the FY 2013 sequester would produce a disproportionate impact on the remaining non-exempt funding in the Marine Corps' operations, training, maintenance, and weapons modernization accounts. The Marine Corps is a manpower-intensive force; the majority of its budget is dedicated to military personnel and it has the smallest equipment investment budget of all the Services. As such, exempting manpower from sequestration would have a severe impact on the Marine Corps and would be particularly devastating to non-manpower accounts, especially to modernization and equipment reset efforts. Even though sequestration would be proportionately applied to the Marine Corps, the net effects on the Marine Corps' portfolio of smaller investment programs would have a disproportionate impact on these programs and the Service's overall readiness.

Sequestration would cut the defense budget an additional \$55 billion per year from the levels established by the Budget Control Act. This yields an additional \$492 billion in cuts over the next nine years on top of the \$487 billion reduction already being implemented by DOD. The decision to exempt military personnel would impose dramatic and disproportionate cuts across all other appropriations—procurement, research and development, military construction, and operations and maintenance would each be cut by approximately 9.4 percent.

Marine Corps programs, by nature, are streamlined to achieve maximum effect for the taxpayer, and have little margin for large swings in funding levels. Thus, sequestration would cause the Marine Corps to cancel or delay many small modernization programs which are critical in ensuring our ability to equip our individual Marines for their warfare specialties. A secondary impact would be a delay in resetting equipment after a decade of combat, forcing Marines to train with obsolete or degraded equipment, in smaller quantities, for an extended period. The impact of sequestration to operations and maintenance funding would be a reduction in Marine Corps forward presence and training activities. Reset efforts would be slowed, resulting in war-weary equipment not getting the maintenance required to continue the mission. Units training at home station would have reduced training ammunition, fewer vehicle hours, degraded aviation support and decreased communications support.

As military personnel are exempted from the cuts, the impacts to the other pillars of readiness would be dramatic and unquestionably lead to a hollowing of the force. The Marine Corps would be required to dedicate a significant portion of the budget to paying for manpower, yet would lack sufficient funding to properly train and equip this force. In short, this would result in a high degree of risk and a "hollow force."

Risk 3. Inability to Maintain Progress Toward a Rebalance to the Pacific.

The Marine Corps is in the process of rebalancing to the Pacific after ten years of warfare in Iraq and Afghanistan; this effort seeks to strategically balance capabilities in Hawaii, Guam, Japan and Australia so that Marines can train, exercise and operate with allies and partners and simultaneously have the ability to respond to crises across the Pacific region. Sequestration will exacerbate delays in Guam construction, which in turn will increase the time required to reduce the Marine Corps' presence on Okinawa and slow the rebalancing effort.

Forward presence builds trust that cannot be surged when conflict looms. With each delay in the Marine Corps' rebalance to the Pacific region, allies and potential partners must make strategic choices regarding their relationships with potential competitors in their home region. Opportunities for collective partnerships are stressed and relatively fleeting in these conditions. Reduced forward presence signals a reduced U.S. commitment to security partners in the Pacific, with a potentially detrimental effect to America's strategic global interests.

QUESTIONS SUBMITTED BY MS. TSONGAS

Ms. TSONGAS. Some have proposed a 3-month delay of the automatic cuts to defense spending. If the sequester eventually does take effect, but not until April 2, how would the DOD absorb a potential 10 percent reduction with only 6 months left in the fiscal year?

Secretary HALE. By law, it would have to be absorbed within any unobligated balances from prior years and FY 2012 funds. This would pose some problems for the Department of Defense.

Ms. TSONGAS. Although under sequestration each program is intended to be cut by the same percentage, some programs could be disrupted more than others, depending on size and maturity. Can each of you comment on the potential scale of Nunn-McCurdy breaches which programs being developed by each of your services could be facing were sequestration to go forward?

General AUSTIN. Since we are not sure how much flexibility we will have to blunt the negative consequences of sequestration through reprogramming or other actions, at this time it is impossible to predict with any specificity the number, if any, of Nunn-McCurdy breaches that may occur.

Ms. TSONGAS. Although under sequestration each program is intended to be cut by the same percentage, some programs could be disrupted more than others, depending on size and maturity. Can each of you comment on the potential scale of Nunn-McCurdy breaches which programs being developed by each of your services could be facing were sequestration to go forward?

Admiral FERGUSON. If sequestration is triggered, automatic percentage cuts will be applied without regard to strategy, importance, or priorities, resulting in adverse impact to operations and many contracts within the Department. This could result in a Nunn-McCurdy breach if an acquisition program's funding execution is limited to the extent that production level becomes cost prohibitive and/or significantly delayed. However, a detailed review of each program, or family of programs, would be required to determine the specific impact since each contract contains unique and complex provisions, dates, and pricing. We have not completed that review. At this point, the Department has not begun planning for sequestration and any planning effort will be government-wide as guided by the Office of Management and Budget.

Ms. TSONGAS. Although under sequestration each program is intended to be cut by the same percentage, some programs could be disrupted more than others, depending on size and maturity. Can each of you comment on the potential scale of Nunn-McCurdy breaches which programs being developed by each of your services could be facing were sequestration to go forward?

General SPENCER. With regard to modernization impacts, sequestration would drive an additional reduction above the first phase of the Budget Control Act reductions to the Air Force Fiscal Year 2013 budget request. The proposed budget is a balanced and complete package with no margin of error. Programs would need to be restructured, reduced, and/or terminated. All investment accounts would be impacted, including our high-priority Acquisition Category I modernization programs such as MQ-9, Joint Strike Fighter, and KC-46A. The Air Force has not conducted an assessment on how a 9.4 percent cut will affect each Air Force acquisition program, therefore, we do not know which programs would face Nunn-McCurdy breaches.

Ms. TSONGAS. Although under sequestration each program is intended to be cut by the same percentage, some programs could be disrupted more than others, depending on size and maturity. Can each of you comment on the potential scale of Nunn-McCurdy breaches which programs being developed by each of your services could be facing were sequestration to go forward?

General DUNFORD. Sequestration will impact all of our investment programs through increased unit costs, schedule delays, and slowing of necessary research and development. If sequestration occurs, the Ground/Air Task Order Radar (G/ATOR) program will likely trigger a Nunn-McCurdy breach. The potential scale of such a breach includes a cost growth of up to 20% of the Program Acquisition Unit Cost and a delay into Low Rate Initial Production from FY13 to FY14. The G/ATOR's production transition, including timely semiconductor technology insertion, will also be significantly impacted leading to lost cost savings and misalignment of funding associated with a shift in schedule.