

# DEFENSE DEPARTMENT BUDGET PRIORITIES FOR FISCAL YEAR 2002

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## HEARING

BEFORE THE

### COMMITTEE ON THE BUDGET

### HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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HEARING HELD IN WASHINGTON, DC, JULY 11, 2001

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## **DEFENSE DEPARTMENT BUDGET PRIORITIES FOR FISCAL YEAR 2002**

**WEDNESDAY, JULY 11, 2001**

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

The committee met, pursuant to call, at 10:04 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Hoekstra, Hilleary, Thornberry, Collins, Fletcher, Hastings, Portman, LaHood, Granger, Schrock, Culberson, Crenshaw, Kirk, Spratt, McDermott, Bentsen, Price, Clement, Moran, Hooley, McCarthy, Moore, Honda, and Matheson.

Chairman NUSSLE. Good morning. The Budget Committee will come to order.

Today we are continuing a series of hearings reviewing the President's budget. Today is a hearing on the Pentagon budget amendment, reviewing the administration's additional funding request for fiscal year 2002. Today we are honored with the presence of Paul Wolfowitz, Deputy Secretary of Defense, accompanied by Under Secretary of Defense Zakheim.

Am I pronouncing that correctly?

Mr. ZAKHEIM. Zakheim.

Chairman NUSSLE. Zakheim. I apologize.

Thank you very much, both of you, for coming today.

Today's hearing will help us understand how a very vital component of the administration's agenda and a matter that is the government's first constitutional duty and responsibility fits into budget. After all, defense is half of all discretionary spending. At this point, it is appropriate to review what the budget resolution provided for defense and to place in context this latest request from the Department of Defense.

The budget resolution recognized that the United States military has suffered from nearly a decade of over-deployments, confused priorities and underfunding, that under the previous administration increases were needed to correct some very urgent problems. The resolution provided basically three things with regard to defense.

First, it accommodated a \$6.5 billion supplemental appropriation for fiscal year 2002, nearly all of which is to address the immediate defense readiness issues. The supplemental recently passed the House and, of course, is now, currently, under consideration in the Senate.

Secondly, it furnished a \$14.5 billion defense increase for fiscal year 2002, consistent with the President's request. As described in the administration's initial budget submission, "A Blueprint for New Beginnings," quote, "This funding increase will allow DOD to address its most pressing priorities. These include relieving some of the housing problems our military troops and their families are currently facing, addressing the need for increased military pay and undertaking a thorough review of research and development programs to determine the most promising investments for the future," unquote.

Finally, the third provision in the budget accommodates the long-term modernization, funding the defense of the future. This would be based on the Pentagon's Strategic Review. Again, "A Blueprint for a New Beginning" said, quote, "The nation's defense strategy should drive decisions on defense resources, not the other way around." Let me repeat that, "the nation's defense strategy should drive decisions on defense resources, not the other way around." I believe the President in his speech to the Congress suggested that the funding should follow the strategy and not the other way around.

The budget resolution provided a reserve fund to accommodate these needs, and in the House, the amount for use for defense from that fund was to be determined by the chairman of this committee.

Having supported two of the Pentagon's funding requests, members of the Budget Committee might have expected the third to consist of start-up financing for the long-range defense modernization that was set as a goal and promised. But 75 percent of the administration's latest budget request for 2002, this latest amendment of \$18.4 billion defense needs, is not for modernization but for security operations.

A substantial part of the amendment funds items such as infrastructure, base operations support, depot maintenance, things which ought to have been part of the original request since they support ongoing operations rather than transformation strategy. And the administration's division review on which the modernization funding plan was to be based is not complete and will not be complete until this summer at the earliest, most likely this fall.

Even in isolation, the \$18.4 billion is a very significant sum. It is larger than the entire agricultural appropriations bill, as an example; and, rightfully so, more than twice Canada's entire annual defense budget—just this amendment itself.

The need to review the request is clear. The budget resolution for 2002 created the reserve funds. Accordingly, the Budget Committee chairman, I believe, has a fiduciary responsibility to provide oversight in this area. I cannot simply open up reserve funds and disburse money without rigorous justification and an orderly oversight process. Yet, the Pentagon's request for new funds has come even before the supplemental has finished, not to mention its own Strategic Review.

Finally, it is a matter of future funding. Both the administration and Congress agree that the days of deficit financing are over. But fully understanding the needs of our nation's servicemen and women and in complete agreement on the requirement of a transformation strategy, we must also have the assurance that our hard-

won fiscal discipline will be maintained into the future in the context of a long-range budget plan. And today we look forward to that assurance from our witnesses.

Let me say, finally, a couple of things about what I view as some fairly harsh criticism on my part. Number one, I did it because I was encouraged by the President's goal determining that the strategy would come first, that a review of the Pentagon and a review of our national defense needs would come first, before additional funds would be requested or before an additional budget request would be made, number one.

Number two, at the same time, I knew it was going to be a very difficult—I was about to say almost impossible—task to do it within the time frame set. The President suggested during a speech to the Congress—he looked down, as I remember, at the Secretary of Defense and suggested he needed to get that done within 6 months, which at that time counted to about today. At the time, I think everyone thought while it was a worthy goal, a very difficult one.

The witnesses that we have here today have been doing that work. One, as I understand, was not confirmed until March; the other was not confirmed until May. Try and do a 6-month review when you are not even on the job.

I am not suggesting the task, the goal was one that was able to be completed within the time frame allotted, given the circumstances that they found at the Pentagon, let alone given the time frame after confirmation. But we need to know what the new process is going to be. If, in fact, a new deadline has been set, and if a new timetable is to be adhered to, we need to know what that is.

There is a need, as I said in my opening statement, not only to put defense as a priority but as our number one priority. It is our first constitutional responsibility. We don't have Medicare, we don't have Social Security, we don't have tax cuts, we don't have anything if we can't defend our nation, and we can't preserve freedom into the future. And so this is probably one of the most important topics that we can discuss.

I also understand why the Secretary of Defense would not be here personally today to discuss this. Having watched the hearing just yesterday over in the Senate where they were discussing the 2002 budget request, it digressed into an almost half-day hearing on Vieques and the shelling of Puerto Rico. You can see that the macro decisions of our national defense and national security are mired in special topics, special projects, special district initiatives, State initiatives for particular Senators and Representatives.

That having been said, Congress has a responsibility in this as well. I am not suggesting that our national review—Strategic Review is to be laid only at the feet of our administration. We in Congress have the first and foremost responsibility under Article 1 to make these decisions. And while the Secretary is not prepared to come here today to either propose or defend what that new strategy would be—and I can understand that—I would suggest to you publicly for the record today that before the 2003 request is made, before next year's budget is going to be enacted, the Secretary needs to come forward and needs to give us an update on what that Strategic Review has accomplished and how that has been incorporated

into the administration's and the Department of Defense's 2003 request.

That having been said, we have a lot of work to do today, a lot of questions, I know, from members discussing, hopefully, not Vieques, but hopefully talking about the macro issues of our national defense. As I said, it is half our budget. It deserves the oversight and attention of this committee. And that is the reason for the hearing today.

At this time I would like to recognize a friend and colleague, John Spratt, for any opening remarks he would make.

Mr. SPRATT. Thank you, Mr. Chairman. Thank you for your comments. I will readily stipulate, if you wish, that we won't discuss Vieques today. I don't think we need to get into the minutia of the defense budget or even the major programs. We need to be talking mainly about the top line and how we fit it into the overall budget.

What the defense department has done is split a request—first of all, a placeholder request for, essentially, the Clinton-Cohen budget. It is only about \$100 million more than what Clinton and Cohen had provided—\$310 billion for DOD, another \$13 billion for the Department of Energy for the nuclear program.

Now the Pentagon has come forward with another request, which we anticipated at some point; we didn't know how much it would be, but it turns out it is \$18.4 billion. That means, if it is provided—about a 7 percent real increase, about an 11 percent nominal increase—it is a substantial increase in the budget for next year.

Part of the problem I think we have got, and I think you have got, is that \$18.4 billion is not really what you were seeking. You were seeking more and you expect to get more in the future. Every time, Mr. Wolfowitz, that we have met, I have presented you with a chart. And each time it has been a different chart, because the numbers won't sit still, but this is the predicament we found ourselves in.

The budget for this year is what is done; thus, nuclear is shown in the first upper half of this chart that I have before you, and I have given you a copy of it so that you can see it. I can barely see what we have got on this chart from where I sit.

Basically, if you look across the bottom line, the so-called "contingency reserve," the money left over after you account for all the puts and takes in the budget thus far—the tax cut, backing out the Social Security surplus, backing out the Medicare surplus, this year, next year, 2002—there will be a \$25 billion bottom line according to the current estimates of revenues. If there is any deterioration in the bottom line, along the lines of what Mr. Lindsey indicated just a couple of weeks ago, then that number—it will evaporate. And the only reason it is there, as we know, there is an artificial timing shift, the corporate tax payment ordinarily due on September 15th will instead, under the Tax Act, be due on October 1st. Therefore, it is shifted into 2002.

But once you get beyond that gimmick, that tax shift, the bottom line is negative in 2003–04, it is a billion dollars in 2005, \$11 billion in 2006, \$21 billion in 2007. You've got to get all the way out to 2008 before that bottom line, that so-called "contingency re-

serve," is adequate to absorb the request that you have this year adjusted for inflation.

Now, we are taking your calculation of outlays. Frankly, we suspect that CBO's will be a bit higher, but we are taking your numbers for outlays. In every year, as you can see in the next subsection, subsequent action in every year from 2003 through \$2007 there is a deficit, which means in those years, unless we make major adjustments in the out-year budget, you are spending Medicare Trust Fund money. And we have all agreed in the House, I think, Democrats and Republicans, that we are not going to do that.

The administration suggested that this would be permissible for various reasons, and the chairman, after hearing them say this repeatedly under our cross-examination, took our position and said, no, we are not going to spend the Medicare Trust Fund money. If not, to fit the \$18.4 billion into this budget, we have got to do some significant "shimming," as we say in South Carolina. That is just for the \$18.4 billion.

When I first presented this chart to Mr. Rumsfeld over one of our breakfast meetings, it had a bigger number for defense. And we assumed, basically, that you would—initially would come in for a request for \$20 billion, and each year that would staircase upwards by \$5 billion until it reached \$50 billion, and then it would increase with the rate of inflation.

When I presented that to Mr. Rumsfeld, he shook his head vigorously and said, No, no, no, you are way too low. So I infer from that body language and inferential indications I have got from you, the \$18.4 is for starters; you are really expecting something about twice that large.

Indeed, when Mr. Rumsfeld was asked, "How much more will you be seeking in 2003—if your request for 2002 is the 18.4 addition you are seeking now, how much more will you ask for in 2003." He put the number at around \$347 billion. You are 329 there; 347 would mean you need another \$18 billion.

I don't know if these numbers are correct, where it is coming from, and if the top line deteriorates along the lines that Dr. Lindsey indicated recently, we have got a problem. That is why we are here today, because we are supposed to fit all of these big macro numbers into a budget that has a positive bottom line that stays out of the Medicare Trust Fund and stays out of the Social Security Trust Fund surplus as well.

There is an important point I think, too, for you, if you are not going to get, or are unlikely to get because of this budget scenario, the increment that you expect in 2003. If the \$18 billion you are getting now, plus inflation, is about all you can reasonably expect in the next few years, I think you probably need to rethink your budget request for 2002, because there are major efforts started. Spending \$3 billion more on ballistic missile defense, a nearly 60 percent increase, that may not be sustainable in the outyears if that \$18 billion addition on top of the \$18 billion you are seeking this year can't be provided.

So this is a serious hearing. We come here in good faith. I am a pro-defense Democrat. I want to see your \$18 billion funded this year. But I have to tell you it is going to be hard to fit in this budg-

et, and I don't know where the addition is coming from in the future.

Chairman NUSSLE. I ask unanimous consent that all members be allowed to place in the record an opening statement at this point. Without objection, so ordered.

[The information referred to follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF IOWA

The committee will come to order. Today's hearing will focus on the President's Defense Review, the Department of Defense budget request for fiscal year 2002, and the longer-term outlook for defense spending. Our witness will be the Honorable Paul Wolfowitz, Deputy Secretary of Defense. Appearing with Secretary Wolfowitz will be Dov Zakheim, the Under Secretary of Defense and Chief Financial Officer. Good morning, gentlemen.

Today's hearing will help us understand how a vital component of the administration's agenda and a matter that is government's first Constitutional responsibility fits into the budget—after all, defense is half of all discretionary spending. At this point, it is appropriate to review what the budget resolution provided for defense, and to place in context the latest request from the Department of Defense.

The budget resolution recognized that the United States military had suffered from nearly a decade of overdeployments, confused priorities, and underfunding under the previous administration, and that immediate funding increases were needed to correct the most urgent problems. The resolution provided three things:

First, it provided room for a \$6.5-billion supplemental appropriation for fiscal year 2001, nearly all of which was to address urgent defense readiness issues. The supplemental recently passed the House and is under consideration in the Senate.

Second, it added a \$14.5-billion defense increase for fiscal year 2002, consistent with the President's request. As described in the administration's initial budget submission, "A Blueprint for New Beginnings": "This funding increase will allow DOD to address its most pressing priorities. These include relieving some of the housing problems our military troops and their families are currently facing, addressing the need for increased military pay, and undertaking a thorough review of research and development programs to determine the most promising investments for the future."

Finally, it saw to the need for long-term modernization. This modernization would be built upon the Pentagon's strategic review. "A Blueprint for New Beginnings" said, "The nation's defense strategy should drive decisions on defense resources, not the other way around." The budget resolution provided a reserve fund to accommodate these needs. In the House, the amount to be used for defense from that fund is to be determined by the Chairman of this Committee.

Having supported two of the Pentagon's funding requests, members of the Budget Committee might have expected the third to consist of initial financing of the long-range defense modernization that was promised. But 75 percent of the administration's latest \$18.4-billion defense proposal is not for modernization; it is for current operations. A substantial part of the amendment funds items such as infrastructure, base operations support, and depot maintenance, things which ought to have been in the original request, since they support ongoing operations rather than a transformation strategy. And the administration's Defense Review, on which modernization funding plan was to be based, is not yet complete and will not be until later this summer at the earliest.

Even in isolation, \$18.4 billion is a significant sum. It is larger than the entire agriculture appropriations bill, and more than twice Canada's entire annual defense budget. The need to review this request is clear.

The budget resolution for 2002 created the reserve funds. Accordingly, the Budget Committee Chairman has a fiduciary responsibility. He cannot simply open up reserve funds and disburse money without a rigorous justification and an orderly oversight process. Yet the Pentagon's request for new funds has come even before the supplemental is finished, not to mention its own Strategic Review.

Finally, there is the matter of future funding. Both the administration and Congress agree that the days of deficit financing are over. But fully understanding the needs of our nation's service men and women, and in complete agreement on the requirement of a transformation strategy, we must also have assurance that our hard-won fiscal discipline will be maintained into the future in the context of a long-range budget plan. Today, we will look for that assurance from our witness.

PREPARED STATEMENT OF HON. JIM MATHESON, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF UTAH

I would like to thank Chairman Nussle and Ranking Member Spratt for holding this hearing today to gain further insight from the Department of Defense regarding DOD budget priorities for Fiscal Year 2002. During the debate on the budget resolution, many concerns were raised regarding the "placeholder" that was used as a reference for allocating funds for DOD in FY 20002. Members of this committee offered amendments during consideration of the budget resolution to account for known shortfalls in the DOD health program. Unfortunately, these efforts failed in committee and the administration subsequently had to submit a supplemental request to fund these needs.

During the Budget Committee mark-up, I said that there was little room for error in the budget resolution this committee approved, and now we are seeing the consequences. Along with my colleagues in the Blue Dog Coalition, I offered a budget alternative that put additional resources in the budget for defense rather than using a placeholder that relied on the surplus projections continuing to hold. With recent reports indicating that their budget surpluses are in jeopardy, we have some tough choices to make in order to ensure that we do not dip into the Social Security and Medicare surpluses in order to meet our nation's defense needs. I stand ready to work with the Chairman, Mr. Spratt and other members of this committee to find a way to meet our defense needs without jeopardizing our committee to protect the Social Security and Medicare trust funds.

Chairman NUSSLE. At this point, we welcome to the committee Deputy Secretary of Defense Paul Wolfowitz, and we look forward to your testimony. Your written testimony will be in the record at this point, and you may proceed as you would like, summarizing your testimony.

Again, as I said in my opening—my opening remarks, you have been asked to do a huge task, maybe one that is close to an impossible task, but I think we have the right person for the job. I have had a chance to review some of your background, had a chance to visit with you briefly yesterday. This is your third tour of duty, and in a similar position, so you've been there, done that. I think you have got two T-shirts; now you are working on your third, as they say.

We welcome you before the committee to give us an update on the President's request for the defense budget for 2002.

**STATEMENT OF PAUL WOLFOWITZ, DEPUTY SECRETARY, U.S.  
DEPARTMENT OF DEFENSE**

Mr. WOLFOWITZ. Thank you, Mr. Chairman, Congressman Spratt, members of this committee. I appreciate this opportunity to come here to discuss the President's 2002 amended budget request. I have with me the Under Secretary of Defense and Comptroller, Mr. Dov Zakheim. It is very nice to have some capable help, although I must say, we wish we had gotten him confirmed earlier than May.

I will submit my testimony for the record and just try to summarize it here briefly. But I do want to make a number of points because I think it is important. You have raised some very important questions, Mr. Chairman.

So have you, Mr. Spratt.

The U.S. Armed Forces today are the world's best-trained, best-equipped, and most powerful in the world. However, we are not in such great shape. We spent much of the 1990's living off the investments of the 1980's. We allowed our military capabilities to be slowly degraded as we overused a shrinking and underfunded force.

If I could just show you this chart, Mr. Chairman, which shows that over the decade of the 1990's, while the force came down in size by 30 percent, the average number of operations we sent them on on a monthly or yearly basis went up 105 percent. Some of those operations have names we all know, like Haiti and Kosovo and Bosnia and Iraq. Some of these will continue for a long time. There are many smaller ones that we don't even read about, maybe only temporary.

To their enormous credit, America's dedicated servicemen and women dutifully did more with less. Many in Congress and many on this committee worked hard to give those service people more resources.

Notwithstanding those efforts, that policy of overusing and underfunding the force has begun to take its toll. It has harmed our readiness to meet current threats, and it is undermining our ability to prepare for the threats of the future.

As you said, Mr. Chairman, when President Bush took office, he asked the Defense Department to undertake a comprehensive review of the condition and direction of America's Armed Forces. He asked us to engage our brains before we opened the taxpayers' wallets. And so Secretary Rumsfeld initiated a broad strategy review soon after taking office.

We have completed the first stage of that strategy review, and that forms the basis for our 2002 budget request. We are now starting the second stage, which we have merged into the congressionally mandated Quadrennial Defense Review (QDR), and that, Mr. Chairman, will form the basis for the 2003 budget in the new 5-year defense plan.

Let me say just briefly a little bit about that second stage, which we are in the middle of right now, before I come back to the 2002 budget.

From the completion of the initial strategy review, we have drawn two conclusions. The first is that the security environment America will face in the decades ahead is likely to be much more dangerous than the one we faced in the decade just past. The other is that the condition of our force today is even worse than we had previously expected.

On that chart that we have shown to you, Mr. Chairman, there is just one example of the kinds of things that happen when, year after year, you defer maintenance, you defer replacement of things. On the left hand picture, you see a \$500 grate that should have been fixed—would have cost us \$500 to fix it. Instead, because it was broken, a valuable airplane crashed into it, and we ended up with costs of \$165,000 to fix the plane. That kind of example proliferates around our force.

[The chart referred to follows:]



## F-15 Damage At Langley AFB

U.S. AIR FORCE

### Problem

- Concrete box drains, drainage grates, & catch basins on ramp are 40+ years-old & failing, creating dangerous hazards & FOD for aircraft

### Impact

- Collapsed grate on 20 Nov 98 caused \$185K damage to F-15C
- Continuous work-arounds...aircraft forced to taxi/tow around grates



### Solution

- Repair/reinforce 14 concrete box drains/catch basins: \$210K
- Inspect 80 more drain boxes with NDI; determine repair scope & cost
- Potential ACC Order of Magnitude**
- Approximately 1,000 box drains/grates/catch basins on airfields command-wide
- Extent of deterioration: *varied*
- Estimated cost to correct: \$0.7-\$1.1M

We discussed with you yesterday, Mr. Chairman, the kinds of problems we have with military housing. Some of the housing is first-rate, but when you delay, year after year, repairing it, you have paint peeling in places, you have curling floors. If I might submit for the record—this is an example from just one service on living and working conditions in the U.S. Army today. It is not what our service people deserve.

Those preliminary conclusions have formed the basis of the 2002 budget and a starting point for preparing the Quadrennial Defense Review and the 2003 budget. We have done that with a rather extraordinary series of discussions among the Secretary, the Chairman of the Joint Chiefs, the Chiefs of the services and the service secretaries and under secretaries—in my experience in three tours at the Pentagon, I have never seen anything quite like that in terms of high-level discussions without staff present—and that provided the guidance going into this QDR and 2003 strategy review.

Of the issues that group has identified, the most important, I think, is the need to assess what our forces can do on the basis of a broad assessment of risk. In the past, we have tended to evaluate risk exclusively on the basis of our ability to execute existing war plans, and those war plans were built around, by now familiar, two major regional contingencies.

That focus, we concluded, while important, is much too narrow; other aspects of the force posture must be taken into account. And in particular, there are two additional dimensions of risk that must be considered and will be considered in this year's Quadrennial Defense Review which, as I say, is the second stage and final stage of our strategy review.

These are, first, the risks imposed by the ongoing use of our forces in peacetime, that 105 percent increase that we kind of backed into without thinking about it; and secondly, the risks of

not being prepared for emerging threats in the future. Because one of the problems when we use the force so heavily on a day-to-day basis is that it is very hard either to find the funds or, frankly, the intellectual resources to devote to where we will be 10 years from now. Our intention is that, by the end of the QDR, we will give more precise advice to the President and Congress on how to balance those three different needs and risks and present a new defense posture that is better suited for ourselves and for future generations.

These final results of our strategy review, Mr. Chairman, will be incorporated into the fiscal year 2003 budget and the fiscal year 2003 to 2007 FYDP.

While the first stage of our review is focused on the nature of threats and the condition of the existing forces we have, this stage will help us decide the exact kinds of forces we need to build; but it is clear already that we must urgently begin to repair the damage inflicted by the complacency of the 1990's. The 2002 amended budget starts down a path toward transformation by undertaking urgently needed repairs to our existing force and by investing now in some of the transformational technologies and R&D that we will need for the 21st century force.

Let me just briefly touch on those two aspects, using the 2001 enacted budget of \$296.3 billion as a baseline. The President, earlier this year, issued a blueprint budget that outlined a 2002 baseline of \$310.5 billion. That included a \$4.4 billion real increase to cover presidential initiatives for military pay, military housing, and research and development including missile defense. The request before you, proposes to raise that investment by \$18.4 billion to a total of \$328.9 billion.

As I explained, the first stage of the strategy review has defined where we are today and outlined in broad terms the direction we must go to build a 21st century force. The QDR, the next and final stage of the strategy review, will tell us which mountain we need to climb and how high it stands, whether it is 6,000 feet or 12,000 feet high or perhaps even higher.

But one thing is for certain, Mr. Chairman, we know from our first stage of review that we are starting in a hole. What the 2002 budget does for us is to begin the work of repairing the present force and building the force of the 21st century.

Consider DOD's aging infrastructure, which the 2002 budget begins to address. In the private sector—we have handed out some slides indicating the condition of our infrastructure in a number of places, including that specific example of the F-15s.

In the private sector, Mr. Chairman, the standard for replacing facilities is to replace your whole infrastructure every 57 years. If that sounds slow, well, we are a little slower; our target is 67 years, but under last year's budget, we were replacing facilities at an average rate of 192 years. That is simply unacceptable. It is a sign of how we paid for a high level of current operations without budgeting for them, we paid out of maintenance. The 2002 budget proposes to increase funding for facilities by \$2 billion to \$5.9 billion.

Even substantial increases only gets us to an average replacement rate of about 98 years. In order to get down to acceptable lev-

els, we need not simply more money, but we are going to need to come to the Congress for some way to get rid of excess infrastructure that we don't need.

For example, if we could reduce our facilities by roughly 20, 25 percent, which are estimates of excess, we could get the replacement rate with its current budget down to 76 years, much closer to something that is acceptable.

Our people are the key to everything that we do, and this budget will help put us on the path to recovery for them in key areas including military pay, housing, readiness training, and health care—quality-of-life investments that tell our men and women in uniform that the nation truly values their service and sacrifice.

But the 2002 budget, Mr. Chairman, does move beyond simply repairing the present force. It takes a major step toward transformation, with significant investment in new technologies. It boosts RDT&E by 14 percent in real terms from \$41 billion in 2001 to \$47.4 billion in 2002. It invests heavily in efforts to deter and defend against emerging threats, to dissuade potential adversaries from continuing to invest in these dangerous capabilities. The budget advances the President's commitment to build effective missile defenses for our territories, for our allies and deployed forces, against threats of all ranges, based on the best available technologies deployed at the earliest possible date.

The chart, Mr. Chairman, that we have attached to the testimony gives some indication of the wide range of programs that we propose to invest in with this budget, some \$13 billion on top of missile defense, that we identify as transformational. There are also a number of initiatives that address streamlining operations and saving us money. Many of these will require congressional support.

The Peacekeeper deactivation is one such example. In the case of Peacekeeper, we will need the support of Congress to remove current restrictions that will allow us to get rid of a nuclear system that we no longer need that is a relic of the cold war that we have been continuing to carry on our budget.

For many important reforms, reducing our excess infrastructure, reallocating functions, and giving the Department the ability to manage efficiently, we will need your help.

One of the Secretary's top priorities is to transform the system of financial management. We recognize that we need to make fundamental changes that will save money, and we assure you, the Members of Congress, and also the American people, that we are allocating and using defense numbers properly and wisely.

We are committed to operating more efficiently and thereby saving money in our daily operations. Indeed, I might say that is a major goal of our efforts now, not only in the Quadrennial Defense Review, but in the new Business Initiatives Council that the Secretary has formed, manned by our three outstanding service secretaries, who, I am sorry to say, were not confirmed until last month, but who are already hard at work, finding ways that we can pay for some of what we need out of what we have, instead of simply asking for more money.

Finally and very importantly, this 2002 budget seeks to apply the principle of honest assessments of what it will take to do the job,

to do realistic costing of areas such as flying hours, procurement and base operations, and to get away from the dysfunctional process of deliberately underbudgeting in anticipation of so-called "emergency supplementals." It is our firm intent that, with the 2001 supplemental, we will put behind us the kind of supplemental budgeting that became a dysfunctional process not based on true estimates of anticipated needs.

The increase in the 2002 budget is a significant, historic increase. It gets us started on the road to rehabilitation and transformation. But as we think about the issues of affordability that you raised, Mr. Chairman, and Congressman Spratt raised, I am reminded of another point in our history when there was a challenge to make a case for increased defense spending.

In 1950, General Omar Bradley urged President Truman to spend at least \$18 billion on defense. That was after he had scrubbed down the JCS estimate that we needed \$23 billion, and the services were even higher at \$30 billion. But the President said \$18 billion was too much, \$15 billion was all we could afford. I might note that in 1950 that represented 5 percent of the GDP. That was all we could afford.

Six months later we were suddenly in a war in Korea. Just as suddenly, we found we had no choice but to budget some \$48 billion, a 300 percent increase. How much better it would have been to have made the investment earlier. Had we done so, Dean Acheson might not have been forced to define Korea outside the defense perimeter of the United States on the grounds that we did not have the forces to defend it.

Historically, we have spent an average of about 8 percent of our GDP on defense, in large part because we have not spent enough in peacetime to prepare for and deter war. Today, we are more in the range of 3 percent. But I believe it would be reckless to press our luck or gamble with our children's future.

To say that we can't afford an insurance policy of roughly 3.5 percent of GDP today to deter the adversaries of tomorrow, underpin our prosperity, and, by extension, peace and stability around the globe, just doesn't make sense to me. If history is our guide, it suggests strongly that we are much wiser to pay the premium now than to pay in blood and treasure later.

Much remains to be done, and we know that fixing and transforming our force is a joint responsibility, one that will require close partnership between Congress and the executive branch.

We look forward to working with you, Mr. Chairman, with your committee, with the entire Congress, to rehabilitate today's force and to build the force of the future. We earnestly seek your support in this important and noble mission. Thank you.

[The prepared statement of Mr. Wolfowitz follows:]

PREPARED STATEMENT OF HON. PAUL WOLFOWITZ, DEPUTY SECRETARY, U.S.  
DEPARTMENT OF DEFENSE

Mr. Chairman, members of the Committee, thank you for this opportunity to discuss the President's 2002 amended budget for the Department of Defense.

The U.S. Armed Forces are the world's best-trained, best-equipped, most powerful military force in the world. They provide the security and stability that make peace and prosperity possible across the world. Indeed, no force on earth can do what they do—from the speed with which they can mobilize, to their effectiveness once they are in theater.

The preeminence of our military forces may lead some to ask, in this moment of peace, why do we need such an increase in the U.S. defense budget? The answer is simple, how long that peace lasts will almost certainly depend on our ability to defeat any adversary and maintain the unparalleled capabilities of the U.S. Armed Forces.

However, we spent much of the 1990's living off the investments of the 1980's. We allowed our military capabilities to be slowly degraded as we overused a shrinking and underfunded force. To their enormous credit, America's dedicated servicemen and women dutifully did more with less—putting off needed investment in training, infrastructure, maintenance, and procurement to keep up with a proliferation of missions.

Many in Congress—and on this Committee—worked hard to give them more resources. But notwithstanding those efforts, an imprudent policy of overworking and underfunding our troops continued—a policy that has now, not surprisingly, begun to take its toll. It has harmed the morale of our forces. It has harmed their readiness to meet current threats. And it is undermining our ability to prepare for the threats of the future—because defense decisions and investments can sometimes take 10 to 15 years to reach fruition, especially when it comes to developing and fielding innovative new weapons systems.

With this situation in mind, when President Bush took office, he asked the Defense Department to undertake a comprehensive review of the condition of America's forces. He asked us to engage our brains before we opened our wallets, and so Secretary Rumsfeld initiated a broad strategy review soon after he took office. We have completed the first stage of the strategy review and that forms the basis for the '02 budget request. We are now starting the second stage, the Quadrennial Defense Review, which will form the basis for the '03 budget and the new FYDP. I'd like to briefly explain the process for you before I go into the specifics of the 2002 budget.

In the first months of the administration, Secretary Rumsfeld commissioned a series of studies to look at a variety of issues, touching on subjects from space to missile defense, to morale and the quality of life of our troops. While these studies were wide-ranging, they basically covered two broad areas: first, the strategic environment and the challenges our forces will face in the future; and second, the condition of the U.S. military today.

From the completion of those initial studies, we have drawn two conclusions. The first is that the security environment America will face in the decades ahead will be much more dangerous than the one we faced in the decade just past. The other is that the condition of our force today is even worse than we had previously expected.

This exposed a dilemma. To meet emerging dangers, we know we must build a 21st Century force. But we are constrained in our ability to build the 21st Century force we need—because the 20th Century force we have is in such a serious state of disrepair.

These preliminary conclusions have formed the basis of the 2002 budget and a starting point for the second, more formal, round in the review process, the Congressionally-mandated Quadrennial Defense Review, which I'd like to address before I get into the budget.

This is only the second time the Defense Department has conducted a QDR under the formal mandate of Congress. [However, it is not the first time the Department has taken a broad look at the size and nature of the force needed to meet national defense requirements.] Yet the process this time is unprecedented for the amount of time the Secretary of Defense and the senior military leaders of the Department have spent in carefully establishing the parameters of such a review at the beginning.

Over the past 2 months the most senior officials in the Department—including Secretary Rumsfeld, the Chairman of the Joint Chiefs, the Vice Chairman, the Service Secretaries and Chiefs and myself have met for close to 35 hours, to discuss a possible new defense strategy for the 21st Century—and to give detailed guidance and parameters to the QDR. These carefully established parameters reflect conclusions drawn from the preliminary strategy reviews as well as the accumulated wisdom and years of experience in defense matters represented by those civilian and military leaders.

The first stage brought to the surface a number of formal questions that will be addressed over the next several months; broadly, they target the size and character of the defense force structure. Of these issues, the most important we've identified is the need to assess the defense force posture on the basis of multiple dimensions of risk.

In the past, we have tended to evaluate exclusively on the basis of our ability to execute existing war plans. That focus, we concluded, while important, is much too narrow. Other aspects of the force posture must be taken into account. For example, everyday we use our forces in ways that are unplanned, unbudgeted and unaccounted-for—the ongoing operation in Bosnia is a prime example. It was supposed to last one year and cost \$1 billion, but is now a significant ongoing feature of the Defense budget and should not continue to be managed with year to year “emergency” supplemental appropriations.

Bosnia vividly illustrates the reality that our forces do more in peacetime than simply prepare to fight the conflict scenarios we anticipate in our war plans. At the same time, and in addition, we must also prepare for a future that is hazy and indistinct. We can be less certain of the specific scenarios we will face in the 21st Century. Nevertheless, we can discern the emergence of new and more formidable threats—threats we must begin to prepare for now. And to do that, we need new capabilities. These represent two additional dimensions of risk that must be considered along with the more commonly evaluated risks associated with current war plans: the risks imposed by the ongoing use of our forces in peacetime, and the risks of not being prepared for emerging threats in the future.

Our intention is that by the end of the QDR, we may give more precise advice to the President and to Congress on how to balance those different needs and risks, and present a new defense posture that is better suited for ourselves and for future generations.

While the first stage of our review has focused on the nature of threats and the condition of the existing forces we have, the QDR will help us decide the kinds of forces we need to build. But it is sufficiently clear, however, we urgently must begin to repair the damage inflicted by the complacency of the '90's.

The 2002 amended budget starts us on a path toward transformation by undertaking urgently needed, immediate repairs to our existing force, and by investing now in some of the transformational technologies and R&D that we will need for the 21st Century force. That is what the President has sought to do with the 2002 defense budget.

Getting started quickly is imperative because defense planning is a long-term process. And we have lost precious time. We've been digging ourselves into a hole for a decade, and we can't get out of that hole in a single year, so we need to get started now. Allow me to describe for you some of the key aspects of President Bush's 2002 budget—what it does, and what it does not do.

The President has requested a historic increase to begin dealing with some of the immediate problems I've mentioned. The budget we have proposed is the largest peacetime increase in defense spending since the 1985 Reagan defense budget. Using the 2001 enacted budget of \$296.3 billion as a baseline, the President earlier this year issued a budget blueprint that outlined a 2002 baseline budget of \$310.5 billion. This included a \$4.4 billion real increase to cover presidential initiatives, including:

- \$1.4 billion to increase military pay,
- \$400 million to improve military housing, and,
- \$2.6 billion for research and development.

The request before you proposes to raise that investment still further to a total of \$328.9 billion—\$18.4 billion more than the President's February budget blueprint. Taken together, these increases amount to \$22.8 billion real increase in defense expenditures for the Department in 2002.

As I explained previously, the first stage of the strategy review has defined where we are today and outlined in broad terms the direction we must go in order to build a 21st Century force. The precise specification of where we need to get to will emerge from the second stage of the QDR. The QDR will tell us which mountain we need to climb and how high it stands, whether it is 6,000 feet high, 12,000 feet high—or perhaps even higher. But, one thing is for certain, we know we're starting in a hole, and a hole that is below sea level at that. So, no matter how high the peak we must ultimately scale, we know we better start climbing now. And that is what the 2002 budget does for us—it begins our uphill journey.

Allow me to give you an example of one way the 2002 proposed budget will begin to arrest some troubling declines. Consider DOD's aging infrastructure, which the 2002 proposed budget begins to address. It increases funding to meet current needs and begins a long-range plan to streamline, restructure, and upgrade DOD facilities.

In the private sector, the standard for overall facility replacement is 57 years. DOD's target is 67 years. Under the 2001 enacted budget, DOD was replacing facilities at an average rate of 192 years. The 2002 budget proposes to increase funding for facilities from \$3.9 billion to \$5.9 billion. Even with this substantial increase,

it only gets us to an average replacement rate of about 98 years—still not yet close to the 67-year target.

However, as Secretary Rumsfeld has said, with a round of base closings and adjustments that would reduce unneeded facilities by, for example, 20–25 percent, we could focus more funds on those facilities we actually need and get the replacement rate down to 76 years at the 2002 budget level—a substantial improvement.

Our people are the key to everything we do. They are the foundation on which today's force is built, and they will be the foundation on which we will build the force of the future. Smart weapons require smart soldiers, sailors, airmen and Marines. And unless we can attract and retain the best people, no amount of technology can assure our safety and security in the new century.

To ensure we are taking care of this most precious resource, this budget will help put us on the path to recovery in some key areas including military pay, housing allowances, readiness training, and health care—overall quality of life investments that tell our men and women in uniform we value their service and sacrifice.

The 2002 budget, for example, begins to address previous shortfalls in the Defense Health Care program. We have anticipated a 12 percent growth in the costs of medical care and a 15 percent growth in the cost of pharmacy purchases. And so, by using for the first time realistic budgeting of health care costs, the 2002 amended budget proposes \$17.9 billion for defense health—to cover these costs, a \$5.8 billion increase from \$12.1 billion in FY 2001. And it includes \$3.9 billion for prescription and medical care benefits for Medicare-eligible military retirees and their families.

The 2002 budget moves beyond simply repairing the present force and takes a major step toward transformation with significant investment in new technologies—it begins to build the military of the 21st Century and it begins to address some of the more urgent threats identified in the first stage of the strategy review.

To advance technologies with the greatest promise for transforming our forces to meet the threats of the 21st Century, the budget assigns appropriate funding for Research, Development, Test, and Evaluation (RDT&E) programs. These include, for example, technologies to protect and enhance our communications and computer capabilities. Reflecting the high priority of transformation, the FY 2002 budget boosts RDT&E by 14 percent in real terms, up to \$47.4 billion from \$41.0 billion.

Today's strategic environment is far different from that of the cold war. We have an obligation to plan for the changing circumstances we face today—to make sure that we are arranged to dissuade rash and reckless aggressors from taking or threatening action. One of the most disturbing areas of vulnerability, one frequently identified as an area where our opponents might seek to exploit so-called “asymmetric” approaches against us, is threats from ballistic missiles, armed with both conventional weapons and weapons of mass destruction.

This budget invests heavily in efforts to deter and defend against existing and projected threats and to dissuade potential adversaries from continuing to invest in these dangerous capabilities. The budget advances the President's commitment to build effective missile defenses for our territories, for our allies and deployed forces against threats of all ranges, based on the best available technologies, deployed at the earliest possible date. It includes a total of \$7.0 billion for Ballistic Missile Defense Organization (BMDO) programs and \$1.3 billion for lower tier systems. And it emphasizes an expanded and flexible RDT&E program that is designed to pursue the most promising developments.

In addition to this important initiative, the budget includes another \$13.3 billion dollars of investments in a wide range of potentially transformational capabilities. The chart attached to this testimony gives some indication of the wide-range of programs that we propose this budget to invest in.

There are also a number of initiatives in this budget proposal that are addressed at streamlining our operations and saving us money, many of which require congressional support. The Peacekeeper deactivation is one such example. As in so many other cases where we'll be looking for savings or cutting unnecessary programs, we have to spend money up front to realize those savings in the out years. In addition, in the case of the Peacekeeper, we will need the support of Congress to remove the current restrictions to get rid of a nuclear system that we no longer need—the system many intelligent observers have been recommending we get rid of for years.

We can and must continue to take other such innovative measures. But, doing so will require congressional support. For many important reforms—reducing our excess infrastructure, in reallocating functions, and giving the department the ability to manage efficiently—we will need your help.

One of Secretary Rumsfeld's top priorities is to transform the Department's system of financial management. We recognize that we need to make fundamental changes that will save money and assure you, the Members of Congress, as well as

the American people, that we are allocating and using defense funds properly and wisely. One key improvement we anticipate is the connection of major areas of financial management, such as personnel, acquisition, logistics and financial systems. Through this end-to-end system, we hope to be able to access information ranging from readiness indicators and end strength numbers to personnel records and tracking acquisition programs, more accurately, sooner, and cheaper. And this system will allow the Department to meet prevailing financial management requirements.

So this budget does a great deal. However, if we are to revitalize America's Armed Forces and transform for the 21st Century, it is clear that budget increases alone won't get us to where we need to be. We need to find ways to use the American people's tax dollars more efficiently. We can find savings with the management overhaul that Secretary Rumsfeld has already begun. And, we are committed to operating more efficiently, and thereby saving money, in our daily operations.

Finally and very importantly, this 2002 budget seeks to apply the principle of honest assessments of what it will take to do the job, or what we call realistic costing, to other key areas such as flying hours, transformation and management issues, procurement and base operations. Realistic costing is designed to get us away from the dysfunctional process of deliberately under-budgeting in anticipation of "emergency" supplementals. It is our firm intent that with the '01 supplemental, we will put behind us supplemental budgeting-a process that is, at times, wholly unconnected with true unanticipated needs.

The increase in the 2002 budget is thus a significant, historic increase. It is devoted to beginning urgent rehabilitation of the 20th Century force that we have and begins building the force of the 21st Century. This 2002 budget gets us started on the road to rehabilitation. The 2002 budget proposal before you is a bridge budget to what we hope will be the transformation budget of 2003.

I'm reminded of another point in our history when it was a challenge to make a case for increased defense spending. In 1950, General Omar Bradley urged President Truman to spend at least \$18 billion on defense. The Joint Chiefs gave an even higher estimate at \$23 billion, and the services' estimate was higher still at \$30 billion. But the President said we couldn't afford that much—\$15 billion was as much as we could afford.

Six months later, we were suddenly in a war in Korea. Just as suddenly, we found we had no choice other than to budget some \$48 billion—a 300 percent increase. How much better it would have been to have made the investment earlier. Then, Dean Acheson might not have been forced to define Korea as being outside the defense perimeter of the United States—on the grounds that we did not have the forces to defend it.

We have spent an historical average of about 8 percent of GDP on defense, in part because we have not spent enough in peacetime to prepare for, and deter, war. We can't know who may challenge us in the future, or where, or when. Today, we are more in the range of 3 percent of GDP. But it is reckless to press our luck or gamble with our children's future. To think we can't afford an insurance policy of roughly 3.5 percent of GDP today to deter the adversaries of tomorrow and underpin our prosperity, and by extension, peace and stability around the globe, is simply wrong. When compared with the cost in dollars and human lives if we fail to do so, it is cheap at that price.

It's interesting here to consider once again the situation in 1950. President Truman's bottom-line figure of \$15 billion represented 32 percent of the Federal budget, or just 5 percent of the GDP. The jump in spending to \$48 billion the war necessitated represented more than 15 percent of the GDP. If history is our guide, it is suggesting quite strongly that we are much wiser to make smaller investments now rather than pay the premium rate later on.

Much remains to be done, and we know that fixing and transforming our force is a joint responsibility, one that requires a close partnership between Congress and the Executive Branch. It is a responsibility we have to our nation's service members; it is a responsibility we have to future generations. The force we build today will benefit our successors—and help ensure peace and prosperity for our children and grandchildren.

We look forward to working with you to rehabilitate today's force, and build the force of the future. We earnestly seek your support in this important and noble mission. Thank you.

Chairman NUSSLE. Thank you, Mr. Secretary. Let me begin by emphasizing a couple of points that I think are important to emphasize at this point in this budget discussion.

Number one, this Congress will protect 100 percent of the Social Security and HI Trust Funds, period—no speculation, no supposition, no projection. The Congress has voted unanimously, or almost unanimously—there were a few that didn't see it this way—for lockboxes and all sorts of different mechanisms to make sure that this occurred. Both parties prepared budgets that did so. We will protect 100 percent of Medicare and Social Security.

We passed tax relief. And after passing tax relief, there was plenty of room for our nation's priorities, including this new request for defense. I repeat that we passed a tax cut; there was plenty of room to fund our nation's priorities, including this defense request—in fact, more than has been requested here today.

Third, let me just say that in every budget discussion and in every congressional cycle there are tough choices. Are there going to be tough choices this year? You bet. Mr. Spratt has outlined them, I have outlined them, the President has outlined them. We can all give an outline of what those tough choices will be.

Some of them have already been made. We have passed some appropriations bills, some are yet to be made. But they are tough choices, and they need to be made if in fact we are going to continue to protect 100 percent of Social Security and Medicare and make sure that there is plenty of room for our priorities.

That having been said, defense is an important priority. It is appropriate to question our defense needs for this country and the amount of money that is requested without jeopardizing our firm commitment. On every single one of our behalfs here today—there is not one person in this room who questions defense because we do not support defense, or questions defense because we do not support the men and women in uniform who are out there on the front line in a very tough position, defending our freedom that we take for granted every single day. Not one of us questions it because we take that for granted or because we don't support it; we question it because we are responsible to do so because of the job that we have been elected to do within the Congress, the assignment on this committee to balance those priorities with everything else. And it is in that context that I asked the questions at the last hearing and the one today.

We were told a review would be completed in 6 months. Obviously, as you report today, the first part of that review has been completed, but the entire review has not yet been completed. Just for the record, would you state again when you believe that review will be completed, when the final review that the President requested of the Secretary will be completed?

Mr. WOLFOWITZ. I believe the final review will be completed in the same time frame as the congressionally mandated Quadrennial Defense Review, which means at the end of this fiscal year; and the results will be reflected in the 2003 budget, which will be submitted, I guess, in late January or early February. So essentially in the last quarter of this year we will be bringing in the final results.

Chairman NUSSLE. Would you also tell us for the record, when did the timetable on this review change from "6 months from the President's inauguration" to "consistent with the Quadrennial Defense Review?" When did that priority or when did that timetable change?

Mr. WOLFOWITZ. Mr. Chairman, I can't give you a precise time. It was something that more or less happened as we moved along. I think partly because the results of the studies—the initial studies that we were doing indicated the magnitude of the problem was a good deal bigger than we thought, and I think also because, frankly, the long delays in confirming people just kept a lot of work that needed to get done kept being delayed.

Chairman NUSSLE. But at some point in time someone had to whisper across the table to someone and say, this isn't going to get done on time.

Mr. WOLFOWITZ. Well—

Chairman NUSSLE. I mean, are we misperceiving a deadline of July as requested or suggested or commanded by the Commander in Chief? Am I misperceiving that a deadline was given in July for the completion of this review?

Mr. WOLFOWITZ. No. I think you are quoting him accurately.

I think what happened was, we started working about 2½ months ago on taking the preliminary results from the strategy review to begin to develop a 2002 amended budget, which we knew we had to get up here by July. I can't say, I know consciously. I know when we said, we are now turning a 6-month review into two stages and something more like 9 months.

Chairman NUSSLE. The concern I have, and I stated it to Mr. Daniels, the OMB Director, is that it appears to me that the time, what has been spent—and as I said in my opening comments, I am not suggesting to you that the deadline was one that was attainable, that it was a goal that was achievable. But at some point in time, someone knew it wasn't achievable, and that was not reported to the Congress, to the Budget Committee, to the committees of jurisdiction, to the general public. That was not reported.

It was only last week—or 2 weeks ago, excuse me—when Mr. Daniels came forward to suggest that that defense review would not be completed on time. All of us felt that it was probably going to have a difficult time getting done, but no one reported that, number one.

Second, it appears that during the period of time that has been taken already for review, one could simply suggest that instead of trying to look for the new needs of the defense of the future, what the Defense Department did was, it went back to its current culture, which has continued to play catch-up and defend or function in the defense of the past, and that basically the first 2 months were not spent in looking forward, but looking backwards and trying to play catch-up.

What concerns me is not that that was done if that needs to be done. You have shown us the pictures; they are in the record. I am sure this isn't even the very tip of the iceberg. This is an ice cube on the iceberg of what is out there and is a problem.

I am sure that it was a mess. But we didn't hear about that, and that needs to be discussed openly so that we can make the kind of changes that need to be made and move forward to the future. And what concerns me is that the next 6 months, during the QDR, the completion of the QDR, that more of the same will occur. And I think one example of that is what happened with the B-1 bomber and the fact that when reforms are reported and when reforms are

suggested, they are shot down almost immediately by Congress. And so this is going to be a very difficult task to move forward with if, in fact, you don't use the time that you have as judiciously as possible.

So my concern is that while the goal continues to be an important one and a lofty one, I have a real concern based on the track record that I have seen thus far—not suggesting that you personally or that people working with you have not been able to do a good job—but the task is even more enormous than one might have first believed, and that we may digress even against your statements today back to supplementals.

And part of the reason I suggest that is, I have a difficult time believing that the health care needs of our defense and that the housing needs of our defense and that the material and spare parts needs of our defense and the infrastructure repairs of our defense weren't known until, all of a sudden, you walked in the front door or even, for that matter, Mr. Rumsfeld walked in the front door.

These are things that are constantly under review by the colonels and others throughout the ranks. It just seems if it has taken this long to just find out what the problem is, it is going to be very difficult to fix it in the so-called "second stage."

The final point I guess I would make, and it is in the form of a question, is there really a higher number? How realistic is the number that we are dealing with? And the reason I say this, we are not interested in just plugging in the number and then finding out in 6 more months that it can't be done, or it is bigger than we thought once again, or that the next budget request requires a supplemental because we didn't get everything that we needed in order to make the changes that were needed to defend our country.

How are we going to know, based on what we have seen thus far, that the next request for 2003 is, A, going to happen in a timely fashion and, B, is accurate enough to fund the defense of the future which is the President's mission in all of this?

Mr. WOLFOWITZ. Maybe the reason no one said we slipped the deadline is the fact that we did, in fact, complete a strategy review. What we didn't complete is a full look at exactly what force structure we think we need to have for the next decade.

But we made extensive studies of the kinds of forces we need to have, of the kinds of new technologies that we need to have; one whole study on the subject of morale and quality of life of the services, one whole study on the broad national strategy. We have briefed these to many Members of Congress and we would be happy to have the study directors brief them to any members of your committee that are interested.

So there was a lot of review work that was done and completed and completed on time. I think it is important to make that clear. And that guided a lot of what we are asking for in this 2002 budget.

You are absolutely right that some of these needs, like health care, were known before. The problem was, they were known before, but they weren't budgeted for before. And part of the reason we have this increase here is because we are trying to do our best job of honestly funding health care; it is a \$5 billion increase just to do that.

You have raised the issue of whether there are going to be more supplementals. We have tried to stop the practice of saying, we are going to deliberately underfund things like flying hours, because we know that if you get to the middle of the year and you don't have enough money to fund flying hours, Congress will consider that an emergency, and we will come up and ask for emergency funding.

We have added how much? We have added roughly \$2 billion to the readiness and training account so that we won't be coming up next year and asking for more in the middle of the year.

So, to the extent that we can figure these things out, we have done honest budgeting for 2002. You have asked the question, now, sort of beyond that, can we be sure that what comes up next year won't ask for more. Until we finish this next stage of the strategy review, I really can't tell what we will need for next year.

We can tell you what it takes to sustain the path that we are on. And the path that we are on only starts to get us, well, at I would say, an acceptable but not a terrific rate.

If you take those numbers on repair facilities, for example, we move from replacing our facilities at 192 years to—which is absolutely unacceptable—to 98, which is really not acceptable compared to the 67 that we need to be at. But, hopefully, by the time we come up with a 2003 budget, instead of asking for more money, we will also be asking for some kind of process to get the base structure down so that we are not spending enormous amounts of money on unnecessary basing.

Finally, I would say, too, Mr. Chairman, I would hope when the 2003 budget comes up, we will have a good deal more besides—in addition to the things that are there, like B-1 and Peacekeeper, we are getting rid of some old systems in order to invest the savings in modernization. When that happens, we are going to be counting on this committee particularly to plead the case with some of your colleagues, that these kinds of painful decisions are the only way we are going to be able to function as the kind of force we need for the 21st century.

Chairman NUSSLE. Thank you.

Mr. Spratt.

Mr. SPRATT. Mr. Secretary, we thought the delay was, as the chairman put it, to wait on the transformation study to be completed. But, in truth, it is not going to be completed until it has been through the digestive process of the QDR, and even then you have got a lot more work to do before you bring it to fruition and decide what the force structure is going to be.

So we are still in a pretty uncertain state, it seems to me. Is that correct?

Mr. WOLFOWITZ. No, I don't think it is correct. The transformation study was completed by the end of May, if I remember the date. And it gives rather extensive and detailed guidance as to what kinds of new capabilities we need to have, some \$13 billion of which, in addition to missile defense, are proposed to be funded in this 2002 budget.

Mr. SPRATT. I wouldn't call that transformation. We thought the transformation was going to be digitization, use of stealth technologies and leap-ahead technologies.

Mr. WOLFOWITZ. That is what that \$13 billion, which I have appended to my testimony, Mr. Spratt—

Mr. SPRATT. I have looked at that. That is just reshuffling the same deck, it seems to me. I read this budget; it is basically a meat-and-potatoes budget, rather than a transformation budget.

Mr. WOLFOWITZ. I think it is a mixture. We do need meat and potatoes. You are not going to change the whole force overnight.

Mr. SPRATT. I agree. I would buy the meat and potatoes before I bought the creme brulee.

Mr. WOLFOWITZ. We are trying to do both.

Mr. SPRATT. When I think about transformation, I go directly to the science and technology account. That is where your leap-ahead technology gets funded. This year we are spending \$9 billion on the science and technology account. Your budget asks for \$8.8 billion; it actually cuts it \$200 million.

Mr. WOLFOWITZ. Some of that \$9 billion includes things that have been added by the Congress, in its wisdom. I think they are probably good investments, but I think, as I think you know, they are targeted precisely at military needs. I think we would like to do better on the science and technology budget; there is no argument about that. Our research and development, overall, is about \$7 billion.

Mr. SPRATT. \$6.4 billion. That is a substantial increase.

The problem is, R&D doesn't put any weapons in the field. You have to produce those weapons and buy them with procurement dollars before you actually deploy them. While you increase the R&D accounts by \$6.4 billion, you cut the procurement account by \$500 million. If you don't have the money in the procurement account proportional to the increase in the R&D account, you can't tech out these new weapons that you are researching and developing. And you have got some significant procurement commitments coming down the pike: F-22, Joint Strike Fighter, more C-17s.

Your Navy budget, your shipbuilding budget, you keep repeating this replacement ratio for real estate. But if you look at ships in the line, warships and submarines, we are only buying enough to sustain a Navy in two-thirds of the seas. It is the objective force, 313 major combatants. And everybody acknowledges that you have to replace your 313-ship Navy at the rate of eight, nine, ten ships a year, but we are only providing here for five, six, seven ships a year. We are well below the norm that is needed for replacement of a major element of our force structure.

Even though this is so—I don't find a lot of frothy, leap-ahead technology here. I looked for it and don't see it. There is a little more money for digitization and a little more money for high-energy directed-energy technologies, but I am concerned about the fact that there is not enough provision, barely enough provision here made for our meat-and-potatoes basic defense.

And what happens if you don't get the \$18 billion? I don't see this budget, at this level, funding the kind of transformation I think you have in mind. Am I correct?

Mr. WOLFOWITZ. Well, let me say a couple of things. First of all, the crucial pieces of information that we hope to get out of the QDR process are those that pertain particularly to the exact size of the forces that we need and the mix and makeup of those forces.

And until you have done that work, it is hard to develop intelligent procurement plans because you don't know how big a force you are procuring for; and some of the estimates that one sees about DOD's modernization requirements simply calculate a fairly primitive one-for-one replacement.

Mr. SPRATT. I understand that. But what I am saying is, you have got \$330 billion, just shy of that in this particular budget, and you are plussing up R&D by \$5 or \$6 billion. But eventually, if R&D is going to prove useful, you have got to plus up procurement too. I don't see where the plus-up is coming from unless you get more money over and above the level of this particular defense budget.

Mr. WOLFOWITZ. Or unless, Mr. Spratt, we are able to find significant savings. We think that we should be able to find significant savings.

Mr. SPRATT. Well, look, I have been around here since the first BRAC. I helped craft the language of it. I have watched the results of it. The first BRAC, it took us 5 or 6 years before you could see any positive cash flow from it. So I mean, BRACs won't fund near-term budget increases. And you are not talking about big bucks anyway—you are talking about modification of Davis-Bacon. It is going to be politically problematic to get that done.

You talk about implementing prospective payment rules, military health care—be awfully difficult to get that implemented. So I think some of these savings are illusory.

In any event, they are not big-dollar items, and my basic question is, can you fund transformation at or near this level? And are you telling me then that you can, but you are—next year, 2003, you will take it out of your hide—you will pay for it out of our own accounts by reducing one account in order to fund the transformation account?

Mr. WOLFOWITZ. I think at this stage I can't tell you with precision. I think we will probably have to find some ways to pay for it. We need more; I think that is clear. We will have to find some ways to pay for it.

Some of these need to come from efficiencies in what we are doing. The fact is, if we can find 5 percent savings in our overall budget, that would pay for a heck of a lot of transformation.

Mr. SPRATT. You said in your testimony that you thought 3.5 percent of GDP was not an unreasonable amount of money to expect for defense.

Mr. WOLFOWITZ. Historically, it is not, sir.

Mr. SPRATT. That would be \$380 billion. And the Secretary indicated in his testimony, as I recall it, that he would need \$347 billion in 2003 as a follow-up to the \$330 billion he is asking for 2002. Is that in the ball park of what you think you will need in 2003 to sustain the basic budget and also to begin transformation?

Mr. WOLFOWITZ. I think it is in the ball park. But we really frankly do have ambitious hopes that with our new management structure, our new service secretaries, with the very searching look that is being taken in the QDR process, that we will come up with some significant ways to pay for transformation out of places where we are spending money today that we don't need to.

Mr. SPRATT. Let me underscore one thing that the chairman said for my side of the aisle. We have come too far, worked too hard to turn this budget around, then to take the first step down the slippery slope and being dipping into the Medicare and Social Security Trust Funds.

So we stand together in saying, however this budget is finally put together, that is going to be the one cardinal principle. We are not going to simply dip into those trust funds. They are sacrosanct. We are not going to spend that money. We are not going to regress, having worked so hard to get to where we are. We are not going to step backwards into those trust funds in order to fund it.

If that is true, you see my numbers, wouldn't you agree that we have got a pretty tough problem here to fit your budget this year and next year into this budget scenario?

Mr. WOLFOWITZ. I would certainly agree on that scenario, Mr. Spratt. I mean, I also know—and I don't want to get too far into this because I am—for better or for worse, I'm not an economist, but I know those numbers sort of change with each economic estimate, and we will probably—as you said yourself, we will see new numbers.

Mr. SPRATT. They could be worse.

Mr. WOLFOWITZ. I understand.

Mr. SPRATT. Let's hope that they get better. But in the near term, I think that they get worse before they get better.

I hope this top line is sustained and we have got enough money to do all of these things. But we are the first people who watch the punch bowl. And when things get a little too excited, we take it away and say, let's stay realistic. The reality of the situation is, now you are hearing Wall Street and the White House say, it looks like there may be some revenue shortfalls. If the top line deteriorates, the bottom line gets tougher than ever and makes it harder than ever to accommodate your budget.

I may have some further questions, but other members here have some other questions as well. Let me yield.

Chairman NUSSLE. Thank you, Mr. Spratt.

Mr. Secretary, we have one vote now. We are told that there is an additional vote that will come right after that. And so what we will do is, we will recess, and we will come back as soon as that second vote is completed.

So the hearing stands in recess subject to call of the Chair.

[Recess.]

Chairman NUSSLE. This resumes the Budget Committee hearing on the Defense Department budget request for fiscal year 2002.

Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I think, as the chairman discussed earlier, all of us have been struck by the difficult task which is before you, because whatever we may think of existing deployments and commitments, we can't just drop our rifles and walk away from them unilaterally. We have certain responsibilities as a world power, and we have been underfunding these activities. But, at the same time, the world is changing, and we can be attacked in more ways by different actors faster than ever before.

And the thing that strikes me, Mr. Secretary, about the analogy you used with Korea is that we may not have time to re-gather ourselves and dust off our clothes and increase the defense budget and prepare ourselves to meet the—to counterattack. We may not have the opportunity we had after Pearl Harbor. It may be over by then. So preparations beforehand are even more important now at a time when technology has taken warfare to new dimensions of speed.

And so, to prepare for the future, we have to make changes, and there are costs to these changes. And yet, as the chairman was talking, there is a reluctance for change in the services, there a reluctance among the contractors, there is a reluctance on the Hill to make those changes. And yet I don't think any of us can stand by while, by some estimates, half of our defense budget goes for infrastructure and support, less than half by most estimates depending on what you include, goes for actual warfighting. So I think it is entirely appropriate to take some time out to study the situation.

There has been criticism on both sides of the aisle in the past that we have had QDRs that are budget driven rather than strategy driven. So this administration has taken some time to think about strategy before we get into the QDR and the rest of the—and how much it costs to implement.

I guess what I am most interested in is the—how you assess and balance this need to make up for deficiencies of the past and the demand that we prepare for the future. How do you make these trade-offs? In some ways, we can spend all of our defense or increased defense money fixing the problems, like you showed us. We are throwing away the future if we do that.

On the other hand, we can't just ignore those problems and focus only on the future, because then we are going to lose our people.

How do you balance those commitments now—and making up for the deficiencies versus preparing for the future?

Mr. WOLFOWITZ. That is an incredibly important question, and I guess it goes to the heart of the problem. It is not one for which there is any easy answer.

I think it is true, and the fundamental point that Secretary Rumsfeld has made many times is that even if you transform your forces at a fairly high rate, you are still most—for a very long time will be operating with the old force. This is not like turning some small vehicle on a dime. It is like turning a very big supertanker that you begin to make changes and they really turn up in their full implementation maybe a decade later.

I do think that it is very hard to get the kinds of new thinking and the kinds of changes that we need to have when chiefs of services and commanders of divisions and air wings are dealing with some of these very basic problems that are driving their best people out of the service. So beginning to fix them is not only an investment in the present, it is also bringing out people who start thinking more ambitiously about the future.

I guess I would say a final thing. That is, we need to find ways to allow the services to have more incentives for making these kinds of trade-offs themselves. Too often they are confronted with situations where, if they try to take some savings in order to make these kinds of investments in the future, what they find is, the sav-

ings are taken away and the investments don't happen. And the end result is they are in terrible shape.

I know that happened in a dramatic way to the Navy about 5 years ago. We are still living with some of the psychological wounds from that. So I think establishing, to a certain degree, a stable baseline is an essential step toward getting people to make these kind of trade-offs.

Mr. THORNBERRY. Thank you.

Chairman NUSSLE. Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

And, Mr. Secretary, thank you for being here today. And I talked to Mr. Spratt. I guess if we are not going to talk about Vieques, then we won't talk about Kennedy County, Texas, either. And I notice that there were at least three Texans on the panel, at least two that are here now.

But, seriously, I do want to talk to you about your testimony. Let me say at the outset that I agree with what the administration is doing with quadrennial review and trying to look at our force structure and how we plan for the next 20 years in trying to get away from how our defense posture has been structured the previous 20 years, in getting away from the cold war structure and even this interim post-cold war structure. I think that is the right approach.

What I am concerned about, though, and what I think this committee needs to be concerned about is the macro aspect of that and the cost.

And it seems to me that at the same time the administration is proposing a plus-up in defense funding, in the R&D account, in the strategic defense or the ballistic defense missile account, you also are proposing what you call the "repair"—or "repairing the damage," if you will—as the administration likes to characterize it from the previous 10 years. And it seems to me, at this point, you are on two tracks.

You are on the track for rebuilding under the current force structure and defense posture, and somewhere you are on a track, although we don't have the exact numbers on this Quadrennial Defense Review and Strategic Review that the administration has undertaken. What concerns me is that rather than coming up with a singular approach with which this committee and Congress can determine what the appropriate amount of tax dollars are to put to that, we are going to be given a supplemental, or we are going to be given two approaches that will have supplemental moneys; and we will be paying for the old system and the new system, and we will see those increases—which are at 11 percent, I guess, in real terms this year—and seeing these types of increases over the next 10-year period, far more than this country can possibly afford, and we may be buying more than what we really need to buy.

I guess the bottom line is, I am concerned, particularly given the fact that these numbers are coming in late, that we are going to be nicked and dimed to death for what is a very serious expenditure.

I think every member of this committee supports these expenditures in varying degrees. But I am just worried that it is, you know, \$18.4 billion 2 weeks ago, later this summer or in early fall when the Strategic Review is completed, we may get—we know

that, as you said, that will affect the 2003 budget. But I am worried, what is going to be, what you are going to come back with for a 2002 supplemental in that regard.

I realize that you all are—have not gotten your team in place yet, you are trying to do that. But it worries me that we are not taking a very strategic approach to budgeting. At the same time, you are trying to take a strategic approach to our defense posture, and we are going to end up overcommitting; and then we are going to find ourselves in some of the problems that we have gotten ourselves in in the past. So I do hope that as you come forward with the requests for more dollars—and I truly believe you will—that you are sincere and serious about the offsets that you are requesting.

As one of our colleagues mentioned regarding the B-1 issue, you now have strong opposition because of parochial concerns of certain members of this body and members of the other body. And I think the administration has to be very serious that they are going to—that they are going to pursue these offsets even against strong political opposition.

The same is said for base closure. I have some questions about your 192-year facilities replacement average, because that would indicate to me that you have, at least on the back end, properties that are in excess of 192 years, which I find—you have some, but not too many, because we have only been around for about 225 years.

But, on top of that, you have to—you are going to have to fight very hard on this base closure. And so I just hope that as the administration goes forward, it will stand up for the offsets and not put in offsets that are unrealistic, that won't see the light of day in Congress.

Mr. WOLFOWITZ. On the small point, on the 192 years, that is not average age of facilities. That is the rate at which you would ultimately replace your infrastructure if you proceeded on the old budget level. Ninety-eight years is the rate at which you would replace everything on the present budgeted level; 67 years is replacement rate.

That is not going to be the average age; it is different. In fact, because a lot of things were built in the build-ups of the 1960's and 1980's. That is probably where the average age is going to lie.

But what we have done for too long when we needed to pay for things like current operations and flying hours and Bosnia and Haiti was, well, let's put off some maintenance for a year. We can find \$1, \$2, \$3, \$4 billion in these maintenance accounts. You can get away with that for a year, for 2 years. When you try to do it for 10 years, things start falling apart, which shouldn't fall apart; and people live in housing that they shouldn't have to live in.

On the more general point that you raised, to which I don't have a lot to add because I think you put it very well, let me just say that I think there are two ways that you can approach the sort of situation that this country faces, which are, I think, very real defense needs and lots of other needs; and as big as our budget is and as big as our surplus is, we are talking about very difficult decisions.

But clearly, to my way of thinking, the wrong way of doing it is to say, "Well, we know what we really need, but we're going to, sort of, pretend that we can get by with less. We're going to pretend that things don't cost what they do cost. We're going to come up with supplementals that really aren't supplementals because we really knew when we put in the original budget that we'd need to come and get it. And we're going to say we have a strategy, but gee, can't you find out a way to. We know it really cost 'X', but can't you find a way to do it for 'X' minus \$150 billion so we can save money somewhere else?"

So I think what we have to do, the best we can, is move forward with honest assessments of what our real needs are and honest assessments of what it takes to carry out a national strategy. If the conclusions of the country collectively, meaning most importantly the President and the Congress, is more than we can afford because of all of the other things in the budget, then let's not pretend we can carry out that strategy with \$150 billion less. Let's figure out what in the strategy needs to change, what commitments need to change, whether we can really manage with a smaller force.

But what Secretary Rumsfeld is trying to do with this QDR process is to get those issues pushed up in a way that decision-makers can make those kind of assets of risk versus cost.

Mr. BENTSEN. Thank you.

Chairman NUSSLE. Let me report to the committee that the Secretary will be with us until 12:15, and so I would just ask that we be as efficient as we can be.

We appreciate the fact that you are with us today.

Mr. Hoekstra.

Mr. HOEKSTRA. Thank you.

Welcome. It is good to have you here. We have done a lot of work on another committee that I sit on, taking a look at the Department of Education, which for the last 3 years hasn't been able to get a clean audit. Then I understand that the Department of Defense shares many of the same problems that we have with the Department of Education.

I think the IG just notes that one of the audits that you went through of the 1999 financial statements included adjustments of \$7.6 trillion—that is trillion—and accounting adjustments in which \$2.3 trillion were supported by reliable doc—were unsupported by reliable documentations.

You know, we are talking about a lot of money here. We are talking about a Department of Defense that spends \$320 billion a year, and we are talking about \$18 billion or \$14 billion or \$6 billion. But the bottom line is, I just find it amazing that—I have got to believe that it has to be awfully frustrating for you to be talking about those kinds of numbers, that when you go back to the financial statements and the financial records of the Department of Defense, it has to be fairly difficult to actually calculate what something may cost or what you are spending in different areas if you can't get clean financial records.

I know, in the Department of Education, when you don't have the tight management controls in place that would enable you to get good financial records, you are also creating an environment

that is ripe for waste, fraud and abuse. We have found a significant amount of waste and fraud within the Department of Education.

Where is the Department of Defense on correcting a long-standing problem and on an issue that we know is inherited from previous administrations? But, you know, is this a priority, and can we expect the Department of Defense at any time in the near future to get clean financial records?

Mr. WOLFOWITZ. It is a horrendous problem. When Senator Byrd asked Secretary Rumsfeld about this in his confirmation hearing, Secretary Rumsfeld said, "I'm beginning to think I should decline the nomination." It is that bad.

It is a priority and we are trying to get our hands around it. Let me ask our comptroller, who has got the principal responsibility in this area, to tell you where we are and what his hopes are.

Mr. ZAKHEIM. First of all, I should say that very often, although the numbers seem large, it is not because we really don't know what happened with the transactions. The problem has tended to be that we just did not record them properly. I'm not making excuses at all.

I spent 14 years in the private sector; and that is an inadequate response in the business I was in, and in any business that anyone else might be in.

We are doing a number of things, because indeed it is a very high—

Mr. HOEKSTRA. Let me just—I agree with your statement, that is inappropriate. You couldn't get away with that in the private sector saying, we know where we spent it, we just didn't record it. Come on, give me a break. I hope that is not the attitude of this administration.

Mr. ZAKHEIM. I sure hope not. Certainly it is not mine. As I said, anybody who would have told me that in my old business wouldn't have been around very long.

Mr. HOEKSTRA. Thank you.

Mr. ZAKHEIM. The question is, what do you do when there is a situation where this has been ongoing for many years, where the priority has been that to the extent one reported numbers at all, they were budget-oriented as opposed to accounting and financial management oriented. In addition, as you rightly say, what might be called a management information system as you might see in private business just doesn't exist in the Defense Department that way.

What we have done, and, again, in light of what all has been said about trade-offs, you can see how important it was to do this—what we have done in this budget amendment is to allocate \$100 million toward fixing this problem.

Now, this is only a small down payment. I have heard estimates of a billion, maybe \$2 billion in terms of structuring all of the various systems so that they can talk to one another, so that you can track a voucher from one end of the system to the other, so that can you account for transactions. We have to find out exactly what that cost is. We are talking about building an architecture that will allow us to put together a system that does indeed come up with the right numbers and allows management to make decisions.

Now, will that result in a clean audit immediately? No. In fact, I would even argue that far more important than an immediate clean audit. In this regard, the Comptroller General of GAO agrees with me that it is far more important than that is to get the system in place so that are indeed can make decisions, and track numbers. There would be then the kind of financial accountability that begins to resemble what we have in the private sector. That is what we are trying to attain.

Mr. HOEKSTRA. That is the reason that they call them management information systems. There are just too many departments that don't have it. And I really believe that handicaps you in your ability to make the appropriate kinds of decisions, because you don't have the information.

Thank you very much, Mr. Chairman.

Chairman NUSSLE. Thank you.

Ms. Hooley.

Ms. HOOLEY. Thank you, Mr. Chair, and thank you for making that opening statement about how we all support defense. I appreciate that.

Thank you for being here this morning. I have actually several questions. A couple of them have been asked. For example, I too am concerned about, how do we close facilities and close bases. So I hope you have a plan worked out so that can happen.

I also had some questions about financial accounting which were asked, but I want to finish up with that question and—what are you doing with contracting out and when do you expect to have your financial house in order?

Mr. WOLFOWITZ. We have a new senior executive council which consists of myself, the Under Secretary of Defense for Acquisition and the three service secretaries, who are given the responsibility for looking at the various ways in which we might find savings and efficiencies. And contracting out is high on the list of these. In fact, you may have seen some press commentary on the fact that Secretary of the Army, Tom White, comes from a firm which had been in the business of trying to provide contracted utility services for our bases; and some people think that his experience there means that he should recuse himself from that kind of activity.

My own very, very strong feeling from many conversations with Mr. White is, having been on the other end, he understands what we need to do in order to make this contracting-out process work efficiently and effectively, because everyone agrees a lot of taxpayer dollars that can be saved in that manner.

On the question of getting our financial house in order, I guess I would really just repeat what Comptroller Zakheim just said.

Unless, Dov, you want to add any more on that score.

Mr. ZAKHEIM. I think I made that reasonably clear. This is a very, very high priority for us. It will be critical if we are going to make the kinds of transformations in other areas that we are talking about. And I am certainly prepared to answer any detailed questions later or for the record.

And one other point, we want to work very closely with those Members of Congress for whom this is a high priority. I have offered that to people in the other chamber. And anyone here who

wants to work with us on that, we are glad for your advice and your support. We will work with you.

Ms. HOOLEY. I am just trying to get a sense of whether it is 2 years, 5 years, 10 years when you will expect—obviously, I know you need some financial help to do that. This is—I mean, you have a huge organization. You have a real mess.

I mean, how long do you think it might take just——

Mr. ZAKHEIM. For a clean audit, you mean?

Ms. HOOLEY. Yes.

Mr. ZAKHEIM. It is not going to be a year. We have already some sections of the Department that have received clean audits. The idea is to have the entire Department to get this. All I want to do is be on a positive slope that every year at least one other element of the Department gets a clean audit.

Ms. HOOLEY. So are you making progress continually?

Mr. ZAKHEIM. Yes.

Ms. HOOLEY. I want to clarify on contracting out. My concern, at least according to the testimony that we heard last year in this committee, was that there are a lot of people not trained in contracting out; that is where a lot of problems have been in contracting out, so—that was as opposed to saving money by contracting out.

I was trying to figure out, are we getting that whole situation under control where people know what they are doing when they are contracting out, we don't—we are not overpaying contractors, which seemed to be a huge problem? That was more the direction of my question, as opposed to using that as saving money. I think right now it is costing us a lot of money.

Mr. ZAKHEIM. There are two ways to deal with that. One is the A-76 process. In fact, there was just an A-76 competition that was won by the contractor. The A-76 process is cumbersome in many ways. But one thing it seems to do is to drive down the cost no matter who is the winner.

A second element—you are quite right, in terms of training, we are working on that. Indeed, it would be very nice if the Department had more flexibility regarding what kind of qualifications it demanded of its people. But we are limited in a variety of ways in that regard. And I believe there will be some action taken in that matter.

Ms. HOOLEY. Where do you see your biggest savings coming from, what area? I mean, as you look at your priorities and you look at those things that have now changed in this world that you need to change with the Defense Department, where do you see some of those savings coming from?

Mr. WOLFOWITZ. It is a range of things, I would say. It includes the sort of better-business-practices kinds of things, where we are doing things inefficiently in the military that, if contracted out properly—and I take your point about if it is done improperly, you will end up just overpaying for something—but services that should be much more efficiently provided by the private sector. That is one large category where our new service secretaries believe strongly they can find efficiencies in overhead.

Another area which we are looking hard at right now, sort of an obvious cold war function, which is our offensive nuclear forces. We

built them up to deal with a country that no longer exists. We have brought them down some. But in the President's view and the Secretary's view, we can still bring them down a lot more. In this budget, in fact, you will see not only the Peacekeeper elimination, but four Tridents converted from nuclear missions to conventional, two to be converted to conventional missions, then two to be simply removed.

And the B-1 force changed from 90 bombers designed for the nuclear era to a smaller force but that is conventionally capable.

So that is an example of where you look for a function that you really don't need, or need much less of, and try to find savings by getting rid of things. And it is surprising that there are a lot of those things around.

Where you would least like to take it is, take it in the tooth. And when I answered Congressman Bentsen's question earlier, I mean, that is when all—at the end of the day, you have done your honest budgeting, you have done things as efficiently as you can, you have made the investments you need; if you are going to actually have to—in order to pay for things, take it out of the fighting element of the force, then we really need to lay out very clearly what the strategic implications of that are.

That would be one's last preference, obviously.

Chairman NUSSLE. Thank you.

Ms. HOOLEY. OK.

[The prepared statement of Ms. Hooley follows:]

PREPARED STATEMENT OF HON. DARLENE HOOLEY, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF OREGON

Thank you Mr. Chairman. In the President's Budget Blueprint, he stated that the strategic review currently being done by the Pentagon would guide 2002 and the future budgets saying, "The administration will determine final 2002 and outyear funding levels only when the review is complete."

Today, the review is not finished and we are told that it will not be ready until next year.

However, the Department of Defense stands before this committee today and asks for an \$18.4 billion increase when the review is not complete, contradicting the statement made by the President earlier this year.

In addition, Secretary Rumsfeld before the House Armed Services Committee in June testified that the \$18.4 billion increase will be needed for the foreseeable future, and that unspecified amounts above and beyond this increase would be necessary to implement the results of the review.

Maintaining this \$18.4 billion increase will put the Department of Defense's budget at over \$328 billion in 2002, an 11 percent increase.

In contrast, in the congressional budget resolution, domestic programs increase by only 2 percent.

We are currently developing three new fighters, the F-22, which is seeing cost overruns in the billions, and 2 additional joint-strike fighters, not to mention a missile defense system whose merits are questionable at best.

These programs are being developed at an extraordinary cost of billions of dollars a year.

The estimates for the surplus have shrunk considerably over the past few months, and if we want to fund these Defense increases, we're going to have to dip into the Medicare surplus.

If the Department of Defense is in desperate need for additional funds for pay increases, housing, infrastructure improvements and readiness, then I'd like to see the Pentagon trim other areas to fund these increases.

With domestic programs spending not keeping up with inflation and defense being about one-half of discretionary spending, I fear our priorities are focused on bloating the Department of Defense when we should be dedicating more resources for education, healthcare, and long term solvency of Medicare and Social Security.

I cannot, in good conscience go to my constituents and say we HAD to give the Pentagon another \$18.4 billion dollars when their schools are in need of funds and our seniors cannot afford their prescriptions drugs.

I look forward to today's hearing, and yield back the balance of my time.

Chairman NUSSLE. Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman.

Thank you, Mr. Secretary and Dr. Zakheim, for being here.

I was glad to hear the chairman say that defense is a number one priority. In my life it is, and the people I represent, I can assure you. And I am really glad the review is being done. But I am as impatient as the last person, and I want it done today. But it doesn't happen that way; it takes time.

During my 24 years in the Navy, I spent several of those years in what we affectionately called the Puzzle Palace. I know that sounds like an odd thing to say, but that is what it was then and that is what it is now. I was over there recently, and I thought, my God, it hasn't changed since I was there a long time ago.

So it is just going to take a long time to get this done and get it done right. We just have to be very, very patient.

And frankly, I think the Defense Department has been neglected for most of the last decade. And that certainly shows up in the condition of our ships, our tanks, and our planes. Because I see them every single day, and I talk to the commanders, I know how badly they have been treated. We just have to turn that around.

Readiness and maintenance has just been absolutely deplorable, as you have shown by that little picture over there and the resulting cost of that. A rust hole that big today costs \$10 to fix; twice as big tomorrow costs \$10,000. That is exactly what is happening. So we have to get maintenance money. It is so important, because if we are going to get these things operating, we have got to make sure that that stuff is in the budget.

The quality-of-life issue is absolutely vital. That is probably number one. If we don't have good housing, the troops aren't going to stay in. That has been the case—that is the number one reason for people leaving the military because of that.

As an example, in the district I represent, an Army post there, Fort Story, has 168 units. Every single one has been condemned. The sergeant major for Fort Story lived in a set of quarters that, the day after he moved out, they bulldozed, it was that bad; and none of them meet congressional standards.

We have to make sure that we have proper housing, and that is something that I have been screaming about down there.

The Navy is doing a pretty good job. We have to make sure that same thing occurs with all of the services. And we have to understand too over the last many years the last administration had us deployed in more places around the world than all Presidents since Franklin Delano Roosevelt combined. That costs us a lot of money. Rightly or wrongly, that costs money. That money came out of maintenance, that came out of housing and all of these things. So we have to make sure that that doesn't happen anymore, as well.

Retention, we have got to buy good quality things if we are going to retain people. And of course I am concerned about the Navy in particular.

I am concerned about all of the services; I am privileged to represent every service. And with the new lines that we have redrawn,

I am going to have two more major bases, which means that I will have 8 major bases and 195 small commands. So all of the services are important.

But shipbuilding is real important, too. As we are going now, we are fast approaching a 180-ship Navy. We can't do the missions now that we have been tasked to do, let alone a 180-ship Navy. So the more money that we can find to build more ships, I think the better, as well.

And transformation, I understand what Mr. Spratt was saying; it does look like a lot of it is just to maintain what we are doing now. But if we are going to keep this system afloat, we have to do that. I think that approach is correct.

But looking to the future, I think the President is right, not to build for today and for tomorrow, but to build for the next 20 or 30 years. But we have to keep the system going now, and the people happy, that we have got in it now.

Your testimony discussed strategic environment and the current condition of our armed forces. I appreciate that. And what global responsibilities do you see that will be jeopardized by a continued under-resourcing of our armed forces, and what do you see as risks associated with that under-resourcing as you go into the outyears?

Mr. WOLFOWITZ. I think the greatest risk that we face today is that we see in many places around the world, countries investing in—they realize that—they watched Desert Storm. They realize the enormous technological capability of the United States, enormous military capability of the United States. But they look for weaknesses, and they look for ways to engage in so-called “asymmetric responses,” so instead of meeting us head on where we are strong, they find a place that we are weak. One of these places is in fact in the area of ballistic missiles.

It is not just national missile defense, it is theater as well, it is at all ranges. In fact, the only Iraqi capability that we underestimated during the Gulf War was Saddam Hussein's Scud missile capability. We see heavy investments in that going on in a number of countries.

Then I would say, more immediately, and particularly in Asia, we see concerted efforts, but also by Iran in the Persian Gulf, to develop the capabilities to deny the United States access to exert our influence, the ability to keep our fleet away from shores, the ability to threaten bases that we would use for reinforcement.

So those are the kinds of threats that we see as particularly dangerous, emerging in the future. And if we are going to keep this powerful force of ours powerful, we have got to be able to deal with these attempts to undermine it through its weaknesses.

Mr. SCHROCK. Thank you. I agree with that.

I think the perception among the public is that we are at peace in the world. Nothing could be further from the truth, because you have these terrorists and rogue nations out there getting ready to hit us.

You know, it was 60 years ago this December that a terrible thing happened in Hawaii. I pray to God it doesn't happen again. But if we are not careful it is going to. I think the USS Cole should have been a wake-up call for us. It was for me, and I think it was for a lot of Members of Congress. We just have to do everything

that we can to make sure that that doesn't happen; and proper funding is going to solve a lot of that.

Mr. WOLFOWITZ. I agree with you strongly. Thank you.

Chairman NUSSLE. Ms. McCarthy.

Ms. MCCARTHY. Thank you, Mr. Chairman.

And thank you, Mr. Secretary. I find the testimonies very interesting. One of my colleagues talks of the Department of Education. And when we talk about our bases, all I can think of is a majority of my schools which are over 50 years old also and in great need of repair. So we have a lot in common on that issue.

My concern is, and I am sure it is a concern of everybody here, when we started working on the budget, we had kind of a rosy outlook on the moneys that were going to be taken in, and so we were kind of looking at that. Now we know, or we are going to know shortly, you know, how much money we are actually going to have as far as for our future planning.

We here—and I think I can speak for almost every single one on this committee—care about our defense very much. And we care about those that serve our country. And I am a great believer in those that have served our country, in trying to find moneys to take care of them on the health care issues, and concerned also for the health care issues of our men and women that are in the service today.

What—the DOD additional funding requests, and I know you are going under Strategic Review. What I am concerned about is, will this review take into account the moneys that we might not have coming in in the future?

But to follow that up, even, is the Department of Defense going to highlight the things that they want and then let us here in Congress determine how it fits in with a responsible budget, and—because you have to understand where we are. We have our budget that we hopefully will all stay within.

We have to convince our colleagues on all of the other appropriations that we have to stay within these budget guidelines. And it is going to be hard, I think, for an awful lot of us, because so many of us do care for those in the military. If we start to overspend here, are we going to take it out of—I know Social Security and Medicare have been there, and we are talking about that. I don't think anybody is going to do that.

But is it going to come out of our health care system? Is it going to come out of our education system? That is going to be the tough part, I think, for all of us.

Your job, I think, is going to be extremely difficult, to say the least. But on the other end of it, I think that if we all try to work together and look at what is being done on all of our bases, trying to do the maintenance and everything else like that, I think that is really more accountability that has to come into play with that also.

And I understand that our government, not just Defense but almost every department, we are way behind, way behind in the computer world and being able to track where money is going and everything else like that. So hopefully—I mean, it is amazing we get anything done; I will be honest with you.

But beside that, we have a long way to go. And hopefully we can go forward with that for our accountability, for our citizens that we have to represent every time that we take a vote. That is our accountability. So hopefully that—we will follow up on that.

But I am curious on that. When you come forward with your budget and what you want to do, are you going to leave it to all of us to make the decisions on where those moneys are going to go, actually go; and how are we going to make these decisions?

Mr. WOLFOWITZ. Well, first of all, let me say I very much appreciate the sentiments you expressed and so many other members of this committee have expressed of supporting national defense and supporting the men and woman who serve. I think it is something that we all have in common. And these are difficult trade-offs.

I think our job in the Defense Department is to present the President with what we think are the realistic choices, what he can get for more money, what he will sacrifice if he has less money. He is the one, in his own budget, who has got to make the trade-offs among the different, very important, pressing national needs. And then, of course, that is the dialogue that we have with the Congress.

What we have got to get away from is basing that dialogue on either dishonest budgeting, where we are kidding ourselves and kidding you; or what is even worse, and it is almost an inevitable outcome of the dishonest budgeting, essentially doing it on the backs of servicemen and women.

I mean, if we can't afford to pay for 10 Army divisions and 12 aircraft carriers, but we want them because they meet our strategic needs and they allow us to exert influence around the world, so we end up having them, but underfunding them, and the people that pay for that are the people that serve, and the risks that are run are the people that serve.

So what we are trying to do with this budget process and with this defense review is to make these choices consciously. If it turns out that it is going to cost a lot of money to have the capability that I think is important to deal with the threats that I was addressing to Congressman Schrock, I would argue strongly that that should be high on the priority list.

In 1950, as I said, Dean Acheson gave a speech. Many people accused him, I think unfairly, of inviting the North Korean attack by saying that South Korea wasn't within the defense perimeter of the United States. But it was the Joint Chiefs who said we don't have the forces to defend South Korea, we didn't want to pay for them.

Well, at least that issue was surfaced. People decided with some consciousness, OK, we are not going to pay for these forces. I think we paid terribly later.

But what we can't do is fool ourselves and put it on the backs of the people who serve this country so admirably.

Chairman NUSSLE. Ms. Granger.

Ms. GRANGER. Thank you. I have a couple of comments and then a couple of questions.

First of all, I applaud the process that you have said that you are taking. I think it is extremely important, first, that you assess the situation honestly and see where we are. But I would say to you—I would invite you, certainly, to keep us informed about what

you are finding, so that you will help—we can be partners in assessing and also building our case for correct and appropriate funding, and then as you draw your plans for the future, see then what that future means and what it is going to cost. That is going to be a very important part of the QDR.

I would ask you, how you are going to report to the Congress? Are you going to wait until the QDR is finalized, then report in a situation like this; or are you going to tell us along the way and give us some information, so we can keep making our plans?

And then the last thing I would say, the Department has been criticized in reports about financial management. I am glad to hear you say that you are putting in the safeguards, or the changes, to correct that situation.

But I would also say, as you are putting in processes and equipment to report and to keep records, I would hope you would also be looking for savings, because we have got to look at what we are willing—how we appropriately fund.

But there are savings, and I would go back to the first year that I was in the Congress when some of us came together and said, we have got to find not only more money for defense, but also we have got to see how we are spending that money. In one of the meetings that occurred, we were told, primarily by the defense contractors, that in putting some safeguards in to see that we weren't having a \$700 hammer, we were creating a \$700 hammer because we were spending as much in shopping, or in buying the equipment.

Let's say a plane, we spend as much to buy the plane as we do to build the plane. So what can we do about that?

Thank you.

Mr. WOLFOWITZ. On your last point, I think that there is no question that we have some processes in the Defense Department that seem to make it take as long as possible and be as expensive as possible to produce things. To be fair to us, I think some of those are responses to concerns the Congress has expressed over the years. And, not infrequently, I sort of have the feeling that if you excavate each layer of regulation or process that adds some cost or adds some time—and time is money—you will find that there was someone who misbehaved 15 years ago. This was designed to keep anyone from doing that again.

We operate under a lot more restrictions and safeguards than any private sector corporation does. And we certainly should. But we need to take a hard look at whether some of those are unnecessary, some of them have outlived their usefulness. In a big bureaucracy it is very easy to accept something, even—there must be. I mean, we know thousands of servicemen and women who know of things that can be done more efficiently, but we are told it has to be done that way because there is Regulation X or Y; and in this big system of ours, they don't know how to get these things fixed. Hopefully, we will get some of those things fixed.

On the question of keeping the Congress informed, we are trying to do that. It—in fact, I think there is—we have 17 hearings with the Defense Department witnesses up here this week alone. It is a particularly rich week, this week alone.

The preliminary results of the QDR should be briefed to the Secretary by the end of July, beginning of August. And I presume that

would open up the door for some conversations, when you come back from Labor Day, on where we think it is coming out before it is finally delivered.

And then there is still sort of the implementation stage, taking those results and translating them into budget level detail in the 2003 budget which will be coming up here. So, hopefully, there will be a lot of opportunity during the fall months to discuss these issues.

Chairman NUSSLE. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. Secretary, I would like to add my welcome. My congratulations on your appointment and welcome to the committee.

Mr. Chairman, Paul Wolfowitz and I were colleagues 30 years ago, on a decidedly junior status, on the Yale University political science faculty. I don't expect either one of us would have anticipated that 30 years later we would be facing each other across the hearing table. Certainly I wouldn't have anticipated that. But, hey, it is a great country. Here we are.

And I certainly have followed Mr. Wolfowitz's career with great interest and satisfaction and again want to congratulate him and thank him for appearing here today.

I would like to return to some of the budget issues, some of which have been touched on. But I want to give it a particular slant in terms of the 2002 increase and how final these numbers are, or may not be, in terms of what we can anticipate.

As you know, Mr. Secretary, many independent analysts, for example, William Dudley of Goldman Sachs and others believe that the 2002 revenues are in fact likely to be revised downward later this year which would make the 2002 surplus as much as \$50 to \$75 billion less than is currently forecast.

In that case, then, this \$18.4 billion increase that the administration requested for Defense for 2002 would require dipping into the Medicare surplus. None of us, of course, want to do that. So this does raise the question, to what extent are these budget requests being formulated, being shaped, by taking into account the availability of resources?

So let me just ask three related questions along these lines:

In the first place, what about the \$18.4 billion request? How does that compare with what DOD was initially seeking? Did you request substantially more than that? As you know, there have been reports to that effect. I wonder if you could comment on that. Did you request substantially more than that from OMB? How adequate is the request to start with? To what extent has OMB already taken into account the availability of resources?

Secondly, assuming that the original request was more than \$18.4 billion, substantially more, can you give us assurances that that will be adequate, or should we expect a supplemental appropriations request down the road for 2002?

And then thirdly, in terms of the future of the Strategic Review, what constraints in terms of available resources are affecting that review as we speak? What kinds of constraints are you anticipating? And how does that affect the proposals that come from the Strategic Review?

Mr. WOLFOWITZ. Good questions. Good friend from a long time ago. It is good to see you, Congressman Price—or, David, if I may address you that way.

First of all, we certainly identified more needs than we are coming up here asking for. The President ultimately has to make the decision on what he thinks are the highest priorities; and we would emphasize, we have gotten the largest real increase in defense expenditures in 15 years. It goes a long way toward starting to fix some of the serious problems that we identified in the first phase of the Strategic Review, and it has \$13 billion plus another \$7 for missile defense, some \$20 billion toward addressing the needs of the next decade, the needs of the future.

So it is a very healthy investment. It is a start on this uphill path of rebuilding the present force, and I would emphasize, 10 years from now; I mean, 85 percent of the forces that we have today are going to be with us for 10 years or more. That is the rate at which things change in the defense business. So we think it is a good start on that path.

Could we use more? Yes, we could use more. I suppose every department could tell you that. But you asked, then, a second question, would this be adequate or do we need a supplemental in 2002? We will not be asking for a supplemental in 2002, barring a genuine unforeseen emergency. These things do happen.

But what seems to have begun as a kind of dysfunctional process for the last 5 or 6 years, it became so easy to get supplemental appropriations that people planned on them. They weren't for emergencies; they created the emergencies so they could get the funding.

We are not doing that. That is why we are fully funding the defense health care program, and that is an extra \$5 billion over what it was last year, because we think that is what it is really going to cost.

We are adding \$2.4 billion for flying hours. I think I incorrectly—earlier, Mr. Spratt, identified it as readiness as a whole. So \$2.4 million just for flying hours to realistically reflect what those costs are.

So, no, this is a budget that is built on the assumption of no supplementals, and the services understand that. They understand that that is how it will be done. That is why maybe there is more meat and potatoes in it than some people like. But if you leave out the meat and potatoes and just serve dessert, then people come back in the middle of the year, asking for a supplemental.

Your final question had to do with, are we taking account of those projections? And I could be little impertinent and turn the question around and say how on earth can one take account of these projections when they change every month, and they go up and down; and the only thing you can say about this is, they are almost invariably wrong. I don't mean to be flip about it.

But we do leave that responsibility to OMB. What we are trying to give to OMB and the President is a clear, honest, realistic assessment of what they are going to get at different levels of defense expenditure.

The question of what the country can afford—which is partly a matter of doing this magic of divining what the revenue will actu-

ally be and is even more a matter of balancing many important domestic priorities against important defense priorities—is something—our contribution can be made to the President and the Congress by making the defense choices as clear and honest as we can make them.

It is really, I hate to say it, up to you and to OMB to manage the results.

Mr. PRICE. Thank you.

Chairman NUSSLE. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being with us here this morning.

You know, I heard you make the comment that the problem is bigger than you thought. I recall something very similar to that from the year 1993 when an administration took office and said, “The deficit is bigger than I thought,” and the result was a large tax increase. Folks in my district, instead of having that tax increase wanted to cut spending first.

When this administration announced its cabinet, its leadership, folks in that same district said, great to see the adults back in charge.

Well, when Mr. Daniels appeared before us last week, or 2 weeks ago, and was talking about more spending, I am afraid we are going to hear the same thing from home—cut spending first.

Now, Mr. Daniels is responsible for the entire budget, as I understand it, for the White House. You are here representing the Department of Defense—one segment of the budget, a very important segment and a very large segment.

I understand that you have only been on board and confirmed in May. The 6-month review was to be conducted by you and others. You haven’t had 6 months. I don’t think that you can sit before us today and give us a true, accurate statement that says this is an honest assessment, that this is justifiable.

We know there are problems. We visit the bases within our own districts. And we know, too, that we are having to do more with less in other parts of the world. And, in fact, I am going to one of these areas this weekend to visit the 48th Brigade in Bosnia.

We know there has been delay in repairs to infrastructure as well as equipment, delay in preparation for readiness.

We also know that there has been a 40 percent reduction in our uniformed personnel with only a 20 percent reduction in the base alignment. We also know that there is a lot of inside politics in the Department of Defense. We hear the rumors. In fact, some of them are not even rumors; they have actually been put on the table, realignment of units. I think some of that is inside politics and preparation for another possible round of base closures.

Some of those people who are in party, in the leadership, the four stars and whoever, have certain areas of interest that they may want to protect rather than let the chips fall where they may.

Mr. Secretary, I see a far greater risk to our Department of Defense in the outyears—not to our nation as a defense itself but the Department of Defense. And I go back to 1988 when we had a President—a candidate for President who stood in New Orleans and said, “Read my lips.” 1990, he broke that promise, even though

in 1991 he led us through the Gulf War and the display of a mighty Department of Defense, one that I think helped bring down a lot of other things that are problems around the world.

But I also heard this President, less than 3 hours ago, talk about budget discipline. Budget discipline. And I believe when he commented before the nation, he said 4 percent growth is enough.

What does this do to the 4 percent growth? What does this do to the budget discipline? Is this going to cause a reaction from the people that is the same as it did with Bush 41 on "read my lips," a one-term President?

I like this President. I like his ideas. I think he has backbone. But I question the rationale of coming back and asking for more money when we have made a promise that 4 percent growth is enough.

It is not your place, it is Mr. Daniels' place, the Budget Director, to advise the President and come back here with recisions that will give you the funds needed to prop up our Department of Defense to make sure that we have adequate equipment, infrastructure, personnel. And—I will end with this—and I gave this same advice to the Speaker of the House 2 years ago.

There is a saying in Georgia and other parts of this country, Mr. Secretary, "Money talks, BS walks." don't let the 4 percent growth be BS, sir. Pay attention to the words of budget discipline and to the people of this country who say, Cut spending first.

Chairman NUSSLE. Thank you. We are at the point where I promised Mr. Wolfowitz that we would have you out of here. I have two more people that would like to ask questions. Could you—if we make them brief, would you be willing to—

Mr. WOLFOWITZ. I will try to answer them briefly.

Chairman NUSSLE. Mr. Moore.

Mr. MOORE. Mr. Secretary, congratulations and thanks for being here. I certainly agree with the Chairman's comments that every member of this committee is concerned about a strong national defense and frankly, if we don't have a strong national defense for this country, almost nothing else matters. So in that regard, I certainly support adequate pay and housing and medical care and research and development for our defense department, and for the people who serve in our defense.

I want to ask you some questions very briefly about the submission that you made and the \$7 billion for fiscal year 2002 for national missile defense system. Can you tell me, is there anybody who knows right now what the estimated total cost of this so-called national missile defense system will be?

Mr. WOLFOWITZ. We don't have a system yet. We have essentially a program to develop technologies. So we can't do the kind of thing that you might total up, and cost out as a whole architecture. Let me say that covers a wide range of capabilities, some of which are urgently needed in the theater today to deal with threats that are sort of out in the horizon that aren't there now.

Mr. MOORE. Thank you. I have heard and read from other defense experts that they have very real concerns about the threat that a terrorist attack on this country with chemical or biological weapons might represent. In that regard, how would you assess

that kind of threat relative to the threat of a missile attack from a rogue nation?

Mr. WOLFOWITZ. Basically, I would say they are both very serious. We spend a lot of money, some estimates are as much as \$11 billion in countering terrorist threats. And I would spend more if I thought it could be spent usefully. I was in Israel during the Gulf War. Former President Bush sent me and Deputy Secretary of State Lawrence Eagleberger to persuade the Israelis to stay out of that war. I have been in a country under ballistic missile attack. It was 10 years ago, Mr. Congressman, and 10 years later we still don't have an effective defense against those primitive SCUD missiles that were landing on Israel.

It is not what United States does when we are serious. We didn't get to the moon that way. We didn't build Polaris submarines that way. This is a real problem. It is not a future problem. We have got to get serious about it in my view. We have to be serious about both. You could even frame it this way: We lost—I am sorry, I don't remember these terrible numbers. I think we lost 19 people to a truck bomb in Khobar Towers in Saudi Arabia. We lost 24 people to a scud missile in Dahran in Saudi Arabia in the Gulf War. Those are both real threats. We need to work on both of them.

Mr. MOORE. You indicated to the chairman's request in response to one of his questions that you expected that this review that is being conducted at the Defense Department might be completed now in 9 months instead of the 6 months which has already come and gone. Is that realistic, say September, October time frame? And might we, in this committee, expect a report back in September, October about what this review, top to bottom of the Defense Department, shows?

Mr. WOLFOWITZ. First of all, let me emphasize, we have completed a substantial review in the 6-month period. But the short answer to your question is yes. We think it is realistic. We have people working incredibly hard, very, very hard and long hours. But we think we can get it done.

Mr. MOORE. If you find in September or October that you can't get it done, are you going to let us know that and give us a new time frame?

Mr. WOLFOWITZ. I take the chairman's point; if we find in August that we aren't going to make it in September or October, we will be up here and discussing with you what is realistic. We won't leave it to the last minute.

Mr. MOORE. One more question. And please take this as it is intended. I have looked at your bio, very, very impressive biography resume. But my question to you is, and this is not intended as a slap at you at all, but my question to you is would Secretary Rumsfeld come here and talk to us at some point in the near future?

Mr. WOLFOWITZ. I will ask him. I would recommend that he do so.

Mr. MOORE. I know there are members of this committee who like to have an opportunity to discuss some of these things with him. Again, you may be perfectly qualified to be the Secretary, but you are the Deputy. That is the only reason I ask that question. So please take it that way. Thank you very much, Mr. Secretary.

Chairman NUSSLE. Mr. Fletcher.

Mr. FLETCHER. Thank you, Mr. Chairman. And Mr. Secretary, thank you for coming. Certainly, I believe that the President has put together, the Department of Defense, one of the most experienced and best teams we have seen there in a number of decades. So I thank you for your work and what you are doing. And also, I believe you are doing an excellent job. You have got a very difficult task. I laud you and the administration for setting very aggressive goals and commend you for pushing to meet those as much as possible. I know because of circumstances outside your control, it was not entirely possible, but I commend you for getting the ball rolling and working very hard at looking at transforming our military and our defense.

Mr. WOLFOWITZ. Thank you.

Mr. FLETCHER. So those that say that trying to pit defense spending against tax cuts and other things, it seems to be no matter what happens up here, they sing the same tune. They seem to be out of touch with the folks back home who are looking forward to getting some tax relief. I think we can certainly maintain a very strong national defense and get some tax relief if we have fiscal discipline.

I served back and remember the Carter days. It was much like the Clinton years when it comes to defense and support for our troops and their equipment. I can remember a decrease in flying time. I can remember taxiing out on the—to fly Elmendorf and having all three struts go flat. I remember being at Nellis in 1978 at Red Flag and having a 50 percent delivery rate of F-15s at that time. We were cannibalizing aircraft. Crews were not and pilots were not getting the flight time they wanted, and we were bailing out going to civilian jobs. We got a lot of friends that went to the airlines, some of which are still flying.

And so I want to thank you for putting in the money for more flying time. I think that is important. Nobody can understand the importance of that unless you have been there and know how important that is to keeping well-trained pilots. So I commend you on that. And the spare part, I think it is \$2.6 billion for spares and other things. I saw three of my colleagues killed because of equipment breakdown because we weren't getting the spares. We were cannibalizing aircraft. We had old aircraft. And it is very difficult to watch your colleagues—there are going to be accidents. It is a very dangerous profession. But to see losses that didn't need to be there because Congress and the administration at that time would not support the Department of Defense's need is very troubling, and I trust we will not make that same mistake.

You know I just read also Colonel Sam Johnson, who happened to be my wing commander in Homestead Air Force, "Captive Warriors," and I look at the things that happened during Vietnam. How that differs from what happened in Desert Storm and Bosnia. How technology has brought us to make sure that we preserve the lives of our pilots. We are much more effective in our strikes.

So again, I commend you for your effort in technology and transforming military. It is not going to be easy. It is not going to be cheap, but it will save lives and certainly improve our national defense. With that said, let me ask a few questions. I don't know if

you all have right now what our delivery rate is or mission-ready rate for our aircraft are at that time for F-15s, F-16s.

Mr. WOLFOWITZ. Do you have those figures, Dov?

Mr. ZAKHEIM. It may be more specific than we need. But I read it was pretty low, at least a year or 2 ago, and I haven't seen new update figures for that. If you wouldn't mind, I will get them for the record, but I certainly have a very clear picture of those charts that the Air Force is briefing us on, and there has been a very dangerous dip on the order of 20 percentage point reduction in readiness rate.

Mr. FLETCHER. If we don't get the kind of support and equipment and flying time, we are going to lose very skilled pilots. I was down in Langley a year and a half, together with the first tactical fighter wing there, and we have got some of the best trained pilots, some of the most skilled individuals in the world. And we are not going to be able to keep those if we continue to provide them equipment that we can't deliver, cannibalizing aircraft and not offering the flight time. So I commend you again on your request to support those troops. That is very important.

What are some of the impediments that you foresee to impair your ability to really modernize and transform our defense that you can immediately see that really there are major impediments to doing that?

Mr. WOLFOWITZ. Well, I think, first of all, the difficulties of operating efficiently in a variety of ways, I alluded to this earlier, the fact that there are so many things that you know ought to be more cheaply provided through civilian sectors that specialize in those capabilities and you can't do it. I think another thing, which is sort of endemic to the way government does business, is that people have inadequate incentives to save money. I mean, you have, and I am not going to—every government official I know confronts at the end of the fiscal year if they have saved money, some budget officer will come in and say you have got to spend it because if you don't spend it now, they will cut our budget next year. We ought to find ways for people to do the opposite, for people to say I have got the savings, it is going to make me better next year than worse off.

Mr. FLETCHER. Is there a way of rewarding folks in that situation of turning over, having surplus that could—

Mr. WOLFOWITZ. I think there is. I think if I can make a pitch here for what we have tried to do with the B1, I think we are taking 90 aircraft that have a 54 percent availability rate, that is a number I do remember, which is shockingly low, that are so vulnerable to air defenses that we didn't fly them in the Gulf War, and we only flew about three Sorties in Kosovo before we decided that even there they were vulnerable. They were basically built to fly a nuclear mission against the Soviet Union.

We are getting rid of 30 of those 90. We are using the savings, the Air Force is going to use the savings to upgrade the 60, so they not only have advanced avionics and higher availability rates—respectable availability rates—but also have stand-off attack capability so they can stay 160 miles outside of air defenses. That is, in my view, a real way to find some of the money to do some of the things that we need. And we are taking eight aircraft out of Kan-

sas and eight aircraft out of Georgia and eight aircraft out of Idaho. I understand the discomfort, to put it mildly, from the delegations from those States. But I hate to say it, I think there is going to have to be more of that in more states before we are finished.

The only thing I can say is those savings are being put into much more productive uses. The 60 aircraft crews that are left and the people that are supporting them will feel like they are doing a meaningful mission instead of a 54 percent availability rate for an aircraft that doesn't go into combat. That is the kind of thing—there are a lot of opportunities around the Department, and we are going to be looking for them. We are going to be looking for help from you and your colleagues in making those painful choices, which they are painful at first, but I think, like so many adjustments that this country makes, we do understand that we are an incredibly adaptable country. And the pain you take up front really does pay off in the long run.

Chairman NUSSLE. Mr. Spratt.

Mr. SPRATT. Dr. Wolfowitz, we don't do 1-year budgets anymore, we do 10-year budgets, precarious as that is. You do sort of a 6-year budget, a FYDP. I wonder if we could have a copy of your latest FYDP, which incorporates the \$18.4 billion request.

Mr. ZAKHEIM. This year, as you know, Congressman Spratt, we simply have the 2002 budget proposal. There is no 5-year additional plan that goes with it. This is very similar to what happened in 1993. The same thing exactly occurred with the 2003 budget—there will be the follow on outyears, as is normally the case.

Mr. SPRATT. When can we expect a FYDP, a truly updated, properly stated, future year defense plan?

Mr. ZAKHEIM. Well, as I just said, sir, when we submit the 2003 budget, which is normally January, February time frame, as Dr. Wolfowitz said, there will be the outyears as well, the FYDP in its entirety. This year we have only submitted for 2002. Again, that is not unusual. That is very, very common with a first year of a new administration.

Chairman NUSSLE. Thank you to our witnesses. There are, I am sure, additional questions from members. We are far over the time that has been allotted, and apologize to members who came late and are interested in asking questions. There will be, I am sure, additional opportunities. If you would agree to possibly answer some of those questions in writing, that would be helpful, number one. Number two, we will take you up on the offer—I am sure members would appreciate a briefing, some have taken advantage of that, others may want to. We appreciate that. And then just in closing, I think you obviously got the point because I would suggest rule number 1 is plan your work and work your plan; and rule number 2 is if the plan changes, let us know. And we appreciate that. And we also appreciate the work that your staff does. We have a former graduate of the Budget Committee, Mary Beth and she has done an excellent job here, and we welcome her—Becky. Oh, yes OK. And Becky Schmidt is a former Budget Committee graduate. You have got some good folks working with you. We welcome them back.

Mr. WOLFOWITZ. You run a good school up here.

Chairman NUSSLE. We run it so well they go on to bigger and better things.

Mr. WOLFOWITZ. I would be happy to take any questions in writing, or if people want to do an oral question, I will be happy to take a phone call. I am sorry, I have to leave now.

[The information referred to follows:]

QUESTIONS FOR THE RECORD SUBMITTED BY MR. GUTKNECHT

I have been working with the Minnesota Air National Guard on a plan to modernize the Air Reserve Forces in Minnesota. The Air Force Reserve Command has not cooperated with the plan claiming they have their own plan to modernize the 934th Airlift Wing. In an attempt to support the administration's plan to reform the military to an effective and efficient force, does the Department have a plan for the 934th Airlift Wing? If not, can I get Department of Defense assistance to get the Air Force Reserve to cooperate with the Minnesota Air National Guard on the modernization plan? We look forward to an opportunity to present this plan to the Department of Defense.

RESPONSE TO QUESTIONS SUBMITTED BY MR. GUTKNECHT

- Resourcing of Guard and Reserve units and fleet modernization is the responsibility of the Service Secretary.
- Active, Guard and Reserve tactical airlift units are addressed in the Total Air Force plan for tactical airlift called the "C-130 Roadmap"—with the 934th on top for the C-130J in the out years.
- The Guard and Reserve will continue to be full partners with their active counterparts, and their missions (current and future) will reflect that.
- DOD's oversight assures that unit resourcing will commensurate with missioning, given overall DOD fiscal constraints.
- Transforming our force is a joint responsibility and one that will require close partnership between Congress and the executive branch. By the end of the QDR, we will be able to give more precise advice on how we intend to balance our needs and present a new defense posture that is better suited for ourselves and for future generations.

QUESTIONS FOR THE RECORD SUBMITTED BY MR. SPRATT

At a hearing before the House Armed Services Committee on June 28, Secretary Rumsfeld stated that just to maintain the \$18.4 billion increase for 2002 into 2003 would require a Department of Defense budget of approximately \$347 billion for 2003 (compared to \$328.9 for 2002). This appears to be more than the 2002 level adjusted for inflation. Please explain in detail why the 2003 level would be \$347 billion.

RESPONSE TO QUESTIONS SUBMITTED BY MR. GUTKNECHT

Using as a baseline the President's \$328.9 billion request for FY 2002, DOD would need \$347.2 billion in FY 2003 just to cover the costs of inflation and realistic budgeting. This \$18.3 billion increase is indeed more than inflation. Besides inflation, this increase includes added FY 2003 funding to:

- Fully account for in FY 2003 the pay proposals in the FY 2002 budget request
- Realistically fund the Defense Health Program, whose costs in FY 2003 will be substantially higher than in FY 2002
- Realistically fund the currently planned acquisition program, which was estimated to have significant underfunding in FY 2003.

Chairman NUSSLE. We appreciate the time you have spent today. With that, the hearing is adjourned.

[Whereupon, at 12:35 p.m., the committee was adjourned.]