

DEPARTMENT OF DEFENSE  
FISCAL YEAR 2003 BUDGET PRIORITIES

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HEARING  
BEFORE THE  
COMMITTEE ON THE BUDGET  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS  
SECOND SESSION

HEARING HELD IN WASHINGTON, DC, FEBRUARY 12, 2002

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## DEPARTMENT OF DEFENSE BUDGET PRIORITIES FOR FISCAL YEAR 2003

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TUESDAY, FEBRUARY 12, 2002

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

The committee met, pursuant to call, at 2 p.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Gutknecht, Thornberry, Collins, Fletcher, Watkins, Schrock, Culberson, Brown, Kirk, Spratt, Davis, Clayton, Price, Moran, McCarthy, and Moore.

Chairman NUSSLE. The House Budget Committee will come to order. Today we have a full committee hearing on the President's budget for the Department of Defense for fiscal year 2003. Today's hearing will examine the Defense Department's budget request. Our witnesses will be the Honorable Paul Wolfowitz, Deputy Secretary of Defense, who has appeared before this committee before. We welcome him back. Accompanying Secretary Wolfowitz today will be Dov Zakheim. Am I pronouncing that correctly?

Mr. ZAKHEIM. Close enough for government work. It is Zakheim.

Chairman NUSSLE. The Under Secretary of Defense and the chief financial officer. Also appearing today will be Lawrence Korb, who is the vice president and director of studies at the Council on Foreign Relations. He was assistant Secretary of Defense for Manpower Reserve Affairs, Installations and Logistics from 1981 to 1985. We welcome all of our witnesses here today. We also welcome Pete Geren, a former Member and colleague to the Budget Committee, in his new role as well.

The United States is obviously at war, and therefore we should have no doubt that we have been presented with a wartime budget by the President of the United States. Providing for the common defense is our first constitutional responsibility, even in times of peace, and it is all that much more urgent now that our country has suffered an attack of unprecedented scale on innocent civilians. Let no one doubt that we are prepared to do whatever it takes, and yes, spend whatever it takes in order to prevail. The task is made more difficult, however, by the recession. The economic downturn and the war coming at the same time mean a temporary return to red ink.

But as the President has said, there are only three reasons why the Federal Government should ever go into deficit: a national emergency, a recession, and a war. And now, of course, we have that as a trifecta. While that may force us into temporary deficits,

there will be a plan to get us back on track in paying down the debt as soon as possible. Accordingly, the administration has submitted a defense budget that, if enacted, would be the largest 1-year increase in two decades. Given the war that this country faces, those increases strike many of us as entirely appropriate. But it is equally appropriate to examine the budget request in light of three principles: First, setting aside all abstract theorizing about how—quote, unquote—“big” the Pentagon budget ought to be. The real question ought to be, does the budget do the job? Does it have the right mix of programs to move the Department away from the legacy of the cold war and effectively prosecute this current cold war on terrorism? Second, and I think a related question this committee must decide, whether the administration has made the right trade-offs in setting priorities between the Department of Defense and other domestic agencies concerned with the security of our homeland.

It is appropriate for the Pentagon to have a strategy requiring nearly 100,000 troops, but should they be garrisoned in Europe while border patrol is lucky to get 700 more agents to patrol thousands of miles of our border? That is a good question. I say not to be critical of the Defense Department budget, but to raise the question about the new reality of terrorist warfare. September 11 showed us that our homeland is no longer a sanctuary. Accordingly, we need to make sure that the Pentagon adapts fully to the needs of homeland security in this new century.

Finally, the third principle, the administration has placed a strong emphasis on management reform throughout the government. We need to assure those reforms are taking place at the Department of Defense. Some may say that efficient management is a minor concern during wartime. But even during World War II, the most terrible war of our history, then-Senator Harry Truman chaired a committee that ferreted out inefficiencies in the defense establishment and saw to it that the system responded.

Secretary Rumsfeld himself has frequently commented on the need for reform. He has said, and I quote, “waste drains resources from training and tanks, from infrastructure and intelligence and from helicopters and housing. We must change for a simple reason—the world has—and we have not yet changed sufficiently.”

That said, I want to repeat my assurance that this committee and the Congress will do everything in its power to assure that the men and women of our Armed Forces will receive the tools and the training they need to defeat terrorism and to assure the safety of this Nation. I look forward to the testimony of our witnesses. I welcome them back to the committee, and turn now to my friend, John Spratt, for any opening comments he would like to make.

Mr. SPRATT. Mr. Chairman, thank you very much. And I join you in welcoming our two distinguished witnesses, the Deputy Secretary of Defense, Paul Wolfowitz, and the Department of Defense comptroller, the Under Secretary, Dov Zakheim. We are pleased that you would come and testify today. I am going to put some questions to you at some length in the opening statement, which I hope you will address and I hope you will take them in the right vein. They are made in all respect, but frankly when we have an agency that has a 10-year budget of \$4.5 trillion and they come and

ask for \$600 billion more, we think we have a duty to ask for justification and seek the reasons for it. It is part of our job.

We also look forward to the testimony of the former Assistant Secretary of Defense in the Reagan administration, Larry Korb, who, after the testimony of Mr. Wolfowitz and Mr. Zakheim, will testify himself as to his views on the defense budget.

Mr. Wolfowitz when you came here last July, you argued that DOD should get a normative share of the budget of about 3.5 percent of GDP. This year you got your wish, though I doubt it is for the reasons that you wanted when you were here last July. It is for what has happened in the interim. Your request this year by our calculations is about \$379 billion. That represents about 3½ percent of GDP. Unfortunately one reason the Department's budget is 3½ percent of GDP is that GDP has gone down while DOD has gone up.

Last year, the Congressional Budget Office forecasted that in 2003, we would have a GDP that is actually \$587 billion more than we will actually have now according to their latest forecast. That is what happens when you have a recession. If the economy stayed on track, DOD's share of the total GDP now would just be 3.3 percent.

I mention all that because I think it is important to keep in mind that our economy is a powerful instrument of national defense. It is one of the first instruments of national defense. Without a strong economy founded on a strong fiscal policy, it is hard to maintain a strong national defense. That is why the chairman said we need to have a plan for the budget to recover when the economy recovers, so we can put the budget back on track and begin saving the Social Security surpluses that we planned just a year ago or just as recently as last July when you were last here.

Since you were here in July, a lot has changed. We are waging a war on terrorism. I join the chairman and I assure you as a Democrat, when it comes to this war and homeland security, you can count on bipartisan support on this committee and other committees and in the Congress as a whole. As I look through your budget, though, I was a little surprised to see that these activities, homeland security and war on terrorism take up a smaller wedge than I would have guessed if the question were put to me. About 10 percent of the total request is for homeland security and the war on terrorism.

Much of the funding that you are seeking, as we understand the budget for 2003 and beyond, isn't really linked to the war on terrorism or homeland security—not directly anyway. Defense, to begin with, takes a steep upward path over the next 10 years, partly because of some arcane accrual accounting changes, some of which were mandated by Congress in TRICARE for Life, some of which you proposed yourself for the treatment of our defense personnel costs.

But even if these accounting changes are netted out, the 2003 budget is larger than the average DOD budget during any cold war decade, except for the 1980's. I put this chart up here because I was surprised to see it myself. Hugh Brady prepared the chart and went back and got the numbers. We are using constant 2002 dollars. As you will see, the 2003 budget in 2002 constant dollars is

\$365 billion. That is more than any decade except the decade of the 1980's when we averaged about \$395 billion in constant 2002 money—365 billion. That gives you a relative historical profile of how substantial this particular budget is. And that nets out—incidentally, the nonprogrammatic changes, the accrual changes and things like that.

The budget I am referring to is a budget for the Department of Defense solely, not the budget that we deal with for defense, which is function 050, the full defense budget that includes principally the Department of Energy. If you add all of the extra elements that go into function 050, the budget comes up to \$396.8 billion. If we rummage through the budget for all the other accounts that relate to defense—function 550 for example—where we have shifted the TRICARE for Life health care costs, taking it out of the discretionary money in DOD and put it in a mandatory program unconnected with DOD—when you add all that together and throw in the Veterans' Administration, those costs in the budget annually which are directly related to national defense, come to about \$495.5 billion. That is about 25 percent of all Federal spending except for interest.

So we are talking a lot of money, 4½ percent of GDP. And that is why what we are doing is very, very important. Any way you count it, the request for defense adds up to a substantial sum. And yet when we go to the full structure that you propose to maintain, this may surprise some, but the force structure in your QDR. The Quadrennial Defense Review is about the same as the force structure that the Clinton administration proposed. The chart is up there now. You will see that it shows scarcely any difference for the essential force structure, 10 Army divisions, active, 8 reserve, and 11 carrier wings. It is basically the same force structure.

Now you have added an additional element which will be quite substantial and significant over time, and that is ballistic missile defense, which is not broken out here separately. CBO has just finished a study analyzing the cost of different components in a layered missile defense system, and they found that in 2001 constant dollars, a ground-based intercept would cost 23 to \$64 billion; a sea-based intercept system would cost 43 to \$54 billion, and a constellation of 24 space-based lasers would cost 56 to \$68 billion. That is a recent study by CBO.

The budget detail we have so far doesn't indicate how much of these costs are comprehended in this budget—this 10-year budget. But I have a strong impression that it is only a fraction, which to me begs the question, can we build two mid-course interceptors, a ground-base system and a ship-based system, and at the same time build a boost phase interceptor within this budget that you have laid before us, without making major trade-offs such as Navy surface ships?

We are not facing the situation we faced in the 1980's when we had massive Soviet forces poised at the folder gap ready to drive through there at any provocation. But ironically, the defense budget that you have submitted presents us with about the same sized budget, even though the threat has changed dramatically from a symmetric threat where we are concerned about balance of forces at a very high level to an asymmetric threat.



Now don't get me wrong. I am not passing judgment on these numbers. I support much of what you are seeking, but I do think, as I said, we have a duty to examine carefully this request because of its enormous impact on the budget over the next 10 years. Let me direct your attention to a table that overlays the 10-year defense plan on the CBO base line for defense. This chart summarizes the results. You can see basically what the DOD increase is, what the extra increase in interest will be as a result of adding that to the budget over and above the CBO base line, which is the current services base line and the impact on the budget over 10 years, is \$645.2—a lot of money. It involves necessarily trade-offs. One of the trade-offs is probably Medicare prescription drugs.

So, as an opportunity cost and real dollar cost by any measurement, this is a lot of bucks. Your defense plan has been adjusted to back out the accrual accounting changes. This is a ballpark estimate, but there will be some minor differences. Basically, we got about a \$645 billion request here that has to be accommodated with a lot of other interests and a lot of other needs of this country. Now, if we go down this path, I have to wonder if this is a sustainable fiscal course if we can, indeed, sustain this level of spending for a 10-year period of time.

There is not much question about next year's request given the circumstances we are in. Everybody feels the urgency of the situation, the compelling nature of the threat we are facing right now. But looking out 10 years, I have to ask, is this a sustainable budget proposal?

When the Bush administration came to office, it had what appeared to be the most advantageous fiscal situation of any administration in recent times. Surpluses are stretched out for 10 years and increased every year. No administration in recent history has ever come to office with that kind of fiscal advantage. Those surpluses are now virtually all but gone, and we seem doomed to deficit for years to come. There is no doubt about it, we are wholly unprepared for 77 million baby boomers who are going to start drawing their Social Security as soon as 2008.

Let me say again, we stand behind the President and we stand behind you when it comes to funding the war on terrorism and homeland security, but this is a small share of the DOD budget. Last year when you were here and we were still trying to fit \$18.4 billion in the budget and worried about the downstream consequences of that, and I asked you how are we going to do this without invading Social Security? And your answer was, and I am quoting, "we think we should be able to find significant savings."

I have looked through the budget to the extent that we can with the detail we have got, and I don't find a lot of evidence of significant savings. The Navy's area ballistic missile defense system is cancelled, but the mission hasn't gone away and aerial defense will come back up, I firmly believe, in another form. The DD-21 seems to have been cancelled, but sooner or later, we'll have to build a replacement destroyer. As large as your budget is, too, I think you would admit that it underfunds Navy procurement for the surface ship Navy, and sooner or later we will have to address that need and add on to what you are requesting here. The Army legacy pro-

grams have been cancelled. I am not really sure what they all are, but they don't amount to a lot in a \$380 billion budget.

I turn to the strategic nuclear account. You would expect significant savings there in light of the change in the cold war. The peacekeeping is being required, but there aren't big savings there either. So I hope in your testimony you can point to significant savings that indicate there has been a real scrub-down of the budget, try to husband all the resources you can before asking for big increases. If this administration has a theme to national defense, it is transformation. And part of the promise of transformation, is that with stealth and digitization and all these modern technological miracles, we can buy more tooth and less tail. As somebody said, we can ship money from the bureaucracy to the battlefield. And I know that this won't take place over night.

I know that the cost at the front end is going to be higher in the hopes that the costs at the far end can be lower. We can achieve some savings. I would think, though, if we have really got transformation built into this budget, that by the 10th year, the 9th to 10th year, we begin to see some savings in transformation. I can't discern those savings in this budget as I look at it. For example, if we were really in earnest about transformation, technological change, then it ought to show up, it seems to me, in the science and technology accounts, in the R&D budgets of the four different services.

But when I look in the science and tech accounts, I find that though there is a \$5 billion increase in research and development, the S&T accounts are frozen at \$9.9 billion. And when you back out the increase for biochemicals, which I think we need to spend, there is \$300 million less next year than this year in science and technology. That is, not to me, the earmarks of a transformation budget. As I said, this budget is large by historic standards. And it is also large in comparison to other nations of the world. I want to show you a simple chart here. We spent \$295 billion in 2000 on national defense. Our allies, 15 different industrialized nations—that is the industrialized countries of the world, really, except for Russia and China, our allies, NATO, all of Europe, Japan, South Korea—spent \$226.9, and I don't believe that. I don't think they effectively are spending that much money. But I would think in looking through a budget like this in the world we have got today. We all should be looking for burden-sharing opportunities for new ways to divide the burden of labor and defending the world and getting our allies to do more of what we have done.

We are seeing in Afghanistan that the wedge or gap between us and them is getting wider and wider and wider, to the point where we may not be able to form a field of comparable forces. Another concern, Mr. Zakheim, is that this is a big budget, but you have got some big projects about to come to fruition, some of which are going to be devilishly difficult to bring in on cost. The JSF would probably be the first on my list, you still got the F-22, the V-22, the Comanche, the Crusader.

I read yesterday in a wire release that—and I haven't seen much else—but it indicated that since 2001, we have seen a \$105 billion increase in the 22 major weapon programs now in advanced development or procurement; 105 billion since 2001. If we have similar

escalation throughout this 10-year period of time, this budget won't begin to buy what you want. So we would like your assurance that we can get a grip on the cost of these systems, that you have got new management systems that can make sure that we can bring them on cost, on spec and on schedule so that the money we put up can indeed buy the systems that we are seeking.

Let me finally say that what concerns me most about this budget is not the money you request. I understand the need. It is not the systems you want. I understand them. It is certainly not the personnel pay raise. I wholly support that. I had my differences here and there. We have had differences in ballistic missile defense. And I support most of this request. What concerns me, and I think should concern Congress and this committee, is that the increases you seek will not just come from taxpayers' money, they will come from trust fund money. They will come from payroll taxes that workers have hard-earned and paid to the government expecting that they will support their retirement system in the future. I understand the need to do that in the short run when you have a recession or a war or a national emergency, but we are looking at a 10-year budget. This is the additional impact of this 10-year budget on the deficit or surpluses that may be in those particular years and most of those years is an on budget deficit. That means the additional impact, the increase alone, will have on the invasion of Social Security. I think it is fair to ask—I can support the whole amount of your request, but still fairly ask should we be paying for this out of the Social Security trust fund?

I put all these questions out to you, but these are the kinds of questions that concern me as we move with this largest increase in the defense budget in the years that I have been Congress. I look forward to your testimony and thank you again for coming.

[The prepared statement of Chairman Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET

Today's hearing will examine the Department of Defense budget request for fiscal year 2003. Our witness will be the Honorable Paul D. Wolfowitz, Deputy Secretary of Defense. Appearing with Secretary Wolfowitz will be Dov Zakheim, the Under Secretary of Defense and Chief Financial Officer. Also appearing will be Lawrence J. Korb, who is Vice President and Director of Studies at the Council on Foreign Relations. He was Assistant Secretary of Defense for Manpower, Reserve Affairs, Installations and Logistics from 1981 to 1985.

The United States is at war, and therefore, we should have no doubt that we have been presented with a war-time budget. Providing for the common defense is our first constitutional responsibility even in times of peace; it is all the more urgent now that our country has suffered an attack of unprecedented scale on innocent civilians. Let no one doubt that we are prepared to do whatever it takes, and yes, spend whatever it takes in order to prevail.

The task is made more difficult, however, by the recession. The economic downturn and the war coming at the same time mean a temporary return to red ink. But, as the President has said, there are three reasons the Federal Government should ever go into a deficit: a national emergency, a recession, and a war. Now we have all three. And while that may force us into temporary deficits, there will be a plan to get us back on track and paying down the debt.

Accordingly, the administration has submitted a defense budget that, if enacted, would be the largest 1-year increase in two decades. Given the war this country faces, that increase strikes many of us as entirely appropriate. But it is equally appropriate to examine the budget request in the light of three principles:

First, setting aside all abstract theorizing about how "big" the Pentagon budget ought to be, does this budget do the job? Does it have the right mix of programs

to move the Department away from the legacy of the cold war and effectively prosecute the war on terrorism?

Second, and a related question, this Committee must decide whether the administration has made the right trade-offs in setting priorities between the Department of Defense and other domestic agencies concerned with homeland security. Is it appropriate for the Pentagon to have a strategy requiring nearly 100,000 troops to be garrisoned in Europe while the Border Patrol is lucky to get 700 more agents to patrol thousands of miles of our border? I say this not to be critical, but to raise discussion about the new realities of terrorist warfare. September 11 showed that our own homeland is no longer a sanctuary; accordingly, we need to be sure that the Pentagon adapts fully to the needs of homeland security in this new century.

Finally, the administration has placed a strong emphasis on management reform throughout government. We need assurance that those reforms are taking place in DOD. Some may say that efficient management is a minor concern during wartime. But even during World War II, the most terrible war in history, then-Senator Harry Truman chaired a committee that ferreted out inefficiencies in the defense establishment and saw to it that the system responded. Secretary Rumsfeld himself has frequently commented on the need for reform. He has said, and I quote: "Waste drains resources from training and tanks, from infrastructure and intelligence, from helicopters and housing \* \* \* We must change for a simple reason: the world has, and we have not yet changed sufficiently."

That said, I want to repeat my assurance that this Committee will do everything in its power to assure that the men and women of our armed forces will receive the tools and the training they need to defeat terrorism and assure the safety of this nation. I look forward to the testimony from our witnesses.

**STATEMENTS OF HON. PAUL D. WOLFOWITZ, DEPUTY SECRETARY, DEPARTMENT OF DEFENSE; ACCOMPANIED BY DOV S. ZAKHEIM, UNDER SECRETARY OF DEFENSE (COMPTROLLER); AND LAWRENCE J. KORB, VICE PRESIDENT AND DIRECTOR, STUDIES AT THE COUNCIL ON FOREIGN RELATIONS**

Chairman NUSSLE. Welcome, Mr. Secretary. We will accept your testimony at this point, your entire testimony as submitted will be part of the record and you may proceed as you wish. And without objection, all members will have 7 days to submit a written statement for the record at this point as well. Mr. Secretary, welcome.

**STATEMENT OF PAUL D. WOLFOWITZ**

Mr. WOLFOWITZ. Thank you Mr. Chairman, Congressman Spratt, members of the committee. Given the many difficult choices that you are faced with in this budget year, I appreciate the opportunity to return to this committee to testify in support of the 2003 defense request. Since we met last summer, of course a great deal has changed. I look forward to addressing some of these changes with you. The greatest and the gravest change was brought about by September 11, a day that changed our Nation forever. September 11 has taught us once again, that when it comes to America's defense, we must spend what is necessary to protect our freedom, our security, and our prosperity, not just for this generation, but to preserve peace and security for our children and our grandchildren.

Today we are engaged in the enormous task of fighting a global war on terrorism. As difficult as it is to think at the same time about other challenges in the middle of waging this war, we must think beyond our current effort if we are to face the security challenges and conflicts that are certain to come throughout this coming century. The 2003 defense budget request meets the challenges of the current campaign as well as other priorities that are essen-

tial to assuring that America's Armed Forces can manage the threats and challenges of the future.

When the cold war ended, the United States began a very substantial drawdown of our defense forces and our budgets. We cashed a large peace dividend, lowering the level of our defense burden by half from the cold war peak, lowering the total size of our defense establishment by almost that much. Much of that reduction was an appropriate adjustment to the great improvement in our security resulting from the end of the cold war.

That drawdown, however, ultimately went too far. While our commitments around the world in many places stayed the same and even grew in some cases, our country spent much of the 1990's living off of investments made during the cold war, particularly in the 1980's instead of making new investments to address the threats of this new century. As I discussed with this committee last year, even before September 11, we faced an urgent need to replenish critical accounts. After September 11, we find ourselves facing the additional challenges of accomplishing three significant missions at the same time. First, to win the global war on terrorism; second, to restore capabilities by making investments and procurement, people, and modernization; and third, to prepare for the future by transforming our forces for the 21 century. We can only accomplish those three missions with proper investments over a sustained period.

And we must do so, Mr. Chairman and members of the committee, in an environment of rising costs, costs that rise particularly for that element of the force, our people, which is perhaps—which is most critical for our success. I will come back to this later, but I believe many of—forgive me, to my mind, not very relevant comparison to what we were spending in the 1970's, the differences have to do with these great increases in what we have to pay our people. If we don't pay our people properly, we are going to lose that element of the force that is critical, and it is not just a matter of pay, it is health care, it is housing, it is taking care of them in many ways.

The 2003 budget must pay bills in those categories including retiree health care and pay raises. It comes to an increase of \$14.1 billion. Inflation comes to a total of \$6.7 billion, and allowing for what we believe is more realistic costing of systems than we did in the past, another \$7.4 billion. Added to the \$19.4 billion that is included for the war on terrorism, those bills come to some \$47.6 billion. That is why President Bush sent to Congress a 2003 defense budget request of \$379 billion, a \$48 billion increase from the 2002 budget and the largest increase since the early 1990's. Our 2003 budget request was guided by the results of last year's strategy review and the Quadrennial Defense Review.

Both of these were the products of an unprecedented degree of very intense debate among the senior leaders of the Department. I think it came to some very important conclusions, and I would say that our conclusions did not go unnoticed. One foreign observer wrote that the QDR contains, "the most profound implications of the four major defense reviews conducted since the end of the cold war."

What is compelling about that analysis is that it appeared in a Chinese journal. That Chinese observer thinks the QDR conclusions are important as a blueprint for where the United States is going from here, and we think it is also. My statement today will focus on how the President's budget meets this blueprint shaped by the needs of the environment we face today.

Among the new directions said in the QDR, I would single out as three particularly important. First, we decided to move away from the two major theater war force sizing construct to a new approach that places greater emphasis on deterrence in four critical theatres backed by the ability to swiftly defeat two aggressors at the same time while reducing the option for major offensive to one major offensive that would give us the option to occupy an aggressor's capitol and replace its regime. We believe that by doing so, we provide some flexibility for resources that permit us to meet various lesser contingencies and also to be able to invest more for the future. Second, to confront the world mark by surprise and substantial uncertainty. And certainly, September 11 brought home that that is the world we live in.

We agreed even before September 11 that we needed to shift our planning from a threat-based model that guided our thinking in the past, to a capabilities-based model for the future. We don't know who may threaten us or when or where, but we do have some sense of what they may threaten us with and how, and we also have a sense of what capabilities can provide us important unique advantages.

Third, this capabilities-based approach places great emphasis on defining where we want to go with the transformation of our forces. Transformation, as Secretary Rumsfeld has said, is about much more than bombs and bullets and dollars and cents. It is about new approaches, it is about culture, it is about mindset and ways of thinking of things.

During the QDR, we identified six key transformational goals that define our highest priorities for investment in the 03-07 FYDP. I would like to discuss some of the major features of our budget against those six major priorities. We reached those conclusions before September 11, but much of our experience in the war on terrorism since then has validated many of those conclusions and reinforced the importance of moving forward more rapidly in those new directions.

The budget requests \$53.9 billion for research development test and evaluation, a \$5½ billion increase over fiscal year 2002. It requests \$71.9 billion for procurement, that is 68.7 billion in the procurement title and 3.2 billion in the defense emergency response fund, together, a \$10.8 billion increase over 2002. It funds three new transformational programs and accelerates funding for 22 more existing programs.

All together, our investment and transformation in 2003 accounts for roughly \$21.1 billion or 17 percent of combined RDT&E and procurement out of the 2003 budget request, and it will rise to some 22 percent by the end of the FYDP. Let me discuss the details of that 21.1 billion in each of the six categories we identified as critical.

First, and obviously perhaps most important, is protecting our bases of operation in homeland defense. To meet our objective in making homeland defense the Department's top priority, the President's 2003 budget funds a number of programs, including biological defense, homeland security support program, revitalized missile defense research and testing program, and some \$8 billion to support defense of the U.S. Homeland and forces abroad, for total of \$45.8 billion over the FYDP, an increase of 47 percent from the previous FYDP.

In addition, the budget funds combat air patrols over major U.S. cities and other requirements that are part of the war of terrorism, but related to this transformation goal. Second, the President's budget funds a number of programs to provide us the capability to deny enemy sanctuaries and to ensure that adversaries know if they attack us, they will not be able to escape the reach of the United States.

As we root out al-Qaeda and members of the Taliban, it is readily apparent how important that capability is to enable us to rob our enemies of places to hide and function. Key to denying sanctuaries, is the development of new capabilities for long-range precision strike. That is not just about heavy bombers, but it is about linking ground and air assets together, including unmanned capabilities. It is about developing the ability to insert deployable ground forces into denied areas and allow them to network with our long-range precision strike assets. This is something we have seen in the campaign in Afghanistan.

Our special forces mounted on horseback have used modern communications to communicate with and direct strikes from 50 year-old B-52s. Introducing the horse cavalry back into modern warfare, as Secretary Rumsfeld said, was all part of the transformation plan. Indeed it is. Transformation is not always about new systems, but using old systems in new ways with new doctrines, new types of organization and new operational concepts. The President's program funds a number of programs designed to help us meet our objective of denying sanctuaries to enemies, and includes about a billion dollars of increased spending on unmanned aerial vehicles, including \$141 million for accelerated development of new types, \$620 million for Global Hawk.

It includes funding to increase our capability to deliver precision munitions at long ranges including \$54 million for a small diameter bomb that would substantially increase the capability of our B-2 bombers. And it includes a billion dollars to convert four Trident nuclear submarines from a cold war nuclear mission into stealthy high endurance conventional strike submarines.

The 2003 budget, in total, requests \$3.2 billion for programs to support this objective of denying sanctuary to America's adversaries, and 16.9 billion over the FYDP, an increase of 157 percent. Third, projecting power in anti-axis areas. Projecting and sustaining power in the face of enemy efforts to deny us bases of operation is another key objective of our transformation. In the case of the Afghanistan campaign, circumstances force us to operate from very great distances, particularly in the early stages.

In many other cases, U.S. Forces will depend on vulnerable foreign bases to operate creating incentives for adversaries to develop

access denial capabilities to keep us out of their neighborhoods. Indeed, that is a major emphasis in North Korean military planning today. We must, therefore, reduce our dependence on predictable and vulnerable base structure by exploring a number of technologies, including longer-range aircraft, unmanned aerial vehicles and stealthy platforms, as well as reducing the amount of logistical support needed by our ground forces.

The President's 2003 budget includes increased funding for a number of programs in this area, including about \$500 million for the STOVL version of the joint strike fighter, a number of investments to accelerate Army transformation and \$630 million for an expanded upgraded military and GPS. The 2003 budget, in total, requests \$7.4 billion for programs to support our goal of protecting power and \$53 billion over the 5-year FYDP, an increase of 21 percent.

Fourth is leveraging information technology. That is a key to combining many of these other capabilities. Indeed, one can't really arbitrarily separate our ability in Afghanistan, to combine the intelligence we got from unmanned aerial vehicles with the extraordinary skill and bravery of special forces on the ground. It would not have been possible without some remarkable modern communications, but those communications as they stand now are limited. There is a substantial investment in this budget to improve our capability to communicate at long ranges.

One of the most exciting developments—and I am mentioning this, it is not noted specifically in my testimony—one of the most exciting developments, and potentially quite revolutionary, is the development of laser communications, which would allow us to achieve through space systems, the kind of broad band high volume data transmission that we currently achieve on ground with fiberoptic systems only. The 2003 budget requests \$2½ billion for programs to support this objective of leveraging information technology, and of \$18.6 billion over the FYDP, an increase of 125 percent.

Fifth, conducting effective information operations in an era where everyone will increasingly depend on high quality and high volume information, the ability to predict our own information systems and to attack those of enemies is going to be critical. This is, perhaps, of all our six objectives, the one that is still in its infancy. The 2003 budget requests \$174 million for programs to support that objective, and 773 million over the FYDP, an increase of 28 percent.

Finally, strengthening space operations. Although this was not a capability that was stressed very much on the war in Afghanistan, space is the ultimate high ground. One of our top transformational goals is to harness the U.S. advantage in space to enable us to see what adversaries are doing around the world and around the clock. As we move operations to space, we must also ensure the survivability of those space systems. The 2003 budget requests about \$200 million to strengthen space capabilities, and \$1½ billion over the FYDP, an increase of 145 percent.

Of course, transformation is not something that happens in 1 year, nor is it something that drives the entire force. Rather, the goal over time is to transform between 5 and 10 percent of the



force, turning it into a leading edge of change that will, over time, lead the rest of the force into the 21st century.

As an historical example, Mr. Chairman, if one goes back to an earlier and very dramatic transformation that took place in the 1920's and 1930's when the Germans—and it, unfortunately, was the Germans and not the British and the French—mastered the transformational concepts of armored warfare. At the time of the battle of France, only some 10 or 15 percent of the German Army was actually armored forces, but it was the wedge that permitted the rest of the German force, what we would today call the legacy force, to be decisive. As Secretary Rumsfeld has emphasized, transformation is not an event but an ongoing process.

Let me conclude briefly, Mr. Chairman, with a few other points. First, about people and personnel. As I said earlier, this is our most valuable resource, the men and women who wear our Nation's uniform. Military service, in its nature, has considerable risk and sacrifices to those who serve. We should not ask those who put themselves in harms way or spend long times—long periods deployed away from home to forgo competitive pay and quality housing. The President's 2003 budget requests \$94.3 billion for military pay and allowances. That includes 1.9 billion for an across-the-board 4.1-percent pay raise, and \$300 million for targeted pay raises.

Among the other important things funded in this budget is \$4.2 billion to improve military housing. That funding will also lower out-of-pocket housing costs for those living in private housing from 18.8 percent where it was in 2001, to 7.5 percent in the 2003 budget, putting us on a track to eliminate all out-of-pocket housing costs for men and women in uniform by the year 2005. Congressman Spratt asked about cost savings. It is an important subject, it is one we are working hard on, it is one that takes time. We have taken a realistic approach in looking at a number of programs and found some areas where we can save money already. We have proposed terminating a number of programs over the next 5 years that were not in line with the defense strategy or were having program difficulties.

We have focused modernization efforts on programs that support transformation. We restructured certain programs such as the V-22 Osprey, Comanche and SBIRS programs that were not meeting hurdles. I believe, correct me, Dov Zakheim, that for the first time ever, we declared a program on security breach and canceling the Navy aerial missile defense program. We are working to generate savings and efficiency in other programs as well.

For example, today the B-1 bomber does not operate effectively in a combat environment where there is a serious anti-aircraft threat. So the Air Force is reducing that fleet by about a third, using the savings from retiring those 30 B-1s to modernize their remaining aircraft with new precision weapons, self protection systems and reliability upgrades. That will add some \$1½ billion of advanced combat capability to today's aging B-1 fleet making it a truly capable system.

The budget reflects over \$9 billion in redirected funds from acquisition program changes, management improvements and other initiatives, savings that had been critical to enabling us to fund

transformation and other pressing requirements. And we are putting a considerable emphasis on putting our financial house in order, and Secretary Zakheim can speak to that in more detail.

I must note with some dismay that the decision to put off base closure for two-additional years means that the Congress—that the Department will have to continue supporting between 20 to 25-percent more infrastructure than we believe we need to support the force. That decision will be a costly one for taxpayers. It is more costly because post September 11, we have had to substantially increase forced protection around all of those bases, and as I noted, we are protecting 25-percent more bases than we actually need. The two-year delay in base closure should not be taken as an opportunity to try to BRAC-proof certain bases and facilities. We need to protect that process.

Throughout this budget process, we did make tough trade-offs—we were forced to. We could not meet our objective in lowering the age of tactical aircraft. However, we are investing an unmanned aircraft in the F-22 and the joint strike fighter, but those will not come on line for several years. While the budget proposes faster growth in science and technology, we are not able to meet our goal of 3 percent of the budget. And we have not been able to fund ship building at replacement rates in 2003.

To sustain the Navy at acceptable levels, we need to build eight or nine ships annually, and we don't reach that level until the 2006, 2007 time frame.

Before concluding, Mr. Chairman, if I might just make a few observations quickly in answer to some of the questions that were put in the opening, and we can obviously get into them in more detail. I think comparing our forces today to what they cost in the cold war, and what those forces cost really doesn't address the question of what we need in this era and what things cost in this era. The truth is that if we had to buy our cold war forces today, our budget would be hundreds of billions, I believe, more than it is now, but those, of course, would not be the appropriate forces.

It is also true if we had to buy China's forces, our budgets would be considerably bigger than China's. Comparing our military budget with the military budgets of other countries, I think isn't terribly relevant at the end of the day. We didn't fight the Taliban's military budget, we fought the Taliban. We fought them and we beat them decisively because we had capabilities that allow us to overwhelm enemies of that kind, not to meet them at an equal level, not to meet them in a budgetary playground.

While it is true that only 10 percent of the budget is identified as specifically associated with the cost of the war, that is really the marginal costs from additional operation. It wouldn't be possible to get anything out of that if we didn't have the large investment in people and equipment that allow us to take the war to the terrorist. It doesn't include the cost of building and operating aircraft carriers. It only includes the additional costs of extra steaming time. It doesn't include the costs of training and grooming outstanding special forces operators over the course of a career. It only includes the additional gasoline to get them into the theater.

So it is misleading, I think to say, that only 10 percent of this budget is addressing the war on terrorism. A very large percentage

of this budget addresses the war on terrorism. We wouldn't be able to conduct it without that large investment. Indeed, I think that is a fundamental point. It is a bit too easy, I think, to talk about tooth versus tail. The truth is that we count our training establishment as part of the tail. But without that training establishment, the tooth would be of very little value. I am not sure how true the tooth-to-tail ratios are on an armed predator with no pilot in it operating over Afghanistan with people sitting in offices thousands of miles away directing strikes. I imagine those people in offices are counted as part of the tail.

In the case of some of the modern capabilities we are developing, it is not a very meaningful distinction. I think the important point is that the capabilities that we have in our military today are expensive. There is no denying it. They are also unequaled. There is no denying that. And I think after September 11, there is no denying that they are indispensable. If they can help us to prevent a disaster like September 11 in the future, they are obviously worth it. But if they also help us respond when a surprise occurs to help us react in the way we have been able to react in the last three months, they are obviously worth it.

The costs to our economy alone, I believe, justifies it. But the cost in human lives and the pain and suffering of so many thousands of Americans who lost loved ones in that disaster on September 11 is incalculable. The President's budget addresses our country's need to fight the war on terror, to support our men and women in uniform, and to modernize the forces we have and prepare for the challenges of the 21st century.

This committee and the Congress provided our country strong leadership in providing for the national defense and ensuring the taxpayers' dollars are wisely spent. We appreciate the bipartisan support. I have to admit we appreciate the tough questions. They are in part trying to manage this large enterprise efficiently. We look forward to working with this committee and achieving both of these critical goals. Thank you.

Chairman NUSSLE. Mr. Secretary, thank you for your testimony.  
[The prepared statement of Paul Wolfowitz follows:]

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

INTRODUCTION

Mr. Chairman and members of the committee, given the many difficult choices with which you are faced, I appreciate the opportunity to return to this committee to help you in your task by addressing the 2003 defense budget. Since we met last summer, a great deal has changed, of course. I look forward to addressing some of these changes with you.

One of the greatest—and gravest—changes was brought by September 11—a day that changed our nation forever. September 11 has taught us once again that when it comes to America's defense, we must spend what is necessary to protect our freedom, our security and prosperity—not just for this generation, but to preserve peace and security for our children and our grandchildren.

Today, we are engaged in the enormously preoccupying task of fighting a global war on terrorism. As difficult as it is to think about other challenges in the middle of waging this war, it is essential that we think beyond this great effort if we are to face the security challenges and conflicts that are certain to arise throughout this century.

The 2003 Defense Budget request meets the challenges of the current campaign as well as other priorities that are essential to ensuring that America's Armed Forces can manage the threats and challenges of the decades ahead.

When the cold war ended, the United States began a very substantial draw down of our defense forces and our budgets. We cashed a large "peace dividend," lowering the level of our defense burden by half from the cold war peak. Much of that was an appropriate adjustment to the great improvement in our security that resulted from the end of the cold war. The draw down, however, ultimately went too far.

While our commitments around the world stayed the same and even grew in some cases, our country spent much of the 1990's living off investments made during the cold war, instead of making new investments to address the threats of this new century. As I discussed with this committee last year, even before September 11, we faced the urgent need to replenish critical accounts. After September 11, we find ourselves facing the additional challenges of accomplishing three significant missions at once:

- We must win the global war on terrorism;
- We must restore capabilities by making investments in procurement, people and modernization; and,
- We must prepare for the future by transforming for the 21st Century.

It will be difficult and demanding to tackle all three of these missions at once, but we must do it—and without delay. Even as we fight the war on terror, potential adversaries study our methods and capabilities, and they plan for how they can take advantage of what they perceive to be our weaknesses and vulnerabilities. Now is precisely the moment we must begin to build forces that can frustrate those plans and provide us with the capabilities we need to win the wars of the coming decades.

We can only accomplish the Defense Department's three missions—fighting the war on terror, supporting our people and selectively modernizing the forces we have now, and transforming our Armed Forces for the wars of the future—with proper investments over a sustained period. And we must accomplish these missions in an environment of rising costs, particularly for that most critical element of the force—our people—so vital to our success. The 2003 budget addresses "must pay" bills such as retiree health care and pay raises (\$14.1 billion); and other bills such as realistic costing (\$7.4 billion); inflation (\$6.7 billion); and the war on terror (\$19.4 billion). Added together, these bills come to \$47.6 billion. That is why President Bush sent to Congress a 2003 defense budget request of \$379 billion—a \$48 billion increase from the 2002 budget, and the largest increase since the early 1980's.

#### NEW DEFENSE STRATEGY

The 2003 budget request was guided by the results of last year's strategy review and the Quadrennial Defense Review (QDR), both of which involved an unprecedented degree of debate and discussion among the Department's most senior leaders. Out of this intense debate, we reached agreement on the urgent need for real changes in our defense strategy.

I might add that our conclusions have not gone unnoticed. One foreign observer reports that the QDR contains "the most profound implications" of the four major defense reviews conducted since the end of the cold war. What is most compelling about this analysis is that it appears in a Chinese journal. That Chinese observer thinks the QDR's conclusions are important as a blueprint for where we go from here—and we think so, too.

My statement today addresses how the President's budget intends to meet this blueprint, shaped by the needs of the environment we face today and the environment we could face in the decades to come.

Among the new directions set in the QDR, the following are among the most important:

First, we decided to move away from the two Major Theater War (MTW) force sizing construct, which called for maintaining forces capable of marching on and occupying the capitals of two adversaries and changing their regimes—at the same time. The new approach instead places greater emphasis on deterrence in four critical theaters, backed by the ability to swiftly defeat two aggressors at the same time, while preserving the option for one major offensive to occupy an aggressor's capital and replace the regime. By removing the requirement to maintain a second occupation force, we can free up resources for various lesser contingencies that might face us and also be able to invest for the future.

Second, to confront a world marked by surprise and substantial uncertainty, we agreed that we needed to shift our planning from the "threat-based" model that has guided our thinking in the past to a "capabilities-based" model for the future. We don't know who may threaten us or when or where. But, we do have some sense

of what they may threaten us with and how. And we also have a sense of what capabilities can provide us important new advantages.

Third, this capabilities-based approach places great emphasis on defining where we want to go with the transformation of our forces. Transformation, as Secretary Rumsfeld has said, “is about an awful lot more than bombs and bullets and dollars and cents; it’s about new approaches, it’s about culture, it’s about mindset and ways of thinking of things.”

We identified six key transformational goals that define our highest priorities for investments in the ’03–’07 FYDP.

- First, to protect the U.S. homeland and forces overseas;
- Second, to project and sustain power in distant theaters;
- Third, to deny enemies sanctuary, or places where they can hide and function.
- Fourth, to protect information networks from attack;
- Fifth, to use information technology to link up U.S. forces so they can fight jointly; and
- Sixth, to maintain unhindered access to space—and protect U.S. space capabilities from enemy attack.

We reached these conclusions before September 11, but our experiences since then have validated many of those conclusions, and reinforced the importance of continuing to move forward in these new directions. The 2003 budget request advances each of the six transformational goals by accelerating funding for the development of the transformational programs and by funding modernization programs that support transformation goals.

The budget requests \$53.9 billion for Research, Development, Test, and Evaluation (RDT&E)—a \$5.5 billion increase over fiscal year 2002. It requests \$71.9 billion for procurement—\$68.7 billion in the procurement title—a \$7.6 billion increase over fiscal year 2002—and \$3.2 billion in the Defense Emergency Response Fund. It funds 13 new transformational programs, and accelerates funding for 22 more existing programs.

All together, transformation programs account for roughly \$21.1 billion, or 17 percent, of investment funding (RDT&E and procurement) in the President’s 2003 budget request—rising to 22 percent over the 5 year FYDP. Let me discuss the details of the \$21.1 billion in each of the six categories that follow.

1. *Protecting Bases of Operation/Homeland Defense.* It is obvious today that our first goal, protecting our bases of operation and homeland defense, is an urgent priority—especially since we know that both terrorists and state-supporters of terrorism are actively looking to build or buy nuclear, chemical and biological weapons of mass destruction.

To meet our objective of making homeland defense the Department’s top priority, the President’s 2003 budget funds a number of programs. These include:

- \$300 million to create a Biological Defense Homeland Security Support Program to improve U.S. capabilities to detect and respond to biological attack against the American people and our deployed forces.
- \$7.8 billion for a refocused and revitalized missile defense research and testing program that will explore a wide range of potential technologies that will be unconstrained by the ABM Treaty after June 2002, including:
  - \$623 million for the Patriot PAC III to protect our ground forces from cruise missile and tactical ballistic missile attack.
  - \$3.5 million for the Mobile Tactical High-Energy Laser that can be used by U.S. ground forces to destroy enemy rockets, cruise missiles, artillery and mortar munitions.
  - \$598 million for the Airborne Laser (ABL), a speed of light “directed energy” weapon to attack enemy ballistic missiles in the boost-phase of flight—detering an adversary’s use of WMD since debris would likely land on their own territory.
  - \$534 million for an expanded test-bed for testing missile intercepts;
  - \$797 million for sea, air and space-based systems to defeat missiles during their boost phase;

The budget invests \$8 billion to support defense of the U.S. homeland and forces abroad—\$45.8 billion over the 5 year Future Years Defense Plan (2003–7), an increase of 47 percent from the previous FYDP. In addition, the budget funds combat air patrols over major U.S. cities (\$1.2B) and other requirements related to this transformation goal.

2. *Denying Enemies Sanctuary.* The President’s budget funds a number of programs to ensure adversaries know that if they attack, they will not be able to escape the reaches of the United States. As we root out al Qaeda and members of the Taliban, it is readily apparent how important it is to rob our enemies of places to hide and function—whether it be in caves, in cities, or on the run.

Key to denying sanctuary is the development of new capabilities for long-range precision strike, which is not just about heavy bombers, but about linking ground and air assets together, including unmanned capabilities. It also includes the ability to insert deployable ground forces into denied areas and allow them to network with our long-range precision-strike assets.

This is something we have seen in the campaign in Afghanistan. Our Special Forces, mounted on horseback, have used modern communications to communicate with and direct strikes from 50-year-old B-52s. Introducing the horse cavalry back into modern war, as Secretary Rumsfeld has said, “was all part of the transformation plan.” And it is. Transformation isn’t always about new systems, but using old systems in new ways with new doctrines, new types of organization, new operational concepts.

The President’s 2003 budget funds a number of programs designed to help us meet our objective of denying sanctuary to enemies. They include:

- \$141 million to accelerate development of UAVs with new combat capabilities.
- \$629 million for Global Hawk, a high-altitude unmanned vehicle that provides reconnaissance, surveillance and targeting information. We will procure three Air Force Global Hawks in 2003, and accelerate improvements such as electronics upgrades and improved sensors, and begin development of a maritime version.
- \$91 million for the Space-Based Radar, which will take a range of reconnaissance and targeting missions now performed by aircraft and move them to space, removing the risk to lives and the need for over-flight clearance;
- \$54 million for development of a small diameter bomb, a much smaller, lighter weapon that will allow fighters and bombers to carry more ordnance and thus provide more kills per sortie;
- \$1 billion for conversion of four Trident nuclear submarines into stealthy, high endurance SSGN Strike Submarines that can each carry over 150 Tomahawk cruise missiles and up to 66 Special Operations Forces into denied areas;
- \$30 million for advanced energetic materials and new earth penetrator weapons to attack hardened and deeply buried targets.
- \$961 million for the DD(X), which replaces the cancelled DD-21 destroyer program and could become the basis of a family of 21st Century surface combat ships built around revolutionary stealth, propulsion, and manning technologies. Initial construction of the first DD(X) ship is expected in fiscal year 2005.

The 2003 budget requests \$3.2 billion for programs to support our objective of denying sanctuary to America’s adversaries, and \$16.9 billion over the 5 year FYDP (2003–7)—an increase of 157 percent.

3. *Projecting Power in Anti-access Areas.* Projecting and sustaining power in anti-access environments is another necessity in the current campaign; circumstances forced us to operate from very great distances.

In many other cases, U.S. forces depend on vulnerable foreign bases to operate—creating incentives for adversaries to develop “access denial” capabilities to keep us out of their neighborhoods.

We must, therefore, reduce our dependence on predictable and vulnerable base structure, by exploiting a number of technologies that include longer-range aircraft, unmanned aerial vehicles, and stealthy platforms, as well as reducing the amount of logistical support needed by our ground forces.

The President’s 2003 budget includes increased funds for a number of programs designed to help us project power in “denied” areas. These include:

- \$630 million for an expanded, upgraded military GPS that can help U.S. forces pinpoint their position—and the location of their targets—with unprecedented accuracy.
- \$5 million for research in support of the Future Maritime Preposition Force of new, innovative ships that can receive flown-in personnel and off-load equipment at sea, and support rapid reinforcement of conventional combat operations. Construction of the first ship is planned for fiscal year 2007.
- \$83 million for the development of Unmanned Underwater Vehicles that can clear sea mines and operate without detection in denied areas;
- About \$500 million for the Short Takeoff/Vertical Landing (STOVL) Joint Strike Fighter that does not require large-deck aircraft carriers or full-length runways to takeoff and land.
- \$812 million for 332 Interim Armored Vehicles—protected, highly mobile and lethal transport for light infantry—enough for one of the Army’s transformational Interim Brigade Combat Teams (IBCT). The fiscal years 2003–2007 Future Years Defense Program (FYDP) funds six IBCTs at about \$1.5 billion each.
- \$707 million for the Army’s Future Combat System—a family of advanced-technology fighting vehicles that will give future ground forces unmatched battlefield awareness and lethality.

- \$88 million for new Hypervelocity Missiles that are lighter and smaller (4 ft long and less than 50 lbs) and will give lightly armored forces the lethality that only heavy armored forces have today

The 2003 budget requests \$7.4 billion for programs to support our goal of projecting power over vast distances, and \$53 billion over the 5 year FYDP (2003–7)—an increase of 21 percent.

4. *Leveraging Information Technology.* A key transformation goal is to leverage advances in information technology to seamlessly connect U.S. forces—in the air, at sea and on the ground so they can communicate with each other, instantaneously share information about their location (and the location of the enemy), and all see the same, precise, real-time picture of the battlefield.

The President's 2003 budget funds a number of programs designed to leverage information technology. These include:

- \$172 million to continue development of the Joint Tactical Radio System, a program to give our services a common multi-purpose radio system so they can communicate with each other by voice and with data;
- \$150 million for the "Link-16" Tactical Data Link, a jam-resistant, high-capacity, secure digital communications system that will link tactical commanders to shooters in the air, on the ground, and at sea—providing near real-time data;
- \$29 million for Horizontal Battlefield Digitization that will help give our forces a common operational picture of the battlefield;
- \$61 million for the Warfighter Information Network (WIN-T), the radio-electronic equivalent of the World Wide Web to provide secure networking capabilities to connect everyone from the boots on the ground to the commanders.
- \$77 million for the "Land Warrior" and soldier modernization program to integrate the small arms carried by our soldiers with high-tech communications, sensors and other equipment to give new lethality to the forces on the ground;
- \$40 million for Deployable Joint Command and Control—a program for new land and sea-based joint command and control centers that can be easily relocated as tactical situations require.

The 2003 budget requests \$2.5 billion for programs to support this objective of leveraging information technology, and \$18.6 billion over the 5 year FYDP (2003–7)—an increase of 125 percent.

5. *Conducting Effective Information Operations.* As information warfare takes an increasingly significant role in modern war, our ability to protect our information networks and to attack and cripple those of our adversaries will be critical.

Many of the programs supporting this objective are classified. But the President's 2003 budget funds a number of programs designed to provide unparalleled advantages in information warfare, such as \$136.5 million for the Automated Intelligence, Surveillance and Reconnaissance System, a joint ground system that provides next-generation intelligence tasking, processing, exploitation and reporting capabilities.

The 2003 budget requests \$174 million for programs to support this objective—\$773 million over the 5 year FYDP (2003–7)—an increase of 28 percent.

6. *Strengthening Space Operations.* Space is the ultimate "high ground." One of our top transformational goals is to harness the United States' advantages in space where we can see what adversaries are doing around the world and around the clock. As we move operations to space, we must also ensure the survivability of our space systems.

The President's 2003 budget includes funds for a number of programs designed to provide unmatched space capabilities and defenses. These include:

- \$88 million for Space Control Systems that enhance U.S. ground based surveillance radar capabilities and, over time, move those surveillance capabilities into space;
- \$103.1 million for Directed Energy Technology to deny use of enemy electronic equipment with no collateral damage, to provide space control, and to pinpoint battlefield targets for destruction.

The 2003 budget requests about \$200 million to strengthen space capabilities—\$1.5 billion over the 5 year FYDP (2003–7)—an increase of 145 percent.

Of course, we cannot transform the entire military in 1 year, or even in a decade—nor would it be wise to try to do so. Rather, we intend to transform between 5–10 percent of the force, turning it into the leading edge of change that will, over time, lead the rest of the force into the 21st Century. As Secretary Rumsfeld has emphasized, "transformation is not an event—it is an ongoing process."

#### People/Military Personnel

While we transform for the future, we must take care of our most valuable resource: the men and women who wear our nation's uniform. Military service by its nature asks our service members to assume certain risks and sacrifices. But, we

should not ask those who put themselves in harm's way to forego competitive pay and quality housing.

The President's 2003 budget requests \$94.3 billion for military pay and allowances, including \$1.9 billion for an across-the-board 4.1 percent pay raise and \$300 million for the option for targeted pay-raises for mid-grade officers and NCOs.

The budget also includes \$4.2 billion to improve military housing, putting the Department on track to eliminate most substandard housing by 2007—several years sooner than previously planned. It will also lower out-of-pocket housing costs for those living in private housing from 11.3 percent today to 7.5 percent in 2003—putting us on track to eliminate all out of pocket housing costs for the men and women in uniform by 2005. This represents a significant change—before 2001, out-of-pocket costs were 18.8 percent.

We stand by our goal of reducing the replacement rate for DOD facilities from the current and unacceptable 121 years, to a rate of 67 years (which is closer to the commercial standard). We have dedicated some \$20 billion over the 2003–7 FYDP to this end. But most of those investments have been delayed until the out-years, when BRAC is finally implemented and we will know which facilities will be closed.

The budget also includes \$10 billion for education, training, and recruiting, and \$22.8 billion to cover the most realistic cost estimates of military healthcare.

#### Cost Savings

We have taken a realistic approach in looking at a number of programs, and have found areas where we can save some money. We have proposed terminating a number of programs over the next 5 years that were not in line with the new defense strategy, or were having program difficulties. These include the DD–21, Navy Area Missile Defense, 18 Army Legacy programs, and the Peacekeeper Missile. We also accelerated retirement of a number of aging and expensive to maintain capabilities, such as the F–14, DD–963 destroyers, and 1000 Vietnam-era helicopters.

We have focused modernization efforts on programs that support transformation. We restructured certain programs that were not meeting hurdles, such as the V–22 Osprey, Comanche, and SBIRS programs. Regarding the V–22, the production rate has been slowed while attention is focused on correcting the serious technical problems identified by the blue ribbon panel and a rigorous flight test program is to be conducted to determine whether it is safe and reliable. The restructured programs reflect cost estimates and delivery dates that should be more realistic.

We are working to generate savings and efficiency in other programs as well. For example, today, the B–1 bomber cannot operate effectively in combat environment where there is a serious anti-aircraft threat. So the Air Force is reducing the B–1 bomber fleet by about one third, and using the savings to modernize the remaining aircraft with new precision weapons, self-protection systems, and reliability upgrades that will make the B–1 suitable for future conflicts. This should add some \$1.5 billion of advanced combat capability to today's aging B–1 fleet over the next 5 years—without requiring additional dollars from the taxpayers. These are the kinds of tradeoffs we are encouraging throughout the Department.

We are also proceeding toward our goal of a 15-percent reduction in headquarters staffing and the Senior Executive Council is finding additional ways to manage DOD more efficiently.

The budget reflects over \$9 billion in redirected funds from acquisition program changes, management improvements, and other initiatives—savings that help to fund transformation and other pressing requirements.

Currently, to fight the war on terrorism and fulfill the many emergency homeland defense responsibilities, we have had to call up over 70,000 guard and reserves. Our long term goal, however, is to refocus our country's forces, tighten up on the use of military manpower for non-military purposes and examine critically the activities that the U.S. military is currently engaged in to identify those that are no longer needed.

The Secretary of Defense and the Defense Department have made one of the highest reform priorities to put our financial house in order. We have launched an aggressive effort to modernize and transform our financial and non-financial management systems—to include substantial standardization, robust controls, clear identification of costs, and reliable information for decision makers. Especially key is the creation of an architecture that will integrate the more than 674 different financial and non-financial systems that we have identified.

Congress's decision to put off base-closure for two more years means that the Department will have to continue supporting between 20–25-percent more infrastructure than needed to support the force. The decision to hold up the process another 2 years will be a costly one for taxpayers. Additionally, because of the post-Sep-



tember 11 force protection requirements, DOD is forced to protect 25-percent more bases than we need.

The 2-year delay in base-closure should not be taken as an opportunity to try to “BRAC-proof” certain bases and facilities. Earmarks directing infrastructure spending on facilities that the taxpayers of America don’t need and that eventually could be closed would be compounding the waste that the delay in BRAC is already causing.

#### TRADE OFFS

Throughout this budget process, we were required to make some tough tradeoffs.

- We were not able to meet our objective of lowering average age of tactical aircraft. However, we are investing in unmanned aircraft, and in the F-22 and JSF, which require significant upfront investments, but will not come on line for several years.

- While the budget proposes faster growth in Science and Technology (S&T), we were not able to meet our goal of 3 percent of the budget.

- And we have not been able to fund shipbuilding at replacement rates in 2003—which means we remain on a downward course that, if not unchecked, could reduce the size of the Navy to a clearly unacceptable level in the decades ahead. To sustain the Navy at acceptable levels, the U.S. needs to build eight or nine ships annually. The proposed Future Years Defense Plan budgets for procurement of 5 ships in fiscal year 2004, 7 ships in 2005, 7 ships in 2006 and 10 ships in 2007.

#### CONCLUSION

A budget of \$379 billion represents a great deal of money. But, consider that the New York City comptroller’s office estimated the local economic cost of the September 11 attacks on New York City alone will add up to about \$100 billion over the next 3 years. Estimates of the cost to the national economy range from about \$170 billion last year—and estimates range as high as almost \$250 billion a year in lost productivity, sales, jobs, airline revenue, and countless other areas. The cost in human lives, and the pain and suffering of so many thousands of Americans who lost loved ones that day is incalculable.

The President’s budget address our country’s need to fight the war on terror, to support our men and women in uniform and modernize the forces we have, and to prepare for the challenges of the 21st Century. This committee has provided our country strong leadership in providing for the national defense and ensuring that taxpayers’ dollars are wisely spent. We look forward to working with this committee in achieving both of these critical goals.

Chairman NUSSLE. And we meet today far enough away from what happened on September 11 that maybe we have forgotten—we haven’t forgotten, but certainly it would be a different—maybe a different hearing if this was on September 12 or October 12 as opposed to all the way now into February. I think I speak for the entire committee when I say thank you. Not only to you, but to all of the great people that work in our Defense Department. You have been on the front line of this in more ways than one, starting on September 11, when your offices were bombed. And talk about transformation. You had to make the mother of all transformations from what you were doing that day to fighting a global war on terrorism, a war that no one has probably ever tried to strategize in all of the planning and reviews that go on.

So let me thank you and all of the fine people that work for us in defending our Nation. Certainly we are going to have some tough questions as part of it, but we meet in that context and we don’t want to start this hearing without thanking you and the men and women that defend our Nation on a day-to-day basis.

That having been said and talking a little bit about trade-offs, we are going to have to make that decision about trade-offs. Congress makes those decisions. The President has made that decision in his budget. We are not here to ask you to make decisions about trade-offs between your budget and other budgets. That is for us

to decide. You have come here today. You have presented your budget to the President and the President on your behalf has presented the budget on behalf of our defense and those trade-offs are implicit and explicit within that budget.

As Mr. Spratt said—and trust me when I say that his questions and his comments on the subject are far more learned than mine. He lives this on a day-to-day basis. I might be able to run circles around him on farm policy, but when it comes to defense policy, there is nobody who is a greater expert than Mr. Spratt. I want to try to explain this to my constituents back home. I have got to go home, as we all do next week, and I probably am no different than many representatives who are going to have town meetings and public forums where we try and describe to our constituents what has been happening. If we told them \$400 billion for a defense budget, they would probably join with us and say yes. If we said \$350 billion was appropriate, they would probably say yes.

It is not the aggregate number, but it is what we are doing with those numbers. It is what we are doing with the Treasury of the United States in order to try and accomplish some things. So I am trying to get my arms around this budget so I can explain this. Your testimony was very specific, but let me bring you back to the bigger picture for just a moment and try and get you or Mr. Zakheim to give us an idea of how we would break this budget down in the Defense Department by percentages, let us say, what are we using to fight the war. A percentage of 10 percent was being used.

I mean, obviously, the entire budget is being used to fight the war. But how much of it is new and how much of it is to fight the war? How much of it is for homeland security? What part of it are the must pays: health care, training, maintenance, pay raises, those things? And what part of it is in the area of transformation? Can you help me get my arms around this so when we go home and explain this to our constituents, we have an idea of how to break this down for the average American who wants to know what are we using this money to do.

Mr. WOLFOWITZ. Mr. Chairman, I will make a start at it and I will ask Mr. Zakheim to help me. Then I will also try to go back and think of categories that are better than the ones as I am thinking about, the way you are putting it, how do I explain to somebody who wants to know what it is actually being used for. I am not sure the categories we intend to account for things necessarily help, but here is a start. The kinds of accounts we normally break it down into have some 19.6 percent for military personnel. That does not include the full cost to people, by the way. It is just the military pay accounts.

There is 34.9 percent for operation and maintenance, which includes not only the cost of operating the forces, but the cost of maintaining bases. Some 18.1 percent for procurement; 14.2 percent for research and development; 3.9 percent for defense health program; 6.1 percent for accruals for retirement accounts. That leaves about 3.2 percent left over in odds and ends in other categories.

If you take the transformation investments which I went through, and this is defining it fairly strictly in terms of what our

Office of Program Analysis and Evaluation, which applies a pretty strict standard as to what is transformational, the programs they identified in that category is some \$21.1 billion. That is out of a total of what we call investment, which is research and development, tests and evaluation at \$53.9 billion and another 71.9 billion for procurement. So if I am doing the numbers correctly, that is \$125.8 billion in the investment account, research and development and procurement put together.

Dov, do you want to add anything about other ways of looking at the numbers?

Mr. ZAKHEIM. Sure. First of all, one thing that we have to bear in mind is that if one takes into account everything that relates to our people, not just pay, not just retirement accruals, not just the defense health program but family housing for example, training for example, that cuts across the traditional appropriation lines that goes to about 50 percent of our budget.

So one way or another, one out of two cents in the budget, 50 cents on the dollar, is going to people and, as I think you know, Mr. Chairman, right now we have about 85,000 reservists that have been called up. They are under tremendous pressure. They are away for a long time. Their jobs are at risk, and it is really tough and there is a lot of pressure to add to our end strength, which we pretty much have not done.

So those nearly 1.4 million people we have in uniform as well as the approximately 670,000 civilians, they account for about half the budget. Particularly on the military side, there is pressure to add to the actives that we are keeping down. As the Deputy Secretary just said, the transformation funds tend to lie heavily in research and development but not entirely. They are in procurement as well. So one needs to look at the calculus somewhat differently. One must account for the training and for the transportation, as the Deputy Secretary said, the guy who operates or the woman that operates that Predator has to be trained. That should really be part of transformation, too. So as we transform, we have to start transforming the way we think about budgeting for these things and quite frankly we are lagging behind, which is probably right. Let's get the stuff out there and then we will figure out how to change funding categories. But this is a transformation across the board.

Chairman NUSSLE. Mr. Spratt had a different number and I don't want to quibble about numbers. I think he was using 2000 on his chart if I'm not mistaken, but my understanding is that if you take the 2002 baseline basically what we are adding over the next, I think it is 10 years, as a result of your request—no, over the next 5 years, excuse me, is about \$400 billion to the original 2002 baseline from last year. What percentage, break that down if you would, as far as how much of that is going to fight the war? I mean, again I understand these are difficult percentages because it is all going to fight the war. Every penny is in some way, shape or another being used to defend the Nation, but how much of that extra is a result of the war, homeland security, transformation, and increases in must pay areas? Is there a way to break those down, that \$400 billion increase that is part of this request?

Mr. WOLFOWITZ. We could do it, and let me take a first stab and we will do a more complete one for the record, but looking at those

transformation accounts alone, there is some \$136 billion total although that is a—if you are taking a \$400 billion increase, there is some \$68.9 billion that we would consider either transformational programs or transformation supporting programs over the——

Mr. ZAKHEIM. That is the addition.

Mr. WOLFOWITZ. That is the addition, but I am saying against the—if \$400 billion is the correct additional amount. We have 10 billion, I believe, through the 5-year program, 10 billion a year added covering the sort of underlying structure for conducting the war on terrorism. So that would be \$50 billion. A significant portion of that 400 billion is increased procurement and we by the end of the FYDP will have our procurement accounts up to—is it \$98 billion——

Mr. ZAKHEIM. It is about \$99 billion.

Mr. WOLFOWITZ. And that is probably going to account for the single largest fraction of increase, and I imagine the Defense Health Program accounts for a very large fraction. We will get you the exact numbers, Mr. Chairman, but if that is helpful as a first stab.

Do you have any more to point out?

Mr. ZAKHEIM. No, other than to point out, to give you a sense of defense health, unless we can get our arms around the problem, as things stand right now we will double our defense health costs within 6 years. Since the total value of the program now is approximately \$22 billion, then you are talking a significant amount of money just for defense health.

[The information referred to follows:]

RESPONSE TO CHAIRMAN NUSSLE'S QUESTION CONCERNING THE WAR ON TERRORISM  
FUNDING

Chairman Nussle, you asked about the funding added over the next 5 years to fight the war on terrorism.

For the next 5 years, fiscal years 2003–2007, President Bush's fiscal year 2003 budget request is about \$400 billion higher than the level projected when he took office. In formulating his fiscal year 2003 request, the President added about \$50 billion for requirements directly related to the war on terrorism. For fiscal year 2003, he also added another \$10 billion contingency amount to be available if, as expected, the war continues into fiscal year 2003. Thus, of the funding the President added to his fiscal year 2003 request for fiscal years 2003–2007, about \$60 billion is for the war on terrorism.

Chairman NUSSLE. There is no way in 5 minutes to ask all the questions I have. Let me end with one, and that is you went through and explained in answer to Mr. Spratt's question—and I am sure he will pursue this as well—about savings as part of the transformation, as part of not having this cold war, Soviet style bureaucracy. Certainly everybody understands and there is nobody who is going to be very critical in the short term about making this transition, you have a war to fight, we have a war to fight, not just you, we do. We have got to win this and we are going to do whatever it takes and that may mean setting some priorities aside that we would like to work on but are just not able to accomplish as a result of what is necessary and immediate. However, I have listened to Secretary Rumsfeld, and he seems still very optimistic about taking on this challenge of transformation.

What is realistic? I am not sure I am convinced, and I am hoping you can help me with this. I am not convinced that what I have seen necessarily demonstrates short-term success in the area of transformation. Is that because of the need to prosecute the war and the inability to take on that project at this time? Is it because of those obstacles that Congress has thrown in the way, as you indicated, with regard to BRAC? What is going on here? What can our reasonable expectations be from your vantage point as we review the budget with regard to transformation and transition?

Mr. WOLFOWITZ. Let me answer that question. I just see a fairly good breakout of the increase that shows \$82 billion for military personnel. This is over the 5-year program. This will answer to your previous question. There is \$146 billion for operations and maintenance, which includes costs of the war, \$52 billion for procurement and \$99 billion for research development, tests and engineering. I think that comes out to a total of about 382. So I think that is the \$400 billion that Congressman Spratt referred to.

On the question you just asked about transformation, I think there are really two different kinds of transformation and they may be related and they may not be. Transformation in terms of introducing new capabilities that dramatically increase the effectiveness of our forces may or may not save money. It will certainly increase the capability of those forces, and that is what it is aimed to do. In some cases in fact probably one of the reasons why our forces today are more expensive than they were 20, 25 years ago is not just the people are more expensive but the kinds of equipment they have are much more expensive, but the capabilities they deliver are multiples in that increase.

At the same time, and particularly if we are going to pay for those kinds of increases, the Secretary and I have repeatedly talked about the need to transform the way we do business, and I think that was where your question was leading more emphatically. And I would say there are—we are certainly determined to make significant additional progress. We wouldn't claim that where we are today is a spectacular result or the end of what we think can be accomplished. I do think that the war in many ways has made it more difficult. Certainly having, for example, 70,000 reservists called up to fill jobs that we didn't think we needed to cover before makes it a lot harder to look at how to find efficiencies. But it really makes it more urgent to find efficiencies and the Secretary has repeatedly emphasized every time he meets with his military or civilian leadership that we can't use the war as an excuse for not making those difficult decisions. In fact, because of the war, we need to stop doing things we don't need to do, and it is an opportunity. I think particularly in some cases abroad, we are looking at places where we can tell allies, look, we have a lot of work to do somewhere else so it is time to reduce our presence—it is time to shift some of our burdens to other people.

Secondly, the delay in BRAC is unfortunate. I think one of the places where we can achieve some significant savings over the long term is by reducing that base structure. But finally, I have to say it is very difficult work and the people we are counting on particularly to do that work are new service secretaries and their leadership didn't start getting into place until about 6 months ago. They

really have sort of taken the first bite at that apple. I hope we will have a lot more to report by the end of 12 months. I can't say, and I just repeat, we can't say because we are fighting a war it is too hard to do, we can't do it. We have really got to keep the pressure on.

Chairman NUSSLE. We will help with that because I agree it is a good short-term excuse, but long term we want to help you with this. I think on September 10 of last year, we were talking about whether or not there was a need for that \$18.6 billion, and whether or not that was going to be tied to a plan of restructuring. All of a sudden September 11 happened, and then not only was there the \$18 billion, but there was an additional \$20 billion. Now there is a \$10 billion reserve in this budget, and unless I am mistaken, an additional possibility of a supplemental over and above all of that.

At some point in time, more than just the war has got to be used as the explanation for this. We look forward to working with you to try to ensure that that happens, and that we can effectively answer for our constituents exactly where the treasure of our country is going and making sure that it is used as effectively as possible.

Mr. Spratt.

Mr. SPRATT. Just a couple of quick questions because I have a lengthy statement and you addressed many of them in your statement. First of all, with respect to the \$10 billion that you have requested for contingency, I suppose you would say, what would trigger the use of that money? Would we get prior review or would the appropriators get prior review of it? What kind of accountability would be provided Congress both before the use of it and after the use of it?

Mr. WOLFOWITZ. The notion, Congressman Spratt, was that if we look to—as the President has emphasized, the Secretary has emphasized, this is an operation that is going to continue for quite a while. It is not just in Afghanistan. It is worldwide and even in Afghanistan, although the Taliban collapsed some few months ago, our level of operations there remains quite high. Every day we are engaged in new and sometimes frequently difficult and dangerous operations. What we tried to say is it would be irresponsible in this fiscal year to pretend that we are not going to have any costs in the war in the next fiscal year and that, secondly, it would send a very bad message to our adversaries, and to our allies for that matter, to leave the impression that we think this is all going to be over in 12 months and that we therefore took a guess and it is a pretty arbitrary guess.

It is basically saying that if our military operations continue at the level they are at today, \$10 billion could get us into the fourth or fifth month of 2002. That would allow us to plan into 2002 before we had to come back for more specific appropriations based on what exactly we are doing.

Obviously if there is a major new commitment of some kind, that amount of money might last a much shorter period of time. If on the other hand the fighting winds down, it might last a lot longer than 4 or 5 months, but we thought it was important both as a matter of responsible budgeting and as a matter of sending a message to our friends and enemies abroad that we make some provision for continuing this war into the next fiscal year.

Mr. SPRATT. With no offense we found, I think, over the years, regardless of the government agency, if you put money up, it is likely to be spent. So what kind of walls or restrictions do we put upon this money so that it is genuinely spent for the war on terrorism and not for unrelated purposes?

Mr. ZAKHEIM. As I understand it, the President has to inform the Congress that he deems it essential to spend the money. So it is not as if the administration would unilaterally go off and start spending into those \$10 billions. I don't know and we will check for the record whether that is going to be mandated by law, but I know that is the intention.

Mr. SPRATT. Would it be like on the second tranche of the \$20 billion, the \$40 billion that we provided—

Mr. ZAKHEIM. I will check for the record on that. I know the intention is there. Whether it be the second tranche or not I will have to get that answer for you.

EDITOR'S NOTE: *No response received at press time.*

Mr. SPRATT. Mr. Zakheim, it would be useful to us, I know you have got all kinds of demands on your time and your staff does, if your staff could meet with our staff so we could have a better understanding of the actual cost of the war. If you say it's a billion five, a billion eight, we would have a better notion of how much the incremental cost is and how you are accounting for it.

Mr. ZAKHEIM. I will be happy to do that. We do prepare reports for OMB. We would be happy to share that information with your staff.

Mr. SPRATT. You mentioned the cost of health care doubling.

Mr. ZAKHEIM. Yes.

Mr. SPRATT. But you did get a break in a sense that the TRICARE program has been moved into function 550 out of your budget.

Mr. ZAKHEIM. But as you say, Congressman Spratt, it is only a break in a sense, because what happened by creating this accrual fund, we pay \$8.1 billion into it, and the transfer to function 550 is actually what is actually paid out, which is something like \$5 billion. So in fact we took a \$3 billion hit. So we were helped only in a sense, sir.

Mr. SPRATT. Well, you didn't get an \$8 billion hit, you got a \$3 billion hit.

Mr. ZAKHEIM. It is all relative, sir.

Mr. SPRATT. When you say it doubles, are you including the \$8 billion in the number or \$3 billion?

Mr. ZAKHEIM. I was giving you an absolute number.

Mr. SPRATT. I agree we ought to look at it globally. It is coming out of the same pot ultimately, but—

Mr. ZAKHEIM. It is an absolute number in the sense that the cost of the medical care is growing at 12 percent a year, so the rule is 72, as you know, will double it in 6.

Mr. SPRATT. Thank you both for your testimony.

Chairman NUSSLE. Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman. Gentleman, I have tried to listen carefully since the budget came out, and frankly, I don't hear a lot of people who are second guessing the number.

There are a few people who think we need to spend more for various things. There are, I guess, a few who think we are spending too much, but very few people, it seems to me, are saying no, 369 is the wrong number, it ought to be 360 or something like that.

I think the issues that do come up are more the question of how that money is spent, not the overall amount of spending. And Dr. Wolfowitz, I would like to get you to address the criticism that has been made that there is not enough reform, there is not enough change or transformation in this budget. I worry a little bit about using the word "transformation" because I think it is a label that is being slapped on all sorts of things these days and quickly loses its meaning. It is being used by people in the building to justify things they had been planning for years, and it is also used by people outside the building as an attack, I think, in some ways. It has got to save money, it has got to be high tech or so forth.

But let me give you a couple of examples, and I don't mean to limit your response to this but there is an article in Time Magazine that says we have all this attention on UAVs. UAVs is going up about 13 percent but fighter aircraft is going up way more than that, something like 30 percent in this budget. Is that really transformation? You disparage the argument on the tooth-to-tail ratio but one specific that was listed in an op-ed you may have seen was that the Pentagon spent \$7 billion on a travel budget, \$2 billion of that is spent on administrative overhead. I don't know if that is right or not, but I guess the concern that some people have expressed is that—and maybe it is legitimate—while you have got a war to fight, you can't shake up things too much. But in order to make sure we are getting the most out of the money we spend and to be prepared for the challenges in the future, we have got to shake some things up and maybe we are not moving fast enough.

Mr. WOLFOWITZ. First of all, let me thank you, Congressman Thornberry, for the interest you have shown in general in transformation and pushing what we are doing here. There is a substantial increase in those accounts that we think are truly transformational, and you are right that there are people who say any program they happen to like is a transformational program. We have drawn that definition quite tightly, and we include in it things like the conversion of four Trident submarines to conventional platforms, and I have to tell you from personal experience that was a very difficult thing for the Navy to do and to find the money for. We have accelerated the Army's transformation, which is one way of thinking about it that I like to put it. It is taking the kind of dramatic capability that we saw in Afghanistan that is unique to Special Forces and putting them to more deployable conventional ground forces that linked up with our long range strike capability which should give us a substantial capability.

On UAVs I know the total increase is a billion dollars. I am sure that is more than 13 percent. Do you know where it stands on total?

Mr. ZAKHEIM. I think you talked about growth of 13 percent. It seems a little low to me. I think the growth was considerably higher than that, particularly with programs like UAV and Predator as well but we can check for the record on that.



EDITOR'S NOTE: *No response received at press time.*

Mr. WOLFOWITZ. The base would have to be \$10 billion and it is not—and one of the reasons why you get some of these disparities is that when programs are new, there is only so much money you can spend on them intelligently, and we have tried to be intelligent about it. Just the rate of increase, which I believe is in the transformational categories I have mentioned, if we just take strictly transformation, not just what they call transformational supporting, there is a \$5.4 billion increase on a \$15 billion base. That is a 33-percent increase. That is a really fast ramp-up and if you start to go up faster on some of these programs you would be throwing money at these things that by definition are still in their infancy.

We are not counting F-22 as transformational. The Air Force would like to say it is transformational and it certainly brings capabilities that were not dreamed of before, but frankly, part of the reason for investing as heavily as we are in that program is it is the only program that we have available to start to bring some new aircraft into the Air Force. And I go back to my comment earlier, if transformation is successful we will at the end of the decade have transformed maybe 10 percent of the force. The other 90 percent of the force that is the backbone of what we do today, the aircraft carriers that enable us to fly over Afghanistan, the Army divisions or Marine divisions that enable us to do some of the work there, and at the same time I would emphasize enabling us to meet commitments elsewhere in the world, those we call the legacy forces, are still going to be some 85, 90 percent of the force and require modernization.

Dov, did you want to add something about space?

Mr. ZAKHEIM. Yes. If you actually add in the money—new money we are putting in for a host of different space programs that tie in directly with transformation—as the Deputy Secretary said, for example, you need wide band solutions to support a larger number of UAVs, you have probably added another \$4 billion, maybe 4½ billion to the 5½ billion that we calculate as really new transformation. That brings you up to \$10 billion out of a procurement and research budget of \$120 billion, give or take. That amounts to 1/12, or 8.5 percent for transformation. For a start-up ramp up that really is not bad and will continue to increase.

So in aggregate even under narrow definitions we are making a significant commitment to transformation.

Mr. THORNBERRY. Mr. Chairman, my time is up so I won't ask this question of the witnesses, but I think it would be helpful if we could request the witnesses to submit for the record a chart they have used before that shows the increase in the defense budget for more accurate estimates of what things are going to cost. For example, they have evidence that we have systematically underestimated the cost of weapons systems year after year. What they have done is adjusted the budget to reflect how it is really going to go and that is part of the increase.


Health care is another example that has been used, systematically we have underestimated in the budget request. We have to fill in the gap in Congress every year, and they put it in right to

begin with here. So those moneys do add up. I think it is important for the Budget Committee that we have those numbers, and I hope you could make those available to us.

Mr. WOLFOWITZ. We will submit that for the record. The total is \$7.4 billion, and we hope we don't have to keep doing this over and over again, although things do have a way of sneaking up.

[The information referred to follows:]

CHART REQUESTED BY MR. THORNBERRY

<div style="display: flex; align-items: center;">  <div style="text-align: center;"> <h2 style="margin: 0;">FY 03 DoD Budget</h2> <p style="margin: 0;">(Budget Authority, \$ in Billions)</p> </div> </div>	
<b>FY 02 Enacted Budget</b>	<b>331.2</b>
Inflation	+6.7
“Must Pay” bills:	+14.1
Military over 65 health care accrual	+8.1
Civilian retirement/health care accrual	+3.3
Military & Civilian pay raises	+2.7
Realistic costing :	+7.4
Realistic weapons costing	+3.7
Fund readiness/OPTEMPO	+3.1
Depot maintenance	+0.6
Program cuts	-9.3
Baseline FY 03 requirements	350.1
Cost of War	<u>+19.4</u>
Revised Baseline	369.5
<b>FY 03 Budget</b>	<b>379.3</b>
Available for all other requirements	<b>+9.8</b>

Chairman NUSSLE. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. I think, as Mr. Spratt and the chairman have mentioned, it is terribly important we provide to you the funds you need and it is equally important we don't provide you any more money than you do need. I have two concerns about the magnitude of this request. First is the invariable bureaucratic inertia which tends to minimize the integrity of any request of this magnitude. The second is the tremendous pressure that everybody faces here for us to continue to fund weapons systems for the sake of economic development throughout the country, rather than because they are genuine serious needs of the defense of our country.

I would like to start with graphic No. 2. Mr. Spratt was very specific, Secretary Wolfowitz, in characterizing our analysis of your OMB numbers as suggesting that less than half of your requested increase is related to the war on terrorism, as we see it, and less than 10 percent of your entire fiscal year 2002 budget falls in that category. If you do not agree with that characterization, what do you think is a fair characterization of the proportions?

Mr. WOLFOWITZ. First of all, as to the increase itself, if we look at the increased elements of the program, as I said in my opening testimony, Congressman Spratt's numbers are roughly accurate

and the other half is filled up with inflation, realistic costing, and health care and retirement accruals. The only way we have actually some \$10 billion or so of new investment in this budget is by the \$10 billion we have been able to take out of killing programs or restructuring programs.

But on the question of what part of this budget goes for the war on terrorism, I think it is misleading to say that only that part that is identified as the increased cost of the war is the cost of the war. We couldn't conduct this war without a large fraction of the military that is our investment today, and when we, for example, put up a figure about the cost of the war we don't put in anything about the cost of building aircraft carriers, building the planes that go on those aircraft carriers, maintaining those planes. We just allow for the increased wear and tear and the increased operating costs that come from extra flying hours.

So I guess the difference between marginal and fixed costs, but you can't say the war on terrorism could be conducted for just \$10 billion. It takes a very large fraction of the defense budget to make it possible.

Mr. DAVIS. Can you give us a rough characterization of what percentage of your increase represents our reaction to the events of 9-11?

Mr. WOLFOWITZ. Specific reaction to the events of 9-11? Do you want to—

Mr. ZAKHEIM. Honestly, Congressman, I think it is an apple and an orange. The reason I say that is that given the must pay bills that the Deputy was talking about, which take up a chunk of that increase, given the realistic costing which take up a chunk of that increase, if one then adds what we call "must pays," accruals, pay raises, plus the realistic costing that the Secretary just mentioned, we are at \$21.5 billion right there, of the 48 that we have talked about. Add inflation to that and one is now at \$28 billion, which isn't all that different because, if one takes the 10 billion we set aside as what Mr. Spratt calls contingency, that leaves \$38 billion and I have just given you \$28 billion. There is the 10 and it is not all going to the war on terrorism. It is going to transformation and some other things. So that is why I say it is an apple and an orange, sir.

Mr. DAVIS. Let me move to graph No. 8, which represents a comparison of the 1997 QDR to your current plan, and I would say a remarkable similarity. Does this represent that a substantial portion of your budget and your increase is simply a continuation of the policy we have been following since 1997 and particularly in this area?

Mr. WOLFOWITZ. The changes in force structure are modest and we have said from the beginning that is not the main—that is not where the main differences lie. The change in strategy that we developed in the QDR makes the difference that we are—for the goals of the old QDR that force structure was judged to be high risk. With the new force sizing concept, we have a force structure that can meet those requirements, but I would say most importantly what we faced a couple of years ago was a force structure that was really stretched very thin and was seriously underfunded in operating accounts and health care accounts and where simply main-

taining adequate levels of rotation base to support relatively high rates of operation was difficult.

So, yes, it is true that we have a force structure that is roughly the same as the one 4 years ago. It is, I think, being equipped and trained and paid and funded quite substantially better than it was before, and in terms of transformation accounts I think we have a very significant investment, as I went through in my testimony, in new categories.

Dov, do you want to add to that?

Mr. ZAKHEIM. A couple of things. For example, just to pick up where the Deputy left off, the USA had fighter wings that won't address Predators or Global Hawks or anything like that. They are totally off the chart. If you want to look at surface combatants, this wouldn't account for the new DDX program and what we are trying to do there. And as the Deputy said as well, the O&M side, particularly the health care side, which has grown significantly; training—we are at much higher tank miles than we were in 1997—civilian costs, health care reimbursement as well as the military health costs are all up. Obviously force protection costs, which you might lump into counterterrorism, if you will, did not start with this administration. They have grown significantly, by about 75 percent, from where we were in 2001 but it didn't start with this administration, and those costs were really quite low in 1997.

So you have a host of elements that simply don't show up on your chart, sir.

Mr. DAVIS. Thank you. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. If you want to leave that chart up, I think there is one point you should have mentioned. We were all concerned. I think it was after our little air war with Slobodan Milosevic, that we were virtually down to scraping the bottom in terms of some of our smart weapons. So when you talk about a hollow force, I think it became painfully aware to many of us where we were.

First of all, let me say particularly to Dr. Wolfowitz, thank you for all you have done. The briefings that you have given us have been very much appreciated, and frankly I think it is very reassuring to virtually every Member of Congress the level of professionalism that you have brought to the job, and we are very appreciative.

I think I speak for all of this committee, and virtually all of the Congress when we do say that we want to give you everything you need to win this war and to prevent the next, and so that clearly is a very important part of the responsibility we have in Congress. There are some in this room, and some in Congress who have a difference of opinion about strategic defense and whether or not we need to build a system like the administration envisions. I strongly support it, and let me explain one real quick reason maybe for the benefit of some of my colleagues. I may be one of the few Members of Congress who has visited a little place called Peenemunde, and I would hope all Members would see Peenemunde themselves. What it was, was a German base along the Baltic Ocean where they literally built and designed the B-2s, and this was 2 years ago. They still have on one of the laboratory walls a little cartoon

of a two-stage rocket raining down on New York City and that cartoon and those plans were drawn in 1942. That was 60 years ago and if they could conceive that in 1942, it is not unreasonable that people in other parts of the world today are working on exactly the same plan. So the next time someone questions you about the need to build a strategic defense, just remind them what happened in Peenemunde.

But I do want to come to a very important point, and this is that whole issue of transformation because I think we are going to have a lot of discussion about that in this committee, and I think we should. I am told that, and I believe this is true, that we currently have—and there is a tendency in every bureaucracy to start to get top heavy and I have appreciated the interaction that I have had with both the junior officers, the admirals, the generals over the years. We are so fortunate to have the people who serve us not only who are out there in the field but the general officers. We have some of the top-notch people. But I do have a concern that we are becoming increasingly top heavy. Let me give you a statistic and this is one that I think you could help us as we go forward, and that is that we now have more generals and admirals in the military today, with the total number of people in uniform, is something like 1.9 million. I think that is what we were told earlier, that we had, at the peak of World War II when we had 16 million Americans in uniforms. We now have more generals and admirals than we had then. I know there is discussion about transformation, but let me give you an example.

It is not even in my district, but in my State. We have a situation, for example, where at the same airport side-by-side we have a National Guard air base and we have a Reserve air base. They both do exactly the same thing. They both fly C-130's. Now, one has newer models than the other. One of the officers in the National Guard came up with a pretty good idea, and that is you could combine the two into one, and it has received sort of a mixed review. This is the kind of transformation that I, as a Budget Committee member, say this is a good idea because what we have is a duplication there. We have got two bases side-by-side and that basic concept has received mixed reviews, I would have to say, within the Pentagon, and it seems to make an awful lot of sense to me and it is the kind of thing we want to see more of here on the Budget Committee.

I don't want to blind-side you and I don't expect you to know much about that, Dr. Wolfowitz, but I would like to give you a memo, a one-pager, to explain what they are talking about and see if there aren't some ways that we can generate more interest in, A, making the Pentagon and military less top heavy and, B, finding transformation where there can be real savings for the military.

Mr. WOLFOWITZ. I would be happy to look at that or any other ideas. I have a feeling that if it is a good idea that we are probably going to run into people who say, well, not in my district. I mean the difficult decisions are going to come on both ends of Pennsylvania Avenue. I think we saw that with the B-1 consolidation, which I hope, knock on wood, is now in some state of agreement.

If I might go back for a minute, too, I think I may have slightly missed the point of this question about the force structure isn't

very different. I don't think of transformation in terms of how much you have cut the force structure, and I sometimes think people are measuring transformation by how many programs you have killed or how many people you have fired. We are trying to measure in terms of new capabilities that allow us to protect the country better, and I think if we had in fact said let us have a force structure that is 20-percent smaller, if we had made that decision 6 months ago, we would be scrambling now to rebuild it.

One of the things that proved to be a significant constraint on looking at smaller force structures when we did the QDR was how do you maintain the rotation base to have significant deployments all around the world, significant deployments away from home for training. It is one of the biggest constraints on how we manage the force, and we think that there are some opportunities to get more efficient. We think there are opportunities to reduce some of the things we do.

As you probably know from reading newspapers, the Secretary has been trying for nearly as long as he has been Secretary of Defense this time around, to remove or at least reduce the forces that we have in the Sinai Desert and keeps being told it is not a good time, and he keeps saying there is never a good time.

We have succeeded, I think, in reducing our presence in Bosnia from some 4,000 a couple years ago down to 1,800 and bringing costs down with it, and we are going to look at everything we do, particularly because of the strengths on fighting this war, and see where there are things that can be rearranged. But I don't think of transformation in terms of what we cut. I think of it in terms of the new capabilities that we build.

Chairman NUSSLE. Mrs. Clayton.

Mrs. CLAYTON. Thank you, Mr. Chairman, and thank you, Secretary Wolfowitz, and Secretary Zakheim. I think we will probably resound this chorus of saying that our national defense is certainly important, and one of the most important functions of government is to defend this Nation. So when one looks at the defense budget, it is viewed in that sense, but that does not remove the responsibility for us to question the appropriateness of the size, the appropriateness of the function in relationship to other things as well. Let me thank you for not only the information that you are providing, but your testimony here, and your willingness to answer those questions that we raise.

My concern is the size. The size in light of our total resources or lack thereof, and our obligation to our total population, including defense. So if defense is indeed our number one priority, it is not our only priority. So, it has to be looked at, at least in this Member's view, as budget priorities, plural. So it is looked at in the sense of where do we get those resources, or what is the impact on our total budget.

The other concern is looking within the defense budget. The questions—you have heard some of them—are talking about the terms of the new strategies, or the word you used was “transformation,” to meet the current threat. I think—in respect to your effort—that this effort has been undergoing for this new strategy for some while. It is not really just after September 11. You were in a process of trying to justify the request for the \$18 billion that

we had in reserve for some time. There have been several commissions on security that have raised a whole potential of terrorism. So that wasn't a new idea either because I think the Commission on Security recommended to you that our new threats were not going to be those great missiles, but were going to come from an unexpected source. So, I assume you were making those adjustments or thinking through strategically as to what would be appropriate choices.

My questions are on both of those fronts. First of all, the largeness and the impact—can someone please put up slide No. 6? If we spend at the rate that you have proposed, I am not sure what would happen to not only Social Security but even some of the retired military people. In fact, according to the budget, the deficit that will occur as a result of the proposed budget of the administration—if I am interpreting this correctly—would account for an additional \$110 billion; is that correct?

Mr. WOLFOWITZ. Judging from that chart, that looks like a 2012 number and I am not sure—that must be a projection because we only—

Mrs. CLAYTON. I am sorry. I was just corrected. It would be 600 some billion. This is for the year 2012. I am sorry. I apologize. So it would be more than that. Let me ask you, does that chart reflect the correct percentage for that number of years?

Mr. WOLFOWITZ. We aren't projecting budgets beyond 2007, so I assume that must be a straight line extrapolation from a 5-year program.

Mrs. CLAYTON. It is. Just take 5 years. That would be what, 2000 and—

Mr. WOLFOWITZ. Year 2007.

Mrs. CLAYTON. Year 2007.

Mr. WOLFOWITZ. I mean you are taking me into territory that is really the OMB's domain to look at how this fits in the overall budget.

Mrs. CLAYTON. Right. I was just advised that it really is over 5 years about 400 billion rather than—

Mr. WOLFOWITZ. I think it is about a \$380 billion increase over the 5 years, I believe, total.

Mrs. CLAYTON. For the deficit?

Mr. WOLFOWITZ. Whether it is a deficit or surplus depends on a larger projection, but—

Mrs. CLAYTON. I guess we can make that assumption since there is no surplus, we are all spending in deficits not only for defense but everything else. So what did you say it is?

Mr. WOLFOWITZ. I think 380—

Mr. ZAKHEIM. It is 423.

Mr. WOLFOWITZ. OK, 423—sorry—of increased spending over that period.

Mrs. CLAYTON. I beg the question, how do we keep our other obligations? For example, our trust fund is also important to us. I think Social Security would be equally important to you as well. How do we keep our obligations with the government, when we continue to spend at this rate?

Mr. WOLFOWITZ. I am tempted to say that I think I will let Mr. Daniels answer that question, but I think his answer really comes

down to the fact that I think there are different projections about where we are going to be in terms of surplus and deficit in the out-years. So much depends, as you know better than I, I think, that small changes in our projections of economic growth turn things from surplus to deficit, but I agree very strongly, Congresswoman, that we have got to manage these dollars tightly and efficiently and we can't just say because we are fighting a war that we no longer need to be careful about how we spend money. We are trying to be very careful about it. But many of these increases are increases, as I said in my opening testimony, that are simply unavoidable. They are pay raises that we have got to pay, they are health care costs that we have got to pay, inflation that we have got to pay—

Mrs. CLAYTON. What would that represent of the total increase you are giving? The quality of, I guess, personnel, health care—

Mr. WOLFOWITZ. Out of the 48 billion in 2003, some 28 billion is in those categories, so more than half.

Mrs. CLAYTON. Out of the total, 423?

Mr. WOLFOWITZ. No. I don't have the 5-year total.

Mrs. CLAYTON. Oh, out of this year's—

Mr. WOLFOWITZ. Out of this year's 48, some 28 is in those categories and the other 20 is in the cost of the war and presumably also, by the way, some of the costs of the war money hopefully we might be—

Mrs. CLAYTON. My time has expired. Can we submit questions to get answers further for that?

Chairman NUSSLE. Yes, you can. For the record?

Mrs. CLAYTON. Yes, for the record. So you can benefit from it as well.

Chairman NUSSLE. I would certainly look forward—

Mrs. CLAYTON. I want your farmers to understand what my farmers understand.

Mr. WOLFOWITZ. I would be happy to answer it.

Chairman NUSSLE. Thank you. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman. Thank you, Mr. Secretary. As was mentioned early on, there is a lot of expertise on this committee when it comes to budgeting and particularly the Defense Department budget. I consider that expertise probably more political than I do substance because when I look at the substance—I appreciate the comments you made in reading through your testimony as you were going through it. As you were going through it, I thought it was very supportive of real substance in budgeting for the Department of Defense. It was also mentioned as to what do we tell our constituents about the defense budget, about the overall operation of the government.

Let me just tell you what my constituency told me back in the early part of January 2001, as I returned to the air of Columbus, GA, home of the infantry in Fort Benning, GA. I was asked the question do you know the difference between President-elect Bush's Cabinet pick or picks, and those of the previous administration? And I said I don't know quite where you are coming from, but I will be glad to listen to your answer. The answer was it is good to see the adults are back in charge, and I could not agree more.



September 11 reinforces the fact that I am glad to see that we do have the adults back in charge, in the way that things are being handled here in Washington by this administration, by the people that the President has chosen to support him in his efforts to be the President of this country. People are very concerned about national security. They are well pleased with the way things are being handled, but they still have a fear of what could happen and what possibly may happen.

I hear no complaints about what the Department of defense is doing, what you are proposing to do and how you are going about it and expectations of what you will do in the future. I hear no complaints from those in the Guard and Reserve about the deployments that they are now under or potentially will be and those who have been. I think as long as we continue to move forward with an approach to the defense of this country, the national security, by putting into place smart budgets, smart weapons, and using them smartly, we will be able to offer the security this country needs and its people.

When you look at funding history of the Department of Defense that was shown in the chart early on by the decades, you see the peaks and valleys of funding. You will also see the eras of problems. And those problem eras came in the years, the decades, that we had quite a reduction in funding, particularly in the late seventies, when the seventies dropped—I believe it was down from \$352 billion average in the sixties to \$313 billion in the seventies. I recall some very bad instances that occurred in that period of time, particularly dealing with the hostages in Iran.

Then you look back in the eighties and how we peaked again to \$395 billion average when we built the force back and defeated the Evil Empire in the cold war, and in the nineties we began to see the defense Department budget again go on a decline. Again I recall problems. In fact, I was at a movie just a week ago that emphasizes one of those problems that took place in Mogadishu. We are building it back. We started after 1997 increasing the defense budget and I think for good reason.

It has also been mentioned, Mr. Secretary, that the economy is one of the most important factors in how we fight this war and how we fund this defense. What is referenced here is the fact that we have been in a recession. We are down from what people call surplus; I call it a cash flow. Where we had a positive cash flow, now we have a negative cash flow, and most of it came from the recession. What we need now is a strong economy; in other words, we need a stronger cash flow in the marketplace. And we have tried to do some things and the President has offered some things and in fact in this budget are some incentives that will help to build the marketplace and create jobs and create activity in the marketplace, and that is how you build a strong cash flow and strong economy, is focusing on the cash flow of the private sector, the individual and the business, and not so much on the cash flow of the Treasury because if you focus on the right cash flow, this cash flow will take care of itself.

There has been reference that—an indication to the seniors of this country that we are writing checks out of the trust fund to fund the Department of Defense and other areas of government.

Nothing could be farther from the truth. The fact of the matter is, all of the positive cash flow of each trust fund is used to invest in government securities. The very first dollar beyond the amount of money that it takes to operate any trust fund for any program, the funds are used to buy government securities. They are entitlement programs and under an entitlement program Social Security and Medicare will be funded when the day comes ahead of defense. That is the reason it is so much needed that we move forward with the reforms that the President has also put forth on both of those programs. Reform the Social Security, reform the Medicare program to where you do have self-sustaining and possibly programs that won't be put ahead and to jeopardize the defense and security of this country.

I submitted to you some questions that I hope you will be able to get me some answers back on. I do have another question, too, about depots, operation maintenance and depots, and how the operation and maintenance of the contracting hired lies with the private sector. So I hope you will be able to get me those, and I will get your question on that one, too. But we do appreciate your testimony and the substance of your testimony and what you all are doing for the national security of this country.

Thank you, Mr. Chairman.

[The information referred to follows:]

#### RESPONSES TO THE QUESTIONS POSED BY MR. COLLINS

##### U.S. ARMY SOUTH

*Congressman Collins:* When is the Secretary of Defense going to announce his Unified Command Structure Concept? And, if you know, when is the Army going to officially announce that they are planning to relocate US Army South Headquarters from Fort Buchanan, Puerto Rico to the continental United States?

*Secretary Wolfowitz:* Congressman Collins, the Army is studying the necessity of moving United States Army South (USARSO). Currently, studies are underway by the Office of the Secretary of Defense and the Joint Staff looking at the restructuring and streamlining of Service Component Commands throughout the world. After these restructuring studies are finalized and decisions made, the Department of the Army will conduct a detailed examination of the relocation of USARSO from Puerto Rico.

*Congressman Collins:* Is the Secretary of Defense aware of this relocation, and if so, when does the Army plan to make the announcement on which base will receive the Headquarters?

*Secretary Wolfowitz:* Congressman Collins, The Secretary of Defense is aware of the possible relocation of United States Army South (USARSO) and The Department of the Army is currently examining the future structure and stationing of Headquarters, USARSO. No decision has been made, nor is there a projected timeline associated with these decisions.

##### ARMY MANEUVER CENTER

*Congressman Collins:* I have heard a lot of talk about the Army Maneuver Center Combat Training Operations Command (TRADOC) that is being discussed within the Army at TRADOC and with the Chief of Staff, but Congressional Members have yet to be briefed on this initiative. I am very disappointed in the lack of communication between the Army and Congress on this particular issue—an issue that may impact training, may impact military bases across the country, and most importantly may have a dramatic impact on how we fight wars, especially our fine men and women in uniform. With that in mind I would like to know if your office has coordinated with the Army on this concept? I have asked General Abrams from TRADOC to brief me on this initiative, and I have yet to get any feedback \* \* \* what are your thoughts?

*Secretary Wolfowitz:* TRADOC is charged with the missions to prepare the Army for war and be the architect of the future Army. As the Army's institutional training

base, TRADOC is the largest university in the world, conducting training and education across 15 installations and 27 schools, one of those being the Infantry Center and School at Fort Benning, GA. It is the unique and synergistic nature of the institutional training base that brings the power of the entire organization to bear on its ability to perform its major missions. These dynamics are linked to Army Transformation as it moves to the Objective Force, and TRADOC is taking a broad, introspective look at how it performs its major missions.

This introspective look underway is to ensure two things. First, TRADOC must continue to provide leaders and soldiers for today's operational force and posture itself to accomplish this mission for the Objective Force. Second, TRADOC must ensure the powerful vehicle for moving the Army into future, TRADOC's combat developments mission as the architect of the future Army, supports key Army Transformation initiatives on its road to the Objective Force. TRADOC is exploring the creation of warrior development centers focused on combined arms war fighting within three force functions: maneuver, maneuver support, and maneuver sustainment. These centers will conduct combined arms training and system of systems development in line with Department of Defense evolving policy. No decisions have been made at this time, nor do we foresee any decision in the near future, on the location of a Maneuver Center.

#### GAO STUDY

*Congressman Collins:* Are you aware of the GAO study that was conducted in February 2000; a report to the subcommittee on Defense Appropriations entitle "Defense Budget—Should DOD Further Improve Visibility and Accountability of O&M Fund Movements?" What improvements are you making with this Budget to ensure funding is not raided from one account to pay for something, not intended by Congress, in another account?

*Under Secretary Zakheim:* Yes, the Department has taken actions to comply with GAO's recommendations to further improve the visibility and accountability of O&M fund movements. For instance, the Department developed formal guidance for fact-of-life funding adjustments to the Components in order to provide more visibility and to better explain realignment of funds from one O&M subactivity group to another in the budget and congressional reports. The Department also provided additional funding in the fiscal year 2003 President's Budget to areas such as base support, second destination transportation, and training enablers (e.g., training range operations) to prevent migration of funds out of these areas, which had been the most common receivers of adjustments during the execution year. We anticipate that these actions will allow commanders to better protect readiness programs and minimize the necessity of funding realignments during execution.

Chairman NUSSLE. Thank you. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, Mr. Zakheim, let me welcome you both. Thank you for your testimony, and I also join in thanking you for the service to this country that you and your colleagues have rendered, especially over the last 5 months.

Mr. WOLFOWITZ. And I might reply to you and many others that the real thanks has to go to the men and women in uniform, and frankly those of us who serve back in the Pentagon feel honored and privileged to be able to help them. They are a fantastic bunch of people.

Mr. PRICE. I think you should feel that way, and we are indebted to all of you. Let me get some perspective on this budget by suggesting that had September 11 not occurred, you would have gotten a much lower number from OMB. In light of the Treasury review and the Quadrennial Defense Review, I think you would now be looking at a relatively modest increase in the overall defense budget, and I think you would be looking probably also at more trade-offs or at least a kind of forced choosing of priorities. But of course September 11 did occur, and the result is, first of all, greater spending, a huge increase that translates into \$645 billion sustained over the next 10 years.

Secondly, more emphasis on terrorism and homeland security, although not as great a share of the increase as might have been expected, something like 46 percent of the programmatic increase, although I know there has been some discussion of how accurate that percentage might be.

The third result is perhaps a less rigorous consideration of priorities, fewer trade-offs. That is what I want to take up with you and ask you to reflect on.

Secretary Wolfowitz, before our committee you said that President Bush had told the Department leadership to engage your brains before you open the taxpayers' wallet. Well, in this year's budget, the taxpayer is indeed being asked to open up his or her wallet, but you have essentially adopted the force structure as the Clinton administration adopted it after the last quadrennial review in 1997.

Mr. Korb will testify later today—and I am quoting here: "The real reason for the increase in this year's budget is not the war on terrorism or the state of our military. This massive increase is necessary because the Bush administration failed to carry out its campaign promises to transform the military and the Secretary of Defense failed to make the hard choices that are necessary in formulating a defense budget. Rather, he simply layered his programs on top of the Clinton programs that he inherited."

So my question has to do with your response to that. Where in this budget is the evidence of hard choices? Is the layering choice justified?

Let me suggest a couple of ways you might approach this. One would be—and this is probably the more difficult way to frame this—if we assume the importance of the \$19.7 billion antiterrorism and homeland security increases, what might have proved dispensable or what would have been the last items adopted had that additional \$23 billion not been available?

Another, and somewhat more focused, way to approach this would be to address some of the specific budget items that do have the appearance of layering, full funding for the Crusader, full funding for three short-range fighter programs, even though the Quadrennial Defense Review played down the need for more fighter jets and called for developing more long-range bombers.

So I don't know exactly how, in the few minutes we have, you can approach this, but I think you are aware of this line of criticism and I would be interested in how you deal with it.

Mr. WOLFOWITZ. First of all, I think it is important to recognize that most of the increase that doesn't go for specifically funding the costs of the war goes for, as we have said over and over again, must-pay bills; and if we had to pay them within the much smaller increases that you suggest would have been there, absent September 11. We would have been facing essentially real reductions in defense spending, significant ones.

The question is: Where would you take them? We took quite a few as it was. We did kill the DD-21. We killed a number of Army programs to help fund Crusader, and by the way, Crusader itself is not fully funded. The size of the program has been cut very substantially, I think from 1,300 to 400-and-something. You get to the aircraft, and here you have sort of a crucial point, which is that our

aircraft are getting old and particularly in the case of the Air Force, aircraft dangerously old. The aging not only makes them to some extent unsafe, but it substantially increases the cost of operations and maintenance, and that is one of the things that has been eating our budgets in recent years. We had to get on with the business of building new Air Force fighters and the F-22 is what was available. People who say it would be nice to kill it, I think are wrong in understanding the value of that capability in this new environment. But in any case, we didn't have abundant alternatives on the drawing boards with which to maintain or with which to reduce the aging of the Air Force fighter force.

Joint strike fighters is one of the—hopefully, if it comes in, will be the low-end option that will allow us to keep aircraft age at a reasonable level without the expense of an F-22. But that plane isn't here for some 10 years.

So you come down to the way you save money in the Department of Defense. The way you could save it substantially would be big force structure cuts, cutting tens of thousands of people out of the force, cutting out a couple of aircraft carriers, cutting out a couple of divisions. I think as I said earlier, if we had done that, started doing that 6 months ago, we would be scrambling to reverse course today. We would find we don't have enough people to maintain aircraft carriers operating at the intensity they operate, because, remember, unless you want to force people to spend 12–15 months away from their families, which is going to clean out the volunteer Navy pretty quickly. If you limit what is itself a pretty long deployment away from home for 6 months, you need a substantial Navy in order to maintain the kind of capability, the kind of presence that we are absolutely depending on today in the Indian Ocean and the Persian Gulf.

The fact is that so far, being able to cut people from the force—and the numbers keep growing, I had 72,000 in my head—Reservists to active duty—we are at 85—what we are fighting with, Congressman Price, is to keep those numbers from migrating into permanent end strength in the force structure. There are a lot of proposals that are on the Secretary's desk not literally but figuratively to add strength to all of the services. And what he said, "Before I agree to any of those, I want to find out what you are doing today that you don't have to continue doing."

But the pressure is all toward growth. It comes back to the point, I believe, that—and it is the reason why in the QDR we didn't cut force structure significantly—that to maintain the kinds of commitments we have worldwide and the kinds of commitments that allow us to conduct a global war on terrorism, you need a significant amount of force just to provide the base that keeps those deployments going.

So I guess to come back to your question, faced with the choice between airplanes that continue getting older and older and cutting the size of the Air Force, cutting the size of the Navy in a way that would have put us in danger, I am not sure we would have made those choices.

We did make hard choices. We did make a choice not to invest in shipbuilding at a rate that we think in the long term we are going to need to do. That is because the age of our ships is rel-

atively young and it permits us some flexibility to—and it is tricky, but some flexibility to postpone those investments.

We made hard choices to push the Navy, and I have to say somewhat reluctantly, to invest in this new capability that the Trident conversion will provide them. I could go down a long list of things. It has not been easy to do even though it looks like there is a lot of money. There is not a lot of money by the time you finish covering the pay raise, covering inflation, covering realistic costs, and covering the costs of the war. You are really almost flat.

Mr. PRICE. Well, it may be that there were certain unrealistic expectations that accompanied the QDR. But if that is true, I think that is partly attributable to the kinds of things the President said in his campaign, the kinds of things that the Secretary repeatedly said that led many people to expect larger changes, more sharper trade-offs than we see in this budget and perhaps than we would have seen in any case. But if that is true, if there were some unrealistic expectations, I do think it is incumbent on the administration to make this defense very explicit and very strong and to deal with that accusation of layering and that accusation that somehow this whole transformational effort has been derailed by 9–11.

Mr. WOLFOWITZ. Let me add one other thing. I think we did underestimate just how much was being added to the defense budget by this health care, rising health care costs, and I think we underestimated how much had to be done to get the accounts up to date. So getting that force structure healthy turned out to be more expensive than we figured on.

Chairman NUSSLE. Mr. Schrock.

Mr. SCHROCK. Thank you, Mr. Chairman, Dr. Wolfowitz, Secretary Zakheim, thank you for coming, and let me echo the chorus you have heard around here that I thank everybody associated with the Defense Department, uniformed and civilian, for the wonderful job they are doing. I will tell you, people are placed where they belong at a certain time in history, and the people that are in the Pentagon are there for a very specific reason. Never could I have imagined when I was privileged to serve in the Pentagon in the seventies that the Secretary of Defense would be known as a sex symbol in this country. But the—

Mr. WOLFOWITZ. That is transformation.

Mr. SCHROCK. That is the ultimate transformation. But the point is, Secretary Rumsfeld is out there every day, talking to the American people every day about what we are doing and why we are doing it, and I think that rings well for what is going on. He is running this war well, and I am very proud of the man in the White House for the way he is handling it. He has given him the task, he has backed off and let the military do what they do best, and that is why we are succeeding. As long as that continues, we will win this war on terrorism, no question.

I think we need to understand why we are spending all this money. As has been repeated many times, Mr. Collins probably said it better than anybody, but we have neglected the military for so long, for so many years in the nineties, we are trying to play catch-up ball. I know that for a fact because I live in probably the area that has more military installations and military personnel than anybody, and I hear it all the time from top admirals all the

way down to the enlisted people. We are trying to play catch-up ball, and of course 9–11 didn't help matters, and I think we are doing a good job.

Transformation, yes, I think transformation can go on while we are conducting a war, and it simply must because we need to find efficiencies, we need to do more interruptibility, and we need to be more purple. When I was in the Navy, the Navy had their programs, the Army had theirs, the Air Force had theirs, and there in between shall meet. Nobody worked together. I think the more we go on and become more purple, I think the better.

Of course, as I said, even though we are in a war, we need to do the transformation. I am glad to hear you talk about the quality-of-life issues and pay for our service men and women. They have always been underpaid, and it is high time they get up to par with their counterparts in the civilian community and to make sure their pay is good, their health care is good, and their housing is good. It is going to make them stay in.

I have seen housing that is actually deplorable and no human being should have to live in. Finally, that trend is starting to change. I was privileged to travel with three other Members of Congress, two Republicans and two Democrats, on a 4-day, 12-State, 25-base tour in August. If you had seen some of the things we saw, it would make your blood boil.

We have to make sure our troops are treated a lot better than they had been in the past or we are going to lose them. If mom and the kids aren't happy, pop is not going to stick around very long. And I think the sooner we can make that happen, the better.

You might wonder why someone who represents so much military would be in favor of BRAC but I am. On base after base, post after post that we went to around the country, the post commanders would tell us this building over here we haven't used in 3 years but we have to maintain it. Time after time after time, we heard it. I hear the figure coming from the Pentagon that we have 25-percent more infrastructure than we need. I think it is probably more than that. And I think it is high time we do it.

But I want a BRAC where the Joint Chiefs and the Secretary come to the Secretary of Defense and say, this is what we cannot live without and everything else is on the table. And I think that would bode very well. Of course, somebody's ox is going to be gored and I understand that, but if we are going to truly use the money efficiently like everybody around here wants us to do, then we simply have to do that.

I was a little disappointed about the BRAC being delayed as well. I didn't understand why there were so few ships being built until secretary Gordon England had a little "come to Jesus" meeting with me in my office and made me understand why, and I do understand why now. I think in time we are going to see those numbers go up, and I feel confident that will happen.

The only thing I am concerned about is the year delay in the carrier keeling for No. 77. That is the only thing I am little puzzled about. I was hoping we could do that a little sooner. But other than that, I congratulate you all on what you have done, and thank you for putting up with us in everything we ask. And just keep going. I think you are doing a wonderful job.

Mr. WOLFOWITZ. There are hard choices throughout this budget. As I said in my opening statement, we are trying to do three things at once: to prosecute this war on terrorism, to support our existing force and particularly our people adequately, and to build a force that our men and women are going to need 10 years from now. It is expensive. It isn't easy, and we can't do everything. I mean, that is why the carrier slips. That is why shipbuilding slips. That is why some of the things we like to do slip.

I think overall we have done a pretty good job of balancing and we are going to work harder in this coming year in trying to find some of those savings that are so important in funding our priorities.

Chairman NUSSLE. Mrs. McCarthy.

Mrs. MCCARTHY. Thank you. I am going to go into something that is a little bit different and maybe hopefully it will save money. I have absolutely no idea on the answers so I hope you might be able to supply them, especially when it comes to health care.

I spend a lot of time talking to our men and women in the service and especially those that are in the health care end of it. I know some years down the road, there was a lot of privatization going on inside our military hospitals for cost-effective savings. I don't know if that is working or not.

Let me just give you an idea of what those who serve in the military in these hospitals feel about it. They feel there is no chain of command. They don't feel it is efficiently used. You have to remember, a CT scan is open at 2 a.m. in the morning. They will not schedule CT scans at 2 a.m. in the morning unless it is an emergency. Most hospitals today will schedule them. If you want to have a CT scan, instead of waiting 4 months you are going to go in at 2 o'clock in the morning.

So what I am asking, if you could do a cost analysis, and I think if you start looking into it you might find you actually could save money if you went back to the old way. Mainly because if we keep those who we train to be in the health care field with our military, they know their job well, they will stay in the service; because if you do a cost analysis of what it costs to train someone versus what it costs to pay someone from the private field to come onto the military base and work, I think you will see that our military people can do a very good job at certainly at a better price and you are not going to have that turnover.

I think the saddest thing I saw over the last four years with talking to people, are you going to re-up? No. They are all leaving. I don't blame them. We weren't paying them enough. The housing was terrible. And certainly I will speak for myself, but since I have been here I certainly have been voting to make sure that every one of our service people get an increase. I don't feel the increase we are giving them is enough. I think we have to look—because looking at the budget, even though it looks like a lot, I don't think it is enough for the housing costs that we need. I don't have a lot of bases in my district. I only have one or two that certainly need some improvement.

But if we are going to retain our people to stay in the service, and if you do a cost analysis what it costs us, I think we can save money that way.



I don't have the answers. I actually would be curious to see—I am sure someone has done a cost analysis on this somewhere, but I think it is time to bring that back up again to retain our people in the service, to give our military people the best health care, that they deserve by the way. But I think in the end, you are going to see that you can save money that way.

If you look at the formulas in the regular hospitals, they have do everything in the world to give good service but to cut costs. And when you are working with military and private organizations, I don't see how you can save money in the end, I really don't. It has got to be one or the other. That is the way I look at it.

With that being said, I am sorry that at times everybody gets very partisan around here. Most of us don't. When our men and women went to war on September 12, they were well prepared. They were ready, and they did their job, and they have done their job admirably. And they have. This is a new world. No one could have seen this coming and we have to prepare for it. I think that you will find the majority of Congress will stand with you on that.

But again, we can't keep fighting the old cold war either. It is a new world—I am not an expert on it, but I know where our monies and resources should go for the future, and obviously that is to protect this country. I think everybody understands protecting our country, even if it means going into debt, is something that we will have to do. And if that means—which is a heartbreaker for me in what I want to do with health care and education. It is not going to mean anything unless we have a safe Nation, and I think we have to start looking at it that way. If you have a response, I would love it.

Mr. ZAKHEIM. First of all, I think we both appreciate your sentiment and recognize that the support on the Hill has been bipartisan. Not surprisingly, we were all affected. The terrorists don't distinguish between Democrats, Republicans, or anybody else. They just blow people up.

On the question of health care, my colleague David Chu, who is one of the country's leading experts in health care, is actually reviewing these issues. One of his concerns, for example, is just on the managed care side of the ledger, to renegotiate contracts and give us a much better deal and provide service.

As comptroller, I also have a problem because I currently have tremendous difficulty in actually tracking the money that is spent on health care. There have been complaints, rightfully so, from many Members of Congress as to the visibility and the viability of our accounts, and this is a 30-year mess, I couldn't agree more. And so we are approaching my colleague David Chu, and I am saying to him, as part of the deals you cut, the new contracts you sign, we need visibility. The taxpayer doesn't deserve anything less.

You are right, our men and women in uniform are not being paid as much as their counterparts in the civilian world. Congress told us to go beyond the comparability index and add an additional half percent to pay increases, and we did that. We have added money to family housing, so that we are supporting our personnel in a lot of different ways. Let me add training to the mix; people who feel they are not being trained properly, are not being supplied with the right equipment, tend to want to leave whatever job they are in.

The military is no different. I know you know this. We have talked to people in uniform today, and they will tell you that when they say we are putting people first, we really mean it.

Mr. WOLFOWITZ. I could not agree with you more. The cold war is over. This is a different era. I think we also have to recognize 10 or 15 years from now is going to be very different from today. The hard part, I think, of this transformation business is trying to think ahead to a world that is likely to be different, the threats are likely to be different, and to invest wisely in those. I do think the approach that we have developed in the QDR, focusing on capabilities rather than trying to imagine specific threats, I think is a more constructive way to go at it. But I could not agree with you more that we can't be thinking in the past. We have got to be ready to change.

Chairman NUSSLE. Thank you. The Budget Committee leads by example. And so I would like to turn to our own ready Reserve Member, Commander Mark Kirk.

Mr. KIRK. Thank you, Mr. Chairman. I noted that Secretary England came to my district on Friday and said that after he was sworn in and took office, he reported the Navy had three weeks of aviation funding left the day he took office.

When I see the lack of procurement numbers on the minority's chart there, what it hides is the reality that I faced in our squadron, which is we had hollowed out the military over the previous 8 years. In my own squadron—a power squadron is four aircraft—we used one as a hangar queen that we just pulled spare parts off. She never—500 never flew.

On John C. Stennis, I had 33 IS enlisted working for me. Thirty-two of them were deciding not to reenlist for obvious reasons. At DM, when they left the Navy running a 71 gigabyte hard drive on the carrier, which go to work for PRC Corporation and triple their pay, be back on the ship 3 weeks later, obviously, you need to get out of the Navy. In Allied Force, I remember we nearly ran out of HARMs. There was one day mid-campaign where General Short had to consider a 48-hour pause because we were running out of precision-guided munitions and the critical air defense munitions we were using.

So I applaud the direction of your budget. There are armies of lobbyists up here for the “Iron Triangle” that will fight for the procurement accounts. What you have done is fill up the O&M accounts, that I can tell you from the fleet perspective have been depleted completely. I want to look at two things that I know you want to go in the direction of. And by the way, I am very pleased, Secretary Wolfowitz, that you are here, architect of our Iraq policy.

If I would look at the future, I would say to the military, get ready, I would think, for what is coming. I think part of this budget is what is coming. And in that sense, every dollar that we cannot waste or save will help the transformation in the coming campaign.

With regard to base closings, 85,000 reservists called up, roughly 10 percent on security detail. That would be 8,000 reservists. We estimate 25 percent of our bases are unneeded. That means at least 2,000 reservists were called to protect bases that we did not need, pulling valuable resources away from the campaign. Do we have an

estimate of how much we would save if we were to get a base closings process moving forward?

Secondly, on tooth-to-tail, I think the Secretary is mentioning 14 layers of decision-making in the Quadragon, and what can we expect as far as the Department's rollout of a tooth-to-tail initiative that would save resources for the coming campaign?

Mr. WOLFOWITZ. On the—first of all, thank you for what you said about base closing. I appreciate the support that we have gotten. We wish we could have gotten more and wish we could have started that process earlier. We can get you the figures on what the long-term savings would be.

EDITOR'S NOTE: *No response received at press time.*

Mr. WOLFOWITZ. The sad fact is, as you note, we have called up a lot of people to protect bases we wish we closed. I believe that the figure for what we are spending on additional force protection measures as a result of the war on terrorism is somewhere in the neighborhood of 4 to 5—excuse me, 3 to 4 billion, which means we may be spending close to a billion dollars in force protection measures that are unnecessary.

One of the things on the question of trying to reduce layering and improve efficiency, the Secretary has been pushing very hard on headquarter staff reductions. It may not surprise you that people have come back and said we have even more work to do than we did before, so how can we possibly reduce our staffs? And his reply is, I don't know how, but you figure it out, because there has got to be some people that are doing things that are lower priority.

There is that tendency, and we do have a lot more work to do. People are a lot busier. There is a tendency to simply add things on top. We are trying to keep the pressure on to not increase in strength and in fact reduce headquarters staff. I can't tell you exactly when we will be able to announce those results, but I can tell you the Secretary is very serious about it.

Mr. KIRK. Dov.

Mr. ZAKHEIM. Just to add to that, we reduced headquarters since 1999 by 11.1 percent. But to give you another look that perhaps hasn't been mentioned too frequently, you know in the mid-1990's, our civilian personnel stood at about 700,000. It stood at 687,000 in fiscal 2001. This year for fiscal 2003, we are predicting another 23,000 cut. So it was reduced roughly 13-or-so thousand between 1995 and 2001. Just in the last 2 years, we are going to almost double that. And we will continue that reduction. I mean, we can't eliminate civilians entirely, but there have been significant reductions there. Of course in the 1980's, we had a million civilians. So we have made significant reductions there.

We are improving our financial management programs. I talked about this earlier in one of the previous responses in that we have to put our arms around a massive problem. We have 670 different systems that look at pay, that look at medical issues, that look at logistics and so on, and they don't talk to one another. And the Congress—I thank the Congress for giving us \$100 million this past year to get started on the new architecture to try to get this down. We are asking for another 97 million this year. We are about to let our first contract on this. We have to get our arms around

the financial management problem, too, and that is part of—it is a small part, but a significant part of what the Deputy Secretary is talking about in terms of overall management, changes, and controls.

Mr. KIRK. Mr. Chairman, I note the Secretary unveiled his tooth-to-tail caucus initiative on September 10. And given the pressures, I can understand how we spent time in other places, but we are looking forward to renewing the momentum there and look forward to supporting you on that.

Chairman NUSSLE. Thank you. Mr. Secretaries both, thank you very much for your testimony and your assistance in working through the defense budget. I am sure, as you heard today, there are other questions that we will have from time-to-time. We appreciate your being forthcoming in the past about your answers and giving us that information, and we look forward to that again in the future. Thank you very much for your testimony.

Chairman NUSSLE. Our second panel for today's hearing—allow for the change in witnesses. Our second panel for today is Lawrence Korb, who is the vice-president and director of studies for the Council on Foreign Relations. We welcome you to the Budget Committee. We are pleased to put your entire testimony into the record and you may summarize as you wish. Welcome.

#### **STATEMENT OF LAWRENCE J. KORB**

Mr. KORB. Thank you very much, Mr. Chairman. It is a real privilege to be here. I will put my statement—

Chairman NUSSLE. You need to push the button on the microphone. We are learning about this new sound system ourselves.

Mr. KORB. I thank you very much, Mr. Chairman. It is a privilege to be here. I am just going to make a few points—my statement will be in the record and the hour is late—that I think are important in listening to what happened before.

First of all, the military that this administration inherited was not in as bad a shape as people have led you to believe. If it were, it would not have performed so magnificently in Afghanistan. Remember, this administration has had no impact on the military. I think it is very important not to think that they inherited this horrible military and within a couple of months were able to change it. This is the military that we funded and built in the nineties that went to war in Afghanistan.

Second, President Bush in his campaign said he would add \$4.5 billion a year to the program that he inherited. That was less—that was less than 2 percent. People have sort of danced around it today. It was he who said they would skip a generation of technology, and it was the President who said that at the end of August—as I quoted in my testimony—that we were simply not going to fund all of these programs.

That is really what is driving up the budget, not just this year—because there are a lot of expenditures in there for terrorism—but, as Congressman Spratt pointed out, what will happen over the next couple of years. I would argue that even the program that they have presented with the build-up between now and 2007 is underfunded. You cannot do what they are claiming to do within those numbers. As General Myers told the Armed Services Com-

mittee, that budget before you, if you accept it, you are going to have to spend more money.

Arguments about GDP are meaningless. GDP is much more a statement of what our economy is doing. And we are not going to go to war. George Bush's military is not going to go to war with the military that was built by 10 percent of the GDP back in the sixties and the seventies. What you need to look at is what do you want to do and what is the threat that you are facing.

And then finally, it didn't come up at all because we focused a lot on weapons systems quite correctly, but this administration had a panel headed by former vice-chairman of the Joint Chiefs of Staff, Dave Jeremiah, to look at the military health compensation system, including health care and housing. Nothing came of that. I know that there were proposals in there which would enable us to get the proper people and keep them at a much lower cost. That was all washed up. They worked on this for 8 months. That was one of the panels. I see nothing in this budget that deals with that.

Let me stop there and take whatever questions or comments you may have.

[The prepared statement of Lawrence J. Korb follows:]

PREPARED STATEMENT OF LAWRENCE J. KORB, VICE PRESIDENT AND DIRECTOR,  
STUDIES AT THE COUNCIL ON FOREIGN RELATIONS

Mr. Chairman, members of the House Budget Committee, I appreciate the opportunity to appear before you today to discuss the Bush administration's proposed fiscal year 2003 defense budget and the fiscal years 2003–2007 defense program. It has been my privilege to appear before the Budget Committee of both houses of Congress at various times over the past 22 years, both as a government official and as a private citizen and at the request of both parties.

When looking at the proposed fiscal year 2003 defense budget and the fiscal years 2003–2007 defense program, the Congress and the American people should ask two simple questions:

- First, can a budget of about \$400 billion for national security in fiscal year 2003 be justified?
  - Second, is the proposed fiscal years 2003–2007 defense program properly funded? In my view the answer to both these questions is no.
- The fiscal year 2003 defense budget for national defense requests \$396 billion—which is an increase of \$48 billion, or 14 percent, over the fiscal year 2002 budget. By any reasonable standard, this is a huge budget and an enormous increase. If enacted it will mean that:
- Defense spending will have risen by \$88.2 billion, or 30 percent since fiscal year 2001.
  - Spending will be 15-percent higher in real terms than what we spent on average to win the cold war.
  - This will be the largest real increase since the Vietnam War.
  - It will mean that the U.S. alone will consume about 40 percent of the world's total military expenditures.
  - The U.S. will spend more on defense than the next 15 countries in the world combined.
  - The proposed increase of \$48 billion alone is more than the total military budgets of every nation in the world.
  - The proposed budget is more than the total GDP of 23 nations, including Saudi Arabia and Pakistan.

I recognize that the size of the U.S. defense budget cannot be compared directly to that of other nations, because the U.S. is a global power with worldwide interests. But surely, there is more of a relationship between what the U.S. and its potential adversaries spend on defense than what percentage of our GDP the nation has allocated to defense over the past 50 years.

JUSTIFICATIONS

In justifying the size of this budget, Secretary Rumsfeld is fond of pointing out that when he came to Washington, the U.S. was spending about 10 percent of its

GDP on defense, as opposed to the 3.3 percent he is requesting for fiscal year 2003. However, he fails to mention that in constant dollars, his fiscal year 2003 defense budget request is higher than any budget sent to Congress by the Presidents he served, Nixon and Ford. Nor does he point out how much our economy has grown since the mid-1970's, that is from \$1.5 trillion in 1975 to \$10.3 trillion in 2001. Finally, comparison to what was spent by previous administrations is meaningless since the Bush military will not be going to war with that of Kennedy, Johnson, Nixon, Ford, Carter, or Reagan.

Administration officials, including the President, offer two specific justifications for such a large increase: the nation is at war and they inherited a military that was, in Secretary Rumsfeld's words, "overused and under funded."

1. *The War on Terror*. There is no doubt that the U.S. military should have all the money it needs to fight the war on terrorism. But does the war against terrorism justify such an increase? Hardly.

The Pentagon has already received a \$20 billion supplement to its 2002 budget to prosecute the war, far more than it will spend on that conflict. So far, the cost of the military campaign against Afghanistan has been about \$6 billion, or \$1.5 billion a month. Now that the military campaign is winding down, the monthly cost to the Pentagon will drop. Bush's proposed 2003 budget estimates that the cost of the war next year will be about \$10 billion, or less than a billion a month. It is therefore clear that we've already budgeted for the military's role in the war against terrorism.

The war against terrorism cannot be compared to the wars that the U.S. fought in the last half of the 20th Century. The Korean War, the Vietnam War, and the Persian Gulf War were primarily military conflicts in which large numbers of American military forces were pitted against significant armed forces on the other side. In 1950, the U.S. sent more than 300,000 men and women to confront some two million North Korean and Chinese forces; the American military buildup in Vietnam peaked at 579,000 in 1968; and nearly 500,000 Americans were sent to battle Iraq's million man Army in 1991.

In addition, during the Korean and Vietnam wars, the U.S. military significantly expanded the number of people in the armed forces. During the Korean War, the number of people on active duty grew from 1.5 million to 3.6 million. In the war in Vietnam, the force grew from 2.7 to 3.6 million.

The U.S. military has been able to drive the Taliban from power with less than 5,000 people in Afghanistan and flying fewer sorties than it did in Kosovo. In the 76 days between October 7 and December 23, 2001, when the sustained bombing campaign ended, the U.S. flew about 6,500 sorties and dropped about 17,500 bombs against the Taliban and Al Qaeda forces, 60 percent of which have been satellite guided JDAMS or laser guided. In Kosovo, in 70 days of bombing, the U.S. flew 8,500 sorties. Moreover, unlike Korea and Vietnam, where the U.S. military added millions to its active duty force, the only addition to the U.S. force for the war against terrorism has been the call up of 50,000 reservists.

This should not be surprising. Unlike the conflicts in Korea, Vietnam, and the Gulf, over the long run the military's instrument in the war against terrorism will be less important than the financial diplomatic, intelligence, and law enforcement tools.

Paradoxically, as a result of the war against terrorism, the traditional military threats from such potential American foes as Russia and China have decreased markedly. The Russians have not only shared intelligence with us, they have also persuaded the former Soviet republics of Uzbekistan and Kyrgyzstan, which border Afghanistan, to allow U.S. troops to launch attacks against al-Qaida and the Taliban from their territory.

The Chinese have been especially cooperative. The rulers in Beijing have shared intelligence on al-Qaida and the Taliban, and have leaned on their long-time ally Pakistan to support the U.S. campaign in Afghanistan and clamp down on terrorists at home.

2. *The State of Our Military*. The war in Afghanistan has also shown that the claims that the President made in his campaign and his Secretary of Defense continues to make about the sad state of our military, allegedly because of 8 years of overuse and under funding, are simply false. The military has performed magnificently in Afghanistan as it did in Kosovo in 1999 and as it continues to do in the Balkans.

The fact of the matter is that Bill Clinton spent more on the military than the elder Bush had projected upon leaving office and that during the decade of the 1990's, the U.S. spent only 8-percent less than what it spent on average during the cold war. Bill Clinton left Donald Rumsfeld with a defense budget that in real terms

was \$25 billion higher than the one President Ford bequeathed to him in his first term as Secretary of Defense in 1975.

Nor was the military overused in the last 8 years. On average during the 1990's, only 15 percent of the active force was deployed outside the U.S. In the Reagan years, 25 percent of the force was deployed outside this country. Moreover, at the beginning of the Bush administration only 35,000 people were deployed outside of the routine and long-standing deployments to Europe and Asia.

#### SO WHY THE MASSIVE INCREASE?

The real reason for the increase in this year's budget is not the war against terrorism or the state of our military. This massive increase is necessary because the Bush administration failed to carry out its campaign promises to transform the military, and the Secretary of Defense failed to make the hard choices that are necessary when formulating a defense budget. Rather, he simply layered his new programs on top of the Clinton programs he inherited. As retired Navy Captain Larry Seaquest told the Christian Science Monitor, "They [the Bush administration] plan to pour more fertilizer on the same old crops." Nor did the Secretary follow through on his proposed reforms of the military compensation system.

Thus, the fiscal year 2003 budget fully funds three new tactical aircraft, the technologically challenged V-22, the ponderous Crusader, the unneeded Virginia class submarines, and a robust national missile defense system. In the upcoming fiscal year, these programs alone will consume about \$30 billion. And over the fiscal year 2003-2007 period, they will consume well over \$100 billion.

According to the Pentagon's own figures, spending for the three tactical aircraft jumps 37 percent while funding for the unmanned aircraft that did so well in Afghanistan grew by only 13 percent; additions as a result of the war against terrorism will consume only \$9.4 billion and the transformation effort only \$6.5 billion. Thus, the new programs will consume less than half as much as the legacy systems that Rumsfeld and the President criticized in the early months of the Bush administration. For Example, in August of 2001, President Bush said:

"There is no question that we probably cannot afford every weapons system that is now being designed or thought about. And you should ask the Secretary [of Defense] this question, if you care to, because he is going to bring to my desk, in a reasonable period of time, what the Pentagon recommendations are as to what weapons systems should go forward and which should not. One of the things that happens inside the Pentagon is people are encouraged to think outside the box, so to speak, and help design systems that could or could not affect security in the long term. There are many good ideas, but this administration is going to have to winnow them down. We can't afford every single thing that has been contemplated. And when we make decisions, they will fit into a strategic plan. And we need one. And there is going to be one and it's coming this fall."

#### POTENTIAL CONSEQUENCES

The situation will get worse before it gets better. The administration is projecting that for fiscal year 2004, the defense budget will rise by less than \$9 billion or 2.2 percent, in nominal terms, to \$405 billion. This is not enough even to keep pace with inflation! If the fiscal year 2004 budget grows at the same rate as the budgets of the last 5 years, the fiscal year 2004 budget should be about \$440 billion and the fiscal year 2007 budget about \$580 billion rather than the projected \$470 billion. General Richard Meyers, the Chairman of the Joint Chiefs of Staff, admitted as much in testimony before the Senate Armed Services Committee when he said the current program is under funded by about \$30-40 billion a year.

By throwing all this money at the Pentagon and refusing to make choices, the Bush administration is removing any incentive for the Pentagon to become more efficient or for military leaders to focus their resources on innovative systems. According to the Bush administration's own executive branch scorecards, which grade the performance of each Cabinet department, the Pentagon is unsatisfactory in all five areas that were measured. As Admiral William Owens, former Vice Chairman of the Joint Chiefs of Staff recently noted: "new money for the armed forces may well become an excuse to maintain inefficient old habits."

#### RECOMMENDATIONS

In order to prevent this, the Congress must make the choices the Pentagon was unable or unwilling to make. Specifically, it should:

- reduce the number of strategic offensive weapons to 1,000 immediately rather than waiting 10 years to cut them to 2,200;
- limit production of the F-22 to 100;

- retire 40 B-1's;
- halt production of the Trident D-5 SLBM;
- keep the National Missile Defense program in development (and not rush toward deployment);
- limit production of the F/A-18 E/F to 200;
- terminate the V-22, the SSN-74, the Crusader, and the Comanche helicopter programs.

In addition, the U.S. should:

- reduce its troops in Europe by 75,000;
- change the military retirement system from a deferred benefit to a defined contribution plan (like that of Federal civilian servants);
- privatize the military housing system;
- and move the dependents of military people into the Federal employees health benefits program.

These reductions will implement Bush's campaign promise to skip a generation of technology and create a more agile, mobile, innovative military, will free up money for other areas of homeland security, and will not undermine the military's role in the war against terrorism. The Special Forces who performed so magnificently in Afghanistan consume about 1 percent of the defense budget and the JDAM's cost only \$25,000 a piece. In the regular fiscal year 2002 budget, the Congress authorized DOD to purchase 9,880 JDAMS, about the number that have been dropped in Afghanistan to date. The \$20 billion supplemental will allow them to purchase even more in fiscal year 2002.

#### CONCLUSION

Last fall, Harry Stonecipher, vice chairman of Boeing Co., one of the nation's largest defense contractors, captured the essence of the President's approach to this budget. Stonecipher said that before September 11, the military services had to make "some hard choices" about what to buy, but "the purse is now open" and any Member of Congress who argues that "we don't have the resources to defend America \* \* \* won't be there after November of next year."

Lest anyone think that in opposing the Pentagon, a member would be considered unpatriotic or would be in danger of losing his or her job, I urge you to consider the example of then Senator Harry S. Truman: in March 1941, Senator Truman convinced the Senate and President Roosevelt to set up a Special Committee to Investigate the National Defense Program. The Truman Committee, which continued its work throughout the war, even after the attack on Pearl Harbor, issued 51 reports documenting waste, mismanagement, and fraud in the defense buildup. These reports not only saved the country hundreds of billions of dollars, they catapulted Truman to the Vice Presidency in 1944 and the White House a year later.

Chairman NUSSLE. Well, I guess—you know, it is certainly not falling on deaf ears, in a time when we are trying to figure out ways to balance the budget and ways to get us back on some kind of fiscal track that makes sense, as well as trying to figure out ways to rein in a Pentagon that I think most people would agree, has grown very quickly in many different ways, and in a way that maybe has not been as fiscally prudent, that some of the costs have been extravagant and some of the waste has certainly been prevalent.

But, having said that, we are in a war. And there is this—you seem to be, well, certainly the lone voice today, so far—this willingness to spend just about whatever it takes in order to get the job done.

Could you turn to your recommendations and just go through some of the recommendations that you would make to this committee. Some of them I am sure we can try and employ in the short term. So if you could at least hit some of the high points of the recommendations you would make as we examine this budget and as we look into the future how we can gain some control, particularly as we look at transformational issues. If you could help us with that, that would be appreciated.



Mr. KORB. Certainly, Mr. Chairman. If you take a look, for example, at the tactical air program, there is nearly \$13 billion in there to fund three new fighter aircraft. The most logical candidate to stop would be the F-22. Every indication we had up until September 11 was that that program would not go forward. I am not privy to any inside information in the Pentagon, but if you just read the newspapers and all of the various panels that Secretary Rumsfeld had set up.

If you take a look at this year's budget and you compare, for example, \$5.3 billion to buy 23 F-22s, you are spending \$100 million to buy these unmanned aircraft that did so well in Afghanistan. And don't let anybody tell you that the Pentagon didn't realize until this war that they needed them. There have been those of us who have been saying that for many years, that that is the direction they ought to go. So I would—and you talk about the age of the aircraft. You got the joint strike fighter coming. The F-16 Block 60's were six times more effective than the original F-16s. You could have gotten those for \$30 million a copy. You could have gotten the F-18s, C and D rather than E and F model, at half the price, and then you would not have the problem of these aging aircraft. It wasn't that we didn't have enough money in the nineties, or it is not that we don't enough money now.

It is doing things like that. This is certainly the biggest area. The Crusader, we have talked about whether it is fully funded. Every panel that Secretary Rumsfeld set up recommended getting rid of that. It was just too big and too ponderous. You are going to go ahead with that because they didn't cancel it. You got close to \$500 million, this year but it is going to grow over the next couple of years. If you don't stop it now, you are going to have to pay those bills, because what happens is once the program gets going, you got so much money invested in it, you don't want to go ahead.

Look at the V-22. This is something Secretary, now Vice President, Cheney said had technological problems and was too expensive. It has more technological problems and it has grown more in the last decade than when the Vice President was Secretary of Defense, and yet we got \$2 billion in the budget for it this year. And we have put ourselves in the position where we have alternative or fall back, and that is the argument they make. We needed to go ahead with the V-22 because we don't have anything else. They deliberately structured it that way.

We talk about troops being overused. Why do we still have 100,000 troops in Europe? Now, I am not talking about the Balkans, I am talking about the people that are routinely there. The European Union as it expands is going to have a larger GDP than the United States. The Europeans are not doing very much on defense because they know that we will do it. It is time for us to let them take their share of the responsibility. Those men and women can be used in other places of the world or taken out of the force structure.

Chairman NUSSLE. If we take your recommendations that you make without any changes, most of them I think appear on page—well, most of them appear on page 10 of your statement—do you have any idea of what this would add up to in savings? You mentioned some of these in here that you just—and I appreciate that

you would do that. Do you have any idea what kind of budget we would be looking at for the Defense Department if your recommendations were put into effect?

Mr. KORB. I think in this particular year—and I can give you the exact figures—you would probably save at least \$10 billion in fiscal 2003. But more importantly, you would relieve that upward pressure on the budget and close that gap that General Myers talked about, the 30 to \$40 billion that you are underfunded.

Chairman NUSSLE. A \$10 billion worth of savings out of the \$369 billion budget proposed.

Mr. KORB. That is correct.

Chairman NUSSLE. So, \$359 billion would be your recommendation for what the budget ought to look like?

Mr. KORB. For this particular year. But if you take the other things, in terms of the military retirement system, you could save \$5 billion a year if the military retirement system had the same type of system that Federal civil servants have, where you basically make your own choices. We documented that on the Defense Science Board panel I was on 3 years ago. I came before this committee in 1999 and made that recommendation. The longer we wait, the longer it is going to take us to save the money.

Chairman NUSSLE. OK. Thank you very much.

Mr. SPRATT. Mr. Korb, thank you for coming. We appreciate it. For the record, I think we should make clear you are a former naval officer, retired.

Mr. KORB. That is correct.

Mr. SPRATT. A-6 pilot.

Mr. KORB. No, sir. I was a naval flight officer in patrol planes.

Mr. SPRATT. And a former Assistant Secretary of Defense during the Reagan administration.

Mr. KORB. That is correct.

Mr. SPRATT. Manpower reserve personnel.

Mr. KORB. As well as bases and logistics.

Mr. SPRATT. I agree with some of what you had to say and disagree with other parts of it. For example, I don't think the F-22 was anywhere near dead before 9-11. I think it had a lot of momentum behind it. Politically, I think the Air Force would have gotten the air superiority fighter whether 9-11 had occurred or not.

Looking at what you propose here, I think you underestimate the savings that would result from the enormous number of things you propose. Some of them, as you know, are really a reach. I remember when President Reagan appointed Peter Grace, the Grace Commission, to ferret out all of the waste in the Federal Government and come up with recommendations for major reduction in the costs of the Federal Government. The single biggest cost reduction items in the Grace report went to the Federal Civil Service Retirement system and the military retirement system, and he basically proposed something like what you are proposing, a defined benefit and a contributory plan, I believe—both.

Mr. KORB. That is correct. You know, the great irony is the late Les Aspen and I were very close to getting that, but the Joint Chiefs of Staff refused to allow the military to have the option like civilian civil servants. Had they done that, they would be better off now and we would be better off. Instead, we compounded the prob-

lem by repealing redcuts, going back to the 50 percent when we had not put any money aside for that over a 15-year period.

Mr. SPRATT. The single accomplishment Les made was to get the redcuts provisions in it, and then we repeal that so we are back to where we started. But the Grace Commission report had barely hit the street. General Vessey and Secretary Weinberger were before the House Armed Services Committee to testify on the annual defense budget request. And the first question out of the box was, "Mr. Secretary, have you seen the Grace Commission report and do you support the recommendations with respect to the military retirement system?" and Casper Weinberger said, "Absolutely not," whereupon Vessey said, "If he answered differently, I would have resigned on the spot," which gives you an idea of just of what the hurdle is to get over to change anything as significant as that is.

One of the things you did pinpoint which I did mention in my testimony is the strategic nuclear account. You would think that, here we are more than 10 years after the end of the cold war, that at least in the strategic nuclear accounts we would see deeper reductions than we see proposed here. You say we should go immediately to a thousand warheads.

Mr. KORB. That is correct. I think if you—and this is, interestingly enough, this is where the military would support you. The military, except for a very small group of them, basically want to get down to that number and to free up those resources, and there is no conceivable list of targets that you couldn't handle with a thousand weapons. And rather than waiting 10 years to go down to the number that President Bush and President Putin agreed on, I don't see why we don't do it right away.

Mr. SPRATT. You also recommend retiring 40 B-1s. I think the administration made that recommendation last year.

Mr. KORB. That is correct. Because they had not laid the ground work for it, it didn't go anywhere.

Mr. SPRATT. And you would halt production of the Trident D-5. If you do that, one concern is that is the last of the ballistic missile lines we got in the country. You dissipate the technology base, and the engineers go somewhere else, and Lockheed missiles in space does something else. They still build missiles and rockets for space launch and stuff like that, but this is the last of the missile systems for which we have a production line and engineering base and everything else. Does that give you pause?

Mr. KORB. Well, I think the point that you made about these people will be working on similar technologies, and I mean the world is moving with us and the Soviet Union to—former Soviet Union, Russia, to less and less weapons. I think they would maintain those skills working on those other missile systems.

Mr. SPRATT. Let me ask you about burden sharing. I don't know if you saw the simple bar graph that we put up, but if you add up what all the 15 of the largest industrialized countries in the world are spending, which are our allies, Japan, South Korea, all the European countries, 15 altogether, excluding China and Russia, they are spending about, oh, \$326 billion, 27—\$227 billion, and we are spending or we spent in 2000 about 295. There is about a \$70 billion disparity between us and them. I really think their number is inflated, and ours is probably conservative. I think the spread be-

tween us is greater than that, and certainly in terms of quality, ability, agility, mobility and things like this, we are way ahead of our allies. What do we do to get our allies to do more so that we can have a better burden sharing, a better division of labor between us in policing the world?

Mr. KORB. Well, I think you can't have it both ways. The United States cannot act unilaterally and then expect other nations to do their fair share. I think we made a big mistake in not letting the Europeans get more involved in the war in Afghanistan, because if we did, then we could go to them and ask them to spend more on defense. I mean that is one thing. And I think with Europe, as long as we keep those large numbers of troops there, they will continue not to do their fair share.

So I think particularly with Europe, particularly as the European Union grows and they talk about a common foreign and security policy—let me give you a specific example of where we made a terrible mistake in 1997. The French were willing to come back into the military portion of NATO. They said as part of that, they would like to take over the Southern Command. We should have said, that is a great idea. You guys get the ships, you and other the countries there, and we can move our Navy into the Persian Gulf or the western Pacific where it is much more needed.

We didn't do that. We insisted on keeping the Southern Command, so they have not developed the naval assets they should to relieve the pressure on us in that part of the world.

In this war, NATO invoked Article 5 after the horrible events of September 11. We should have then followed through with that and got them more involved; and this way, they would be able to go back to their own parliaments and say, we need to build up our forces because of the way we are being used. But that did not happen. I think we are missing a very, very—we missed a tremendous opportunity. We have since the end of the cold war.

Mr. SPRATT. Let me ask you about transformation. Do you believe in transformation or is it just a slogan?

Mr. KORB. I certainly do, and I think that President Bush in the campaign when he talked about skipping a generation of technology, that was something I have argued for the longest time. Not go to the F-22, for example; continue with the 16 and maybe go to the joint strike fighter, which is not skipping a generation, but that was the way to go, to get a more agile military. You know, the Army actually became heavier in the nineties. Divisions became heavier, which meant that they were less and less able to do what they needed to do. I had great hope when I saw all of the panels that Secretary Rumsfeld had put into being to get us to move in that direction.

Mr. SPRATT. Do you think we can get more tooth with less tail and end up saving money while still enhancing our military capabilities?

Mr. KORB. Very definitely. If you saw the article that Admiral Owens and Stanley Weiss had in the New York Times last week, I subscribe to that position. And Bill Owens, when he was vice chairman argued that, and he has since he has come out, that we have really got to move in that direction; because, as they point

out, only 3 out of every \$10 is getting to the point of the spear or the fighting person. The other seven is being lost.

He makes some of the same recommendations I do. Get out of the housing business. This is not the government—the government shouldn't be doing this. We ought to let the private sector do this for military people. And I do agree with the administration, we need to close more bases. I think that that certainly needs to be done. Modernize our acquisition system, all of those things that we talked about for the longest time, but we really haven't taken steps.

I was hoping that this administration could do it because they had the credibility, given the fact that they had brought so many people who had been in this business for a long time. Secretary Rumsfeld was coming back again. Pete Aldridge, people like that, David Chu, they had been there, and so I was hopeful they could move in that direction. And they were making an attempt in that, but they were being thwarted by the bureaucracy even before September 11.

Mr. SPRATT. Do you see this as a transformation budget?

Mr. KORB. I do not. I think it is a token transformation budget basically, but it is by and large Clinton-plus. You have taken the Clinton programs, you funded them all, and then put a few things on top.

Mr. SPRATT. Thank you very much.

Chairman NUSSLE. Mr. Collins, do you have questions?

Mr. COLLINS. I just wanted to hang around a few minutes and see what Mr. Korb had to say. I found a lot of his comments very interesting in both ways, good and bad. As usual, we spent some time together in other times. I can't help but chuckle, though, when I think about NATO and how we went through the bombing of Kosovo, and it seems as though each morning you had to have a meeting, over the telephone or through some type of system, of 17 nations to figure out who you are going to bomb that day. I could just see Secretary Rumsfeld on the phone with 16 other nations trying to determine where we are going to drop the next bomb. I don't believe that would have worked too well.

Thank you Larry for coming.

Mr. KORB. Can I comment on what you said, because I think it is a very important point. I don't know if you have seen the article that General Clark, who was the NATO commander, wrote in the Washington Post. He points out that that was not true. The problem was the U.S. Government, not the allies. I wasn't there. I don't know, but this is what Clark had said, and it is spelled out pretty much in his book. So I would agree with you if that is the way you had to do it, you shouldn't have done it. But General Clark says that is not what happened, that is the myth. The problem was the U.S. Government was divided about how to fight that war.

Mr. COLLINS. Well, I am sure that gets to the politics of most any kind of engagement. You know, I had the opportunity to visit with General Clark on a couple of occasions when he was in Europe during the Kosovo episode. I will never forget that this was not in a classified meeting that he made this comment, because it was always of concern to a lot of us why we were engaged in the Kosovo conflict there or the bombing. But as I say, this was not classified,

because he told it in a luncheon that—and our spouses and others were there—that he personally made a trip to Belgrade to meet with Milosevic and he poked his finger in Milosevic's chest and says, "I am not here from NATO, I am here from Washington. And I am here to tell you that I am going to bomb you and I will bomb you good." That was what we were all afraid of. It was a Washington event, not a NATO event.

Thank you.

Chairman NUSSLE. Thank you very much for your testimony. Appreciate you coming today.

Mr. KORB. Thank you for allowing me the opportunity.

Chairman NUSSLE. Our pleasure. And with that, the committee stands adjourned.

[Whereupon, at 4:50 p.m., the committee was adjourned.]

