

# THE CLINTON DEFENSE PLAN: SHIPSHAPE OR TREADING WATER?

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## HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED SIXTH CONGRESS FIRST SESSION

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HEARING HELD IN WASHINGTON, DC, MARCH 11, 1999

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**Serial No. 106-3**



Printed for the use of the Committee on the Budget

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U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1999

55-438cc

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## THE CLINTON DEFENSE PLAN: SHIPSHAPE OR TREADING WATER?

THURSDAY, MARCH 11, 1999

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

The committee met, pursuant to call, at 10 a.m. in room 210, Cannon House Office Building, Hon. John R. Kasich (chairman of the committee) presiding.

Members present: Representatives Kasich, Chambliss, Shays, Smith, Hoekstra, Gutknecht, Knollenberg, Thornberry, Collins, Wamp, Fletcher, Spratt, McDermott, Rivers, Minge, Markey, Clement, Moran, Lucas, and Baldwin.

Chairman KASICH. This morning's hearing obviously will be on national defense. And although we have heard a lot in recent weeks from the Joint Chiefs of Staff sounding the alarm that the defense budget is \$150 billion short over the next 6 years, it is not the purpose of the hearing to simply take that on faith.

I just read the first paragraph, John.

Mr. SPRATT. OK. I beg your pardon.

Chairman KASICH. That is OK. I was going to finish mine and let you go.

Rather, we want to take the broadest possible look at defense. Here are the main questions we are going to be asking: Is the underlying strategy sound? Does concentrating most of our defense dollars on fighting two regional wars make sense, or does the post-cold war world pose a different set of challenges, such as weapons proliferation, terrorism and information warfare? Are all the deployments, Somalia, Haiti, Bosnia, Southwest Asia, potentially Kosovo, undermining readiness and hurting retention without any clear advancement of the national interest? Is the administration solution to the retention problem a cure or a Band-Aid?

Is Pentagon reform alive or dead? It has been over a decade since the media reported on the \$600 hammer, one of which I found. I am not sure what sort of progress it is, but I can report to you that a new improved Pentagon has traded in the \$600 dollar hammer for a \$75 set screw.

We will be hearing from two panels. One will be the Deputy Secretary of Defense, John Hamre, who has done an outstanding job and is an outstanding public servant, and the Pentagon comptroller, William Lynn. They are going to present the administration's view on defense.

And, John, you may also want to comment on the status of infrastructure in America, and in addition to that perhaps whether the

services have all been disappointed about the Congress of the United States ordering the buying of systems that the military doesn't want. I mean, you have full range.

And then panel No. 2 will look at national defense in broader terms: Do we have the right strategy? Is it an affordable strategy? What alternative strategies, if any, should we be thinking about? We will have Bob Zoellick and we will have Larry Korb<sup>1</sup> and we will have Dr. Krepinevich, and there will be witnesses that would represent both the Democratic and the Republican requests for witnesses. So I look forward to your testimony.

Mr. SPRATT. Mr. Chairman, I apologize for being late, but I appreciate your allowing me to make an opening statement. I just want to take a minute to put things in context.

You have heard some of this in the House Armed Services Committee, but particularly in light of the testimony of Director Crippen last week, which had some serious flaws in it, I want to put defense spending in context. The first point I want to make is that the President has proposed more for defense in each of the past 3 years.

Back in 1996 when your side was trying to put through a budget that would balance the budget by the year 2002, you put forth a budget resolution for fiscal year '97 which included for, budget function 050, \$1.371 trillion between fiscal year '98 and fiscal year 2002.

The next year, 1997, the President sent up his budget for fiscal year '98. It requested \$1.383 trillion for defense over that same period, which was \$12.3 billion more than the Republicans requested over the same period in your fiscal year '90 budget resolution.

That year, 1997, we did the Balanced Budget Agreement, the BBA. We added to the President's request \$4.4 billion altogether in the BBA, which meant that it was \$16.7 billion more for 050 for defense than you were able to get into your concurrent resolution the previous year, over the same 5-year period of time.

The next year, 1998, the President's budget for fiscal year '99 included \$2.9 billion more in budget authority for defense than either the House or the Senate budget resolutions. There was no concurrent budget resolution provided for that year.

And this year, 1999, calendar year 1999, setting up this budget for fiscal year 2000, the President has provided \$54.9 billion more in budget authority for the period fiscal year 2000 through fiscal year 2003 than either the House or the Senate budget resolution last year provided over the same period of time.

That is point No. 1. It is a matter of record.

Point No. 2. We all, I think, voted for the Balanced Budget Agreement of 1997. We all set the level of spending that we have been at since then, so we all have a hand in determining how much defense got. It was not a liberal allotment, but in truth the BBA, the Balanced Budget Agreement, gave defense a pretty fair shake when you compare it to nondefense discretionary spending, and defense gets an even better deal in the President's fiscal year 2000 budget.

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<sup>1</sup>Lawrence J. Korb is Vice President/Maurice R. Greenberg Chair, Director of Studies of the Council on Foreign Relations. Due to a schedule conflict, Dr. Korb was obliged to leave before he could testify. There was no unanimous consent to insert his statement.

Basically, the President's budget for fiscal year 2000 provides discretionary spending levels through 2009. Before making any allocation of the surpluses that are anticipated over this time, defense outlays, that budget is going to grow from 2000 to 2009, from \$277 billion in fiscal year '99 to \$374 billion in 2009, an increase of nearly \$100 billion over that 10-year period of time; that is an average rate of increase of 3 percent.

The anticipated rate of inflation over that period of time is, CPI, 2.3 percent. So that means in this budget that the President is putting forth we are seeing real growth in defense over a sustained period of time for the first time since the mid-1980's.

By contrast, nondefense discretionary spending in this same budget grows from \$304 billion to \$325 billion, \$21 billion. The rate of increase is .7 percent, as compared to 3 percent for defense.

Now the President says once we have resolved Social Security for the long run, Medicare for the long run, he sees 11 percent left over to be allocated to discretionary spending, and he would put most of this money, \$206 billion, in nondefense, but \$112 billion more in defense, which would raise this rate of growth to 3.3 percent over that 10-year period of time. That is a 1-percent real rate of increase over a sustained period of time, and that is a pretty substantial commitment.

Now we have got a problem this year. The firewalls have come down, and they have been substantially increased, proposed by the President this year, and we are going to have to figure out how we get that under the caps and what gets displaced in order to accommodate the increase in defense. It is going to be difficult on our side. I don't know if you have tried to push your numbers on your side, but it is going to be difficult. And if you go beyond the President's level of increases that the Senate has, I really don't know where we are going to come up with the offsets in order to accommodate in a budget with no increase in the caps.

Let me say one other thing about inflation, because CBO tends not to give the President credit for inflation, but in truth when we pass something like the BBA and provide budget allocations over a 5- or 6-year period of time, and inflation is less than we assume, then the outyear money actually buys more goods than services than we anticipated at the time. This is a real phenomenon; it is more spending power. In the case of the Pentagon, this trend, lower inflation than we have projected, has produced tangible savings, and if the trend holds, it will produce more savings over the fiscal year '99 to fiscal year '05 time period.

Let me just give you a sample of what the savings we have already realized are. From fiscal year '95 to fiscal year '98, according to CBO, they equaled \$23.6 billion. In '99 alone they are \$15.4 billion. The total savings over the period '95 to '03 come to \$75 billion over and above the amount that we thought we were providing when we expressed the budget in nominal sums. These are CRS numbers and not CBO numbers. We requested the out-calculation. They did it in a memo dated February 17.

Now one of the things we have done in the past when we have had a problem with defense spending, as everybody in the room who has had a hand in trying to shim these budgets knows, particularly Mr. Hamre because he has been at this business for a

long time, is we increase BA and we shave outlays. That way the outlay number, which is the deficit number, stays in the ball park that we are trying to keep it in, but the BA number goes up.

And the BA is the number that we use for display, and the outlay number is the number that we use to claim that we have achieved our success. And it works the first year, sometimes it works the second year, but sooner or later you get to the outyears and the misalignment between BA and outlay becomes a serious problem.

I will tell you how serious a problem it has become. Last year what we did, we had a \$3.7 billion outlay problem, what did we do? By legislative fiat we said it doesn't exist. This year CBO tells us that the problem is \$10 billion. Sooner or later we have got to deal with that.

Finally, Mr. Chairman, and I will—

Chairman KASICH. Some places, Mr. Spratt, where we think OMB does a good job.

Mr. SPRATT. Well, we did it ourselves last year with just a magic wand.

Let me just comment on one final thing because Dr. Crippen, I don't think he did this deliberately, but he was referring in his most recent testimony to the amount of increase over the baseline. The CBO baseline is derived from prior years' spending, in this case fiscal year '99 spending, adjusted each year for inflation. That is baseline spending.

And if we measure each year's request and each year's appropriation against that baseline, the problem of using actual defense spending in fiscal year '99 as a baseline is that it includes \$8.3 billion in emergency spending, so it is swollen by that amount.

If you carry it forward, you are miscalculating or misrepresenting the baseline because this is not recurring money. It happened last year; these items, Bosnia and Iraq, which were emergencies last year, can't be classified as emergencies this year. They have to be included in the regular budget, and a baseline shouldn't have \$8.3 billion. If you exclude that from the baseline, the President's request is \$40 billion more in budget authority over the period 2000 to 2004.

That is just to set the record straight, Mr. Chairman, and I appreciate your indulgence in letting me put it in the record and inform the members.

Chairman KASICH. Mr. Hamre, you have got the floor.

**STATEMENT OF JOHN J. HAMRE, DEPUTY SECRETARY OF DEFENSE, ACCOMPANIED BY WILLIAM J. LYNN III, UNDER SECRETARY OF DEFENSE, COMPTROLLER**

Mr. HAMRE. Thank you very much, Mr. Chairman. We are very grateful to be invited. I know in the rush to make sure you got through your statement, you skipped the part about Bill Lynn being a great American as well. He is not as great as I, of course, but he is a great American, and I wanted to make sure that everybody knew that.

Mr. Chairman, I have a brief statement, and I am a little alarmed that Mr. Spratt thinks I am a great shimmer, but I take that as a compliment rather than as a criticism. I would like to go

through briefly to show you our budget request, but I know we will move very quickly so we can get into questions because I think that is your primary interest.

So let's go to the first chart, please. Mr. Chairman, we are really at a pivot point. We are ending this century and we are looking at the first budget request for the next century. So I think there are two questions that we need to put to you and to discuss as a government: Where are we at the end of this century? And how well postured are we for dealing with the challenges that we face in the next century?

First, let's look where we are right now. And I am not going to give you just a Pollyanna-ish report, but I do want to go through. We had a number of important operations last year, just last fall, in October, November, and December. I was astounded at how well the troops did. It was a flawless operation in the Persian Gulf in December. I know of only one mission that we had to cancel because of mechanical problems. I mean it just went in a splendid manner.

The accuracy of our strikes was unprecedented. We had virtually no collateral damage, and we worked very hard to make that the case. But I think that it says that the troops, despite 10, 12 long tough years of drawdown, are really performing well. We share pride, and I know you should too because you made this possible with the—the rather splendid way in which the troops have behaved.

We remain the glue that holds together the international security order. You see that every day, and frankly you are going to confront that today when we talk about Kosovo, and you are going to be talking about it on the floor. Like it or not, the United States still is the glue that holds NATO together.

Many of us, of course, would prefer to have stronger leadership in Europe, and I think you are starting to see that emerge. But dealing with the crisis in Bosnia, dealing with the crisis in Kosovo, would not happen without the United States' leadership, and I think it is an important dimension that we have to acknowledge.

There are no peer competitors to the United States right now on the global stage. That doesn't mean there wouldn't be one in 10 years or 15 years. We have to look to that, and I think there are very, very important and troubling signals that we have to watch for. But right now we have an important and unprecedented posture in the international security order.

We, of course, want to keep it that way as long as we can.

I am astounded at the excellence of our combat forces, and also the innovation in our officer corps. We are dramatically better than we were just 5 years ago in thinking about the craft of warfare, and we are going to be dramatically better in 5 more years.

We have innovation that is going on just explosively throughout the department. You would see it at the Joint Experimentation activity that is underway down in the Tidewater area. Each of the services have set up innovation battle labs, really doing exciting things, and to be able to do that at a time when we are 10 years after the fall of the Berlin Wall, I think testifies to the strength and the vitality of this remarkable officer corps and NCO corps that we have built over the last 20 years.



Finally, I would say it is American forces. We are the only military where we can go around the world and we are welcomed around the world. There are an awful lot of countries, when the army rolls in, they hide their families. But when the Army rolled into Honduras, when we had the flooding and relief activities, they came out to greet us and to welcome us, and I think we should all take great pride in that.

Are we ready for the next century? And, Mr. Chairman, you raised those questions in your opening statement. Some people criticize us for being conservative to hold on to a two-major-regional contingency strategy. I would agree that that is conservative, but three times in the last 5 years we had two nearly simultaneous regional contingencies. We were able to deter both of them, but I think it validated the fact that we need to retain this capability right now.

Which theater do you want to say you are going to neglect? The Persian Gulf theater or Northeast Asia? I don't think anybody is prepared to say we are prepared to walk away from that right now.

We have initiated a number of major initiatives in this budget and from the last couple of years to deal with this new threat of chemical, biological warfare, especially brought home, homeland defense. It is a major initiative of the department. The Secretary really made this one of his premier initiatives when we did the Quadrennial Defense Review 2 years ago, and we would be glad to discuss any of that.

We are dealing with the cyber threats. A year ago we wouldn't have known we were under attack, frankly; today we do, and we have done a great deal to defend ourselves. We have 24-hour-a-day watch centers. We have intrusion detection devices in all of our networks. We have strong firewalls in all of our networks. We have created forensic and diagnostics laboratories to track down what is happening and to come up with corrective actions. We have strengthened our counterintelligence activities in the department.

We have done a great deal in the Department of Defense, but America as an entity is not protected in this environment, and this is a very new and significant challenge we all have to deal with. It is largely the vulnerability in the private sector that is most worrisome to us, and we can talk about any of that.

The budget we have submitted to you funds the deployment of a national missile defense system when a decision is made to deploy it. We have not had that in the past, and I think we have been criticized for that. I frankly think that we have undercut our own credibility with our program by not funding the deployment side. We now have done that, and we put forward to you a program that at least would fund it when a President decides we should make a deployment decision.

Let me go on to the next chart, because I covered the other points. I do want to say, despite these very positive things at this pivot point of the century, there are things that worry us a great deal as well.

It is tough to recruit in this environment. It is really tough to recruit in this environment. We are not after the young men and women who really don't have options in life, you know, and are just kind of looking at hanging around the bus stations. We are after

quality young men and women, and it is tough to recruit them. They are heading off to college at unprecedented levels in American history, and we are trying to attract them to come into the military. We need that kind of quality, and it is tough getting them right now, to be honest, and it is tough holding onto people.

Any young man or woman in the military right now that has computer skills, 2 months before they get to the reenlistment point, gets job offers at two to three times their salary. I mean it is really hard to hold onto them. So this is a major problem, especially when the economy is so strong. There are so many opportunities. It is not just pilots. We are seeing this problem across the board in lots of career fields.

Our pace of activity and, Mr. Chairman, you mentioned this, our pace of activity is a real strain on us. We are managing it, but I will tell you it is tough. It is tough keeping forces in Bosnia, and it is tough having forces in the Middle East, and sending 1,500 folks to Honduras and Guatemala for relief activities. It is a strain on the Department. We are working it.

It contributes to the difficulty of holding onto people, but it is a real challenge in this environment. And it is one of the reasons why it was very difficult for us to come to this decision that we could support a deployment to Kosovo, because it will be a challenge for our troops. We know that.

After 14 years of drawdown, we have a very threadbare infrastructure here in the United States. We have had four rounds of base closures. Those have been very important to us. We are now saving about \$5 billion a year because of the base closures. A tremendous amount of controversy, and the chairman jabbed me a bit when I was back saying hello on what happened in California; I understand that.

I think we have worked our way through that, but we really do need, and I hate to say it, we need to come back to you again and ask for authority to be able to do a couple more rounds of base closures, partly so we can turn those dollars back and replenish the infrastructure that we have. It is tough, and you have seen it. I mean those of you who have installations know that our infrastructure is getting fragile, especially the underground infrastructure, the stuff you can't see, the utilities, you know, the water systems, things of that nature.

Let me give you an example. We have about 300,000 housing units that the Department of Defense operates, you know, for our personnel. The average age is 35 years old. I mean that is the average, I mean, and we are only buying replacement housing, about 5,000 houses a year. You can do the math. We are not keeping up with this kind of stock. So we need to do something.

Chairman KASICH. Would you suspend? I think what we ought to do is get over there and vote.

Mr. SPRATT. We have got a series of votes.

Chairman KASICH. OK. Do you want to—

Mr. HAMRE. We will wait.

Chairman KASICH. How much—

Mr. McDERMOTT. Two votes on Ed-Flex and then three suspension votes, so you have got five votes.

Chairman KASICH. John, if you can, go ahead and wrap it up.

Mr. HAMRE. I will pick up the pace. Let's go down two charts, Ken, to the line chart, and here I want to just show you what our budget is.

The President gave us \$112 billion more to spend. It is real, and here is how we did it. First of all, the dashed blue line that is right in the middle, that was our 5-year plan that we had last year, and that is the one that Mr. Spratt was talking about.

Now, inflation has come in lower and fuel prices are lower, and so it has lowered that bar to the solid blue line. That is what it costs to buy the program we had a year ago. Now, we were given additional dollars. As you can see, we were given an additional \$84 billion. This area here was added to our top line. The \$28 billion was purchasing power we were allowed to keep. So altogether we got another \$112 billion of real purchasing power that we could spend.

Now let's go to the next chart. What is really controversial about that is that while we got dollars in the outyears—and that is that additional topline that you see, the third line down, and that adds up to \$84 billion—the real problem is in '00, because the problem we had in '00 was we had to get under the caps. So the problem you see is we only got \$4.1 billion of additional topline in '00, even though we got \$12 billion worth of extra purchasing power.

OK, how did we do that? Now some people say it is a gimmick. It is not a gimmick because you could do it. You could legislate this and it could be real, unlike I think the traditional motion of gimmicks: It is something to get you through a press release and then you have got to figure out what you can really do. You can really do it. Some people don't think it is necessarily a good idea, but it is doable.

First is the economic changes and that is the inflation savings that we talked about. Then there is the MILCON advance appropriation. Now what this in essence—we didn't change a single MILCON project, it is the same MILCON projects but we put only the dollars to do '00 part of the MILCON project in '00, and then there is the \$3.1 billion that is added in '01 to do the remaining funding of the same projects.

Mr. SPRATT. It is taken out, isn't it? You said it was added, it was taken out.

Mr. HAMRE. I don't know why it shows as a negative on this chart.

Mr. LYNN. The money is actually in '01 but the purchasing power is '00, is what that means. The sign is confusing, but that is the point.

Mr. HAMRE. I think it is part of that shimming stuff that we talked about, Mr. Chairman. So to do this program, in order to buy it, what we really need you to do is to legislate 2 years' worth of appropriations, legislate the MILCON dollars in both '00 and '01, and you can buy this program. It is not a gimmick. It is real, and we do this in other accounts. You know we don't traditionally do it in DOD.

We do it in other accounts. We do it in the Department of Energy, for example. And we have done it in cases in DOD, primarily hospitals and things of that nature. But it is real, although it is not our preference for the way to do business. We would much pre-

fer to do full funding. That would be our preference, but we couldn't get under the cap, and this way it brought purchasing power under the caps.

And then there are \$1.6 billion worth of rescissions. Now, coming up to the Hill and talking about rescissions when you just gave us the money last year, that is a little like inviting the undertaker to show up at the 70th anniversary of your high school reunion. Nobody is looking forward to doing that. It is real. But it does mean we would have to sit down and go through a process with you to identify what those programs are.

Our preference is that we don't have to sit down and do that with you, but we will do that if we are asked to. But the only reason we went through that was because we had the caps. I mean once we are past the caps, we have got new budget authority. Now the new budget authority, of course, is only unlocked when you pass a budget resolution. I mean we do have to have, in order to execute this program, we do have to have a budget resolution that gives us new dollars throughout the 5-year plan.

So I would ask you please, I know you are getting very close to that and we are very grateful that you are moving it so fast this year, but that really becomes very important both for the larger program that you are working on and the defense program we are trying to build.

OK, Ken, let's go on. We put our highest priority on people; 50 percent of all the dollars that—\$112 billion that we added, 50 percent of it went to people because that is our highest priority. About another 40 percent went to readiness.

Chairman KASICH. We have got 5 minutes. I think we better suspend and get over there and vote.

Mr. HAMRE. Yes, sir. We will be here.

Chairman KASICH. Whenever we can get here, we will get here. [Recess.]

Chairman KASICH. Let's get started.

Mr. HAMRE. Yes, sir. And I just have three charts, 2 minutes. It won't take any longer than that.

Contingency funding, of course we have funded the costs of Bosnia operations and the cost of Southwest Asia, that is, Northern Watch, Southern Watch. That is included in our budget. We do not have any money in our budget if we do have to go into Kosovo. And we cannot do Kosovo without getting some supplemental funds, otherwise it is going to come at the expense of our readiness activity. I just needed to mention that. I know you have got a big debate going on on that subject.

Ken, next chart. This is where we are on modernization. You know, you look back at where we were here when Secretary Cohen got over there, we were down in the 40's—actually when he first came we were at \$42 billion. This year we are—as you can see, the top line is our goal. We wanted to be at \$54 billion in '00. This year we only made \$53 billion; even though we added \$12 billion, we didn't make our procurement target. We wanted to be at \$54 billion; we only got to \$53 billion because we put most of our money in O&M and personnel.

As you can see, once you get past '00, we get up, and you go to '05, we plan on spending about \$75 billion here on procurement.

Now I know people will ask will that really hold true, and I think that is always a fair question to put to us, because we have had falloff on procurement over the years. That has been the lowest priority of all of our high priorities. But I do want you to see what those numbers look like.

Ken, let's go to the last one. Mr. Chairman, I am only showing this one because of your question, are we still doing business reform? And I think the answer is very much yes. As a matter of fact, I don't think we have any credibility coming to you and asking for another \$112 billion dollars if I can't demonstrate to you that I am doing everything we can internally to streamline our activities.

We want to close some more bases. We are asking permission to do two more rounds of base closures. We want to compete jobs. We are not simply privatizing it at all costs, we want to allow government workers to compete for those jobs, and we plan on doing 229,000 of those. And I can bore you endlessly with the other things, the business practice reform. But we were very working very hard to become a more streamlined organization.

Mr. Chairman, let's turn at this stage to questions, I know the hour is getting late.

[The statement submitted by Mr. Hamre follows:]

PREPARED STATEMENT OF HON. WILLIAM S. COHEN, SECRETARY OF DEFENSE, IN CONNECTION WITH THE FISCAL YEAR 2000 DEFENSE BUDGET

*(Prepared for Defense Subcommittee of the House Committee on Appropriations Hearing, March 3, 1999)*

Mr. Chairman, members of the Committee, it is a pleasure to be here to present President Clinton's fiscal year (FY) 2000 Department of Defense (DOD) budget request. Special greetings particularly to new members of this committee. My department and I look forward to developing a productive and cordial relationship with you as together we work to secure America's future.

We convene at the twilight of a century in which military power came to dominate much of human affairs. Through world wars, crises, and the cold war, America learned the folly of appeasement and wishful thinking and the wisdom of preparedness and resolve. Now we meet to consider the defense budget of the nation that good fortune has cast as the one most able to lead the world toward a more peaceful century.

A prudent security strategy and defense posture remain essential to America's global leadership and its ability to foster a favorable international order. Our aim is an environment in which critical regions are stable, peaceful, and free from domination by hostile powers; the global economy and trade are free to grow; democratic norms and respect for human rights are widely accepted; and nations cooperate to prevent and, if necessary, respond to calamitous events.

The FY 2000 DOD budget advances these goals. It reflects my Department's May 1997 Quadrennial Defense Review (QDR)—a comprehensive analysis of our nation's defense posture, strategy, policies, and programs. In view of the security threats and opportunities facing the United States, both today and well into the future, the QDR developed many far-reaching recommendations on force structure, readiness, modernization, infrastructure, and more. It presented a new strategy that can ensure America's military superiority as well as implement the defense requirements of the President's National Security Strategy for a New Century, which stresses global engagement and leadership.

In support of our strategy, America's armed forces continue to excel in the multitude of missions given them. From *Desert Storm* to *Desert Fox*, our forces have performed with skill and precision in the vital Persian Gulf region. In Korea our troops maintain their relentless vigil against aggression from the north. In Bosnia our forces are adeptly accomplishing the military tasks needed to foster a permanent peace there. In humanitarian crises from Rwanda to Central America, our military has delivered relief whatever the obstacles. Around the globe our uniformed men and women are operating with high effectiveness, training hard, keeping our weap-

ons and systems in good shape, and mastering all the other essentials of our defense strategy.

Over the past year our national security leadership has become more and more concerned that this military excellence could begin to wane without substantial new investments. Although our forces continue to accomplish their missions splendidly, there are warning signs of potential problems. Recruiting and retention are increasingly difficult, readiness harder to maintain, and modernization tougher to fund sufficiently. General Shelton, the Service Chiefs, and I conveyed our concern to President Clinton, and he agreed that corrective action was needed. The President decided to propose substantial increases in military compensation and the first sustained long-term increase in defense resources in over a decade. His action meets the most pressing requirements identified by our uniformed leaders and will enable us to continue the military excellence that has become our nation's pride.

This statement highlights how the President's FY 2000 budget proposes to keep America's defense posture strong. It emphasizes how the FY 2000 budget:

1. Supports the QDR strategy of Shape, Respond, Prepare
2. Provides substantial new resources through a higher topline and reapplied savings
3. Puts people first with the largest military pay raise in a generation and increases in military retirement benefits
4. Protects readiness priorities with increased funding for operations, training, repair parts, and maintenance
5. Achieves QDR modernization aims including \$60 billion per year Procurement by FY 2001
6. Reaffirms our commitment to streamlining and reform of DOD infrastructure and support
7. Continues the strengthening of our critically important Reserve components

#### SUPPORTING THE QDR DEFENSE STRATEGY

The QDR defense strategy has three elements:

1. The United States must *shape* the international security environment in ways favorable to its interests. We work to do this by promoting regional stability, preventing conflicts, deterring aggression, and reducing threats. Especially crucial are the overseas deployment and superior capabilities of U.S. forces, our international alliances, and our peacetime engagement with selected nations with the aim of them being friends, not adversaries in the future.

2. The United States must *respond* to the full spectrum of crises. America's military must be capable of responding effectively to crises in order to protect our national interests, demonstrate U.S. resolve, and reaffirm our role as a global leader. U.S. forces must be able to execute the full spectrum of military operations—from deterring aggression and coercion, to conducting concurrent smaller-scale contingency operations, to fighting and winning major theater wars.

3. The United States must *prepare* now for an uncertain future. Among our efforts to do this, we must pursue focused modernization to replace aging systems and incorporate cutting-edge technologies to ensure U.S. military dominance. We must streamline and improve our Defense infrastructure and support activities. And we must hedge against the possible emergence of a major unanticipated threat through such priorities as carefully targeted research and development.

The essence of this defense strategy is balance between current dangers and opportunities versus those we might face in the future. We need sufficient forces and capabilities to meet today's requirements, while at the same time investing wisely for the future. The FY 2000 budget provides balanced support of the QDR strategy of Shape, Respond, Prepare. All three elements benefit from proposed funding of our top priorities—people, readiness, and modernization.

The requirements of the QDR strategy determine the size, composition, and posture of U.S. forces. Our forces are configured not only to meet current threats, but also to succeed in a broad range of missions and environments. The Defense program seeks to ensure that the U.S. military has the capabilities to dominate future foes and give national leaders a range of attainable options for promoting and protecting America's interests in peace, crisis, and war.

Our defense strategy and program includes a major focus on countering the serious threat of weapons of mass destruction (WMD). Efforts to reduce this threat include the Cooperative Threat Reduction (CTR) program to support the destruction and nonproliferation of weapons of mass destruction in nations of the former Soviet Union, the Chemical Weapons Convention, and various other measures to discourage the proliferation of these weapons. The FY 2000-2005 budget to address WMD dangers includes: \$2.9 billion for the CTR program; almost triple the previously

planned spending for National Missile Defense (NMD); and additions to other programs to counter WMD threats, particularly those associated with the Special Operations Command.

#### INCREASING DEFENSE RESOURCES

Proposed budget authority for FY 2000-2005 reflects President Clinton's plan to make available to DOD \$112 billion in additional resources, which will enable DOD to fund the most critical priorities identified by our military leaders. This constitutes the first sustained long-term increase in defense funding since the end of the cold war. The additions are being made to resource levels planned at the time of last year's FY 1999 budget request.

The added \$112 billion consists of an \$84 billion increase to last year's planned topline and \$28 billion in savings from lower inflation, lower fuel prices, rescissions, and other adjustments - savings the President directed DOD to retain and allocate to pressing needs. President Clinton's \$84 billion topline increase reflects his proposal in the State of the Union address to allocate to defense spending a portion of the projected federal budget surplus once a resolution on Social Security is achieved.

For FY 2000 the budget includes \$12.6 billion in additional resources—\$4.1 billion from a topline increase and \$8.5 billion from economic adjustments and other provisions. These added resources enabled DOD to increase military compensation, provide balanced support to readiness and modernization priorities, and fund the expected cost of Bosnia and other operations.

The allocation of the total \$112 billion reflects our balancing of current and future needs:

- \$35 billion to Military Personnel accounts, primarily for higher pay and retirement benefits
- \$49 billion to Operation and Maintenance accounts for various readiness enhancements, Bosnia costs, higher civilian pay raises, and CTR increases
- \$28 billion to modernization (primarily Procurement and RDT&E accounts) for funding increases for weapons, facilities, and support systems, plus added funding for NMD

#### PUTTING PEOPLE FIRST

Providing a good quality of life for our uniformed people and their families remains essential to sustaining U.S. military strength. Reflecting that reality and to address mounting warnings about retention and recruiting, this year's budget includes the largest increase in military compensation in a generation. The compensation package proposals:

1. The REDUX change in military retirement would be reversed by raising benefits from 40 percent to 50 percent of base pay for members retiring after 20 years. Also proposed are changes to ensure that retirees get cost-of-living (COLA) increases during periods of low inflation. Restoring military retirement benefits was the military leadership's top priority. For FY 2000-2005, these changes cost \$6 billion.

2. Military base pay in FY 2000 would be raised 4.4 percent—the largest military pay increase since FY 1982. This raise exceeds the forecasted rate of civilian wage growth (employment cost index or ECI) and is more than two percentage points above the general inflation rate as reflected in the Consumer Price Index, projected at 2.3 percent for FY 2000. Planned FY 2001-2005 raises are 3.9 percent per year, which matches the projected ECI. For FY 2000-2005, the incremental cost of these higher pay raises compared with the lower raises planned for these years in the President's FY 1999 budget request is about \$14 billion.

3. Pay also would rise in connection with military pay table changes to increase the raises associated with promotions. This change will reward performance, compensate people for their skills and experience, and encourage them to continue their service. These targeted increases will range up to 5.5 percent, and will be in addition to the across-the-board raises. For FY 2000-2005, these pay table changes will cost \$4.5 billion.

4. For FY 2000-2005, the budget also includes another \$2 billion for initiatives to improve recruiting and retention. For example, DOD is proposing higher compensation for military members possessing critical military skills.

From the \$112 billion in additional resources for FY 2000-2005, the Department allocated a total of \$36.5 billion to "put people first." This includes these four military pay and retirement increases plus \$10 billion for higher pay raises for DOD civilians.

## PROTECTING READINESS

The readiness of our first-to-fight forces remains high, and overall our forces continue to be fully capable of executing the National Military Strategy. However, the intensity of operations, the less-ready posture of some later deploying forces, and other concerns require extra measures to ensure sufficient readiness in the years ahead.

Readiness continually needs monitoring and refreshing. Over the past 12 months, added funding has been needed to preclude our readiness being eroded from unbudgeted costs and other unforeseen requirements. To protect readiness in FY 1998, DOD proposed and Congress supported an emergency supplemental of \$1.8 billion for Bosnia and other unbudgeted costs, plus a reprogramming of \$1 billion—primarily into key readiness accounts. For FY 1999, Congress approved the President's request for emergency funding of \$1.9 billion for Bosnia and \$1.1 billion for readiness needs. This responsiveness by the Congress demonstrated its appreciation of the importance of quick and substantial action when readiness concerns arise.

Bolstered by added resources, the FY 2000 budget funds the training, exercises, maintenance, supplies, and other essentials needed to keep U.S. forces prepared to achieve their combat missions decisively. Most of this readiness-related spending comes in the Department's Operation and Maintenance (O&M) accounts. When adjusted for today's lower troop strengths, O&M funding in FY 2000 is well above levels during the 1980s.

The FY 2000 budget funds the military services' most pressing readiness requirements—those that could put readiness seriously at risk. It supports traditionally high OPTEMPO, flying time, and other readiness enhancers; readiness-related maintenance and improvements at DOD facilities; and readiness-related modernization, in areas like electronics and maintainability.

For FY 2000 the budget includes \$1.8 billion for ongoing Bosnia-related operations and \$1.1 billion for operations in Southwest Asia (SWA) at the force level and operating tempo in place last September. The Department has also incurred unbudgeted FY 1999 costs from providing assistance to Central America in the aftermath of Hurricane Mitch and from Operation *Desert Fox* in SWA. The FY 2000 budget contains an allowance to deal with these kinds of unanticipated emergencies.

The Department will continue to work to ensure that unexpected funding requirements, such as unbudgeted military operations or recovery from natural disasters, do not force us to divert funds away from readiness, modernization, and other priorities. We appreciate Congress's strong support of our requirements during the past year.

## ACHIEVING MODERNIZATION GOALS

As reconfigured by the QDR, the Department's weapons modernization plans include development of cutting-edge capabilities as well as cost-effective upgrades to existing systems. Helped substantially by the President's addition of resources, the FY 2000 budget meets the QDR recommendation to increase Procurement funding to \$60 billion per year by FY 2001. The complete Procurement funding profile:

## DEPARTMENT OF DEFENSE PROCUREMENT

(\$ in billions)

Budget Authority	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
QDR Goal .....	\$49	\$54	\$60	(*)	(*)	(*)	(*)
FY 2000 budget .....	49.0	53.0	61.8	\$62.3	\$66.6	\$69.2	\$75.1

\* QDR did not specify funding goals beyond 2001.

For FY 2000, our full funding of readiness and personnel needs left us \$1 billion short of the QDR's Procurement goal. Still, in real terms Procurement at \$53 billion is nearly 7 percent higher than the FY 1999 level, and it will grow another 15 percent in FY 2001.

America's military preeminence depends on investments in new technologies. A high priority for achieving this is DOD's science and technology program, which funds research that should help field superior weapons and support systems at affordable prices. Also critical are advanced concept technology demonstrations (ACTDs), which link relatively mature technology with new operational concepts and enable us to expeditiously evaluate important innovations.

The \$112 billion addition of resources will enable DOD to make important augmentations to its previous modernization plans. It will enable the Department to:



- Include \$6.6 billion more for NMD deployment (includes FY 1999 supplemental funding)
- Add 8 ships to the Navy's shipbuilding plan
- Procure additional aircraft such as the F-16, C-17, T-45, and V-22.
- Fix underfunding shortfalls for the LPD-17, NAVSTAR GPS Satellite, and evolved expendable launch vehicle (EELV).
- Increase funding for the Army's training ammunition requirements and invest \$2 billion in critical combat service support equipment
- Add \$1 billion to the Marine Corps budget for critical Procurement needs
- Address bow wave funding challenges in the years beyond 2003

#### MAJOR SERVICE PROGRAMS

The ambitious DOD modernization program is especially critical for achieving the needed transformation of U.S. forces to reflect new technologies and other military-related trends. Transforming U.S. forces requires implementation of Joint Vision 2010, our new concept for how U.S. forces will fight and achieve what we call "full spectrum dominance." At the heart of JV 2010 is the ability to collect, process, and disseminate information to U.S. forces, while denying the enemy the ability to gain and use battle-relevant information.

DOD's long-term campaign to exploit such advanced technology to ultimately bring about fundamental conceptual and organizational improvements to U.S. forces is called the Revolution in Military Affairs (RMA). This transformation promises to enable our forces to attack enemy weaknesses directly and with great precision—and therefore with fewer munitions, less logistics strain, and less collateral damage. Our RMA campaign is a critical way in which we seek to prepare for an uncertain future, derive maximum military capability from constrained defense resources, and exploit America's human and technological advantages. To advance these aims DOD is exploring new war-fighting concepts and capabilities, and establishing a new joint RMA experimentation program. Also key is the planned acquisition of new command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) capabilities.

Modernization of aviation forces includes DOD's largest acquisition program: the Joint Strike Fighter (JSF). The aim is a family of aircraft, with variants configured to meet several sets of requirements. The JSF will replace the F-16 in the Air Force, F/A-18C in the Navy, and F/A-18C/D and AV-8B for the Marines. The JSF will continue in its concept demonstration phase into FY 2001, in preparation for procurement to commence in FY 2005.

The F-22 will replace the F-15C/D in the air superiority role and have substantial air-to-ground capability as well. Aircraft testing is continuing, and F-22 production is expected to build to 36 aircraft per year by FY 2004. The Navy's F/A-18E/F will provide much greater survivability and payload over earlier F/A-18 models. Initial operational capability is planned for FY 2001. For the longer term the Navy plans to transition from F/A-18E/F to JSF procurement at a time based on the pace of JSF development.

Modernization of ground forces will stress upgrades of primary combat platforms like the Army's Abrams tank, Bradley Fighting Vehicle, and Apache Longbow helicopter. Major development efforts include the Comanche helicopter and Crusader artillery system. Marine Corps modernization features the V-22 tilt-rotor aircraft, the Advanced Amphibious Assault Vehicle, and upgrades of utility and attack helicopters and the AV-8B.

Modernization of naval forces includes procurement of the DDG-51 Destroyer, LPD-17 amphibious transport dock ship, T-ADC(X) logistics support ship, and New Attack Submarine (NSSN). The tenth Nimitz-class carrier (CVN-77) is fully funded in FY 2001. The budget also supports development of the next generation aircraft carrier and destroyer.

The FY 2000 budget advances the QDR-stressed capability of projecting military power to distant regions. Procurement of 120 C-17 aircraft will be completed by FY 2003, and further purchases are planned for FY 2004-2005. The C-5 transport and KC-135 tanker will receive major avionics upgrades and other enhancements.

The new budget continues the QDR's emphasis on precision munitions—both with new systems and upgrades to existing missiles, bombs, etc. Also supported are the scores of lesser-known programs needed to ensure the decisive combat superiority of America's armed forces.

To get the most from our modernization dollars, it is important to institutionalize acquisition reform so we can improve our ability to provide effective weapon systems. It also is necessary to modernize logistics to cut costs, infrastructure, and cycle time, thereby providing better support to our 21st century forces.

## BALLISTIC MISSILE DEFENSE

The FY 2000 budget continues DOD's strong ballistic missile defense (BMD) programs, which remain critical to a broader strategy seeking to prevent, reduce, deter, and defend against WMD and missile threats. The Department remains committed to advancing its missile defense efforts as fast as technology risks allow.

We continue to emphasize theater air and missile defense programs—aimed at meeting today's regional threats. The primary goal is to develop, procure, and deploy systems that can protect forward-deployed U.S. forces, as well as allies and friends. Our plan envisions the phased acquisition of a multi-tier, interoperable, defense-in-depth capability against ballistic and cruise missiles. To defeat shorter-range missiles, our key lower-tier programs include the Patriot PAC-3 and Navy Area systems. Key upper-tier programs are the THAAD and Navy Theater Wide systems. To defeat theater-range missiles during their boost phase, we are developing an Airborne Laser system.

This budget includes substantial new resources for the National Missile Defense (NMD) program. It increases NMD funding by \$6.6 billion, including \$600 million in FY 1999 supplemental appropriations. Total NMD funding for FY 1999-2005 is \$10.5 billion. This substantial investment includes funding for NMD deployment and underscores the administration's commitment to NMD. However, no deployment decision has been made. A decision about deployment is planned for June 2000 and is expected to be based primarily on the maturity of NMD technology as demonstrated in development and testing.

The primary mission of the NMD system being developed is the defense of the United States—all 50 states—against a limited strategic ballistic missile attack such as could be posed by a rogue nation. Such a system also would provide some capability against a small accidental or unauthorized launch of strategic ballistic missiles from more nuclear-capable states.

In order to deploy a technologically capable system as quickly as possible, we will phase key decisions to occur after critical integrated flight tests. As a result, instead of projecting a deployment date of 2003 with exceedingly high risk, we are now projecting a date of 2005 with a more manageable, but still high risk. If the testing goes flawlessly, we could seek to deploy sooner.

## STREAMLINING AND REFORMING DOD INFRASTRUCTURE AND SUPPORT

My Defense Reform Initiative (DRI) continues to spearhead a comprehensive DOD campaign to streamline and reform our support activities. Our goal is to substantially improve these activities and get them to consume a smaller portion of the defense budget. This effort is smart in and of itself; but it also is imperative in order to free up funds to help pay for high priorities like weapons modernization.

During its first year DRI made major progress. For example, we have nearly completed a one-third size reduction in the Office of the Secretary of Defense (OSD) and are advancing similarly ambitious streamlining in other DOD components. We are incorporating successful private sector processes and practices. We are shifting from paper to electronic transfer of information. We are using public-private competition to improve functions and cut costs. This competitive sourcing will save \$11.2 billion from 1997 to 2005, and \$3.4 billion per year thereafter. For FY 1997-2005 about 229,000 DOD positions are expected to be competed. Having developed momentum with DRI, new ideas have been added to improve processes affecting the quality of life and professional development of our military people and DOD civilians.

The resources added by the President for FY 2000-2005 in no way diminish DOD's resolve to shrink the portion of its budget consumed by infrastructure. They especially do not alleviate the critical need for congressional approval of two more rounds of base closure and realignment (BRAC). Without such approval, scarce defense dollars will continue to be spent on excess infrastructure, rather than on the vital needs of America's armed forces.

Between 1988 and 1995 four BRAC Commissions proposed the closure or realignment of 152 major installations and 235 smaller ones. Complete implementation of those decisions is projected to net \$14.5 billion in savings by FY 2001. After FY 2001 recurring savings from them will be about \$5.7 billion per year.

The estimated up-front costs for implementing decisions of BRAC rounds in FY 2001 and 2005 are included in the FY 2000-2005 budget. These BRAC actions could begin to generate savings by 2005 and ultimately save over \$20 billion by 2015. I realize that some in Congress are dissatisfied with aspects of past BRAC implementation. But in writing legislation for new BRAC rounds, the Congress can tailor the law to address such concerns. Please join me in working to shift resources from redundant infrastructure to military muscle.

## STRENGTHENING RESERVE COMPONENTS

The FY 2000 budget reflects the essential role of the Reserve components in America's defense strategy, and it continues the critically important integration of the Active and Reserve components. The National Guard and Reserve were closely involved in resource decisions.

The FY 2000 budget provides \$20 billion for Reserve component personnel, operations, and facilities accounts. For FY 2000, over \$1 billion was added to previous plans for crucial training and other requirements including added funds for Active/Reserve integration, OPTEMPO, base operations, Reserve component support to combatant commanders, and programs to engender critical employer support required as a result of increased utilization of the National Guard and Reserve. This budget advances DOD's goals for equipment modernization and interoperability for the Reserve components by providing over \$1.6 billion in FY 2000. It funds special youth development initiatives such as the National Guard Youth ChalleNGe Program and the Starbase program. And it continues funding of the Innovative Readiness Training Program, providing valuable military training while benefiting America's civilian communities.

Strong support was given to the larger role that Reserve components are to play in increasing DOD's capabilities to support federal, state, and local agencies in responding to domestic incidents involving weapons of mass destruction (WMD). The Department has begun to train and equip members of the Reserve components to better support civilian authorities in mitigating the consequences of a WMD attack.

The FY 2000 budget promotes the Department's objectives in supporting the Reserve components as fully integrated partners within the Total Force, and seeks to use specific talents of the Guard and Reserve in new and innovative ways.

## CLOSING

I look forward to continued cooperation as together we work to reinforce America's military strength and global leadership.

Chairman KASICH. Mr. Hamre, let me just ask you, 4 years ago this committee was told by the Department of Defense that robust actions to improve bookkeeping and auditing had been taking place, but 3 months ago the IG said, "The DOD remains unable to comply with the various laws requiring auditable financial statements for its major funds and for the Department as a whole. We do not anticipate a significant difference in financial statement audit results in the near future." What is that all about?

Mr. HAMRE. Sure. Let me ask Bill. Bill is the Under Secretary for Financial Management. I would ask him to give you the response, sir.

Mr. LYNN. Mr. Chairman, the IG and the GAO, which has done similar studies, are right that at the current time we are not able to produce an auditable financial statement. That is largely because the systems that we have put in place frankly over 200 years were never designed to do that. They were designed to provide assurance that the money that we were allocated by Congress was spent in the way Congress directed.

We have recently, over the past several years, been asked to meet commercial audit standards. We were endeavoring to do that, but what that will require is to change our systems. We have a plan over the next 5 years to make those changes, to upgrade those systems and to produce an auditable financial statement.

Since that is I think too long a period of time in Washington, we also have an interim plan where we are going to try work-arounds, using the systems we have to try and produce auditable statements, working closely with the auditors both at OMB, at GAO, and at the Inspector General. And we have developed a series of

plans that should produce some improvement over the next couple of years.

Chairman KASICH. It is pretty unbelievable, though, isn't it?

Mr. HAMRE. Can I put it in perspective though, sir? The one thing—when I first went to the Department as the comptroller, we had about \$50 billion worth of what we call problem disbursements where we had difficulty, kind of like balancing your checkbook. We were off by \$50 billion. Over the next 3 years that got whittled down so it is now I think about \$8 billion. Now that still is a big number. But I have got to tell you that is 8 billion of the dollars that have been spent over the last 7 years, so it is \$8 billion over a base of about \$1.7 trillion.

If you do the math you will find out we have done it right 99.5 percent of the time. It is that .5 percent where we have a problem, where we transposed numbers or we did something. We researched \$35 billion over the last 3 years and have not found wide-scale problems; that is not to say we are free of problems. We have some. We actually had to arrest a couple of people, but that is a very small percent of where we have had problems, sir.

Chairman KASICH. Mr. Spratt.

Mr. SPRATT. Thank you both for a good presentation. I am sorry for the interruption.

Let me ask you about the President's personnel recommendations. You were saying that half of the increase of \$112 billion goes to people.

Mr. HAMRE. Roughly.

Mr. SPRATT. As you break it down, as I recall, there is about \$29 billion for modernization, which is procurement and R&D; about \$35 billion for personnel; and then about \$48 billion for O&M. Is that a roughly right allocation?

Mr. HAMRE. Yes, that is right. I misspoke. It is roughly half went into the readiness money.

Mr. SPRATT. I was wondering if there was some personnel money in the O&M package when you said there is \$48 billion for O&M.

Mr. HAMRE. Go ahead, Bill.

Mr. LYNN. The civilian pay raise would largely be in the O&M package, so in that sense, yes, there would be some pay, but no military pay to speak of in O&M.

Mr. SPRATT. But to the extent of the inflation savings, then they would be realized in operating costs, O&M, and in procurement costs?

Mr. HAMRE. Yes, sir.

Mr. SPRATT. So that \$28 billion in programmatic savings and inflation savings were largely to the benefit of the goods and services package rather than the people package?

Mr. HAMRE. These dollars are fungible and you can book them wherever you want. I mean the point is the \$112 billion was all real. It was all extra purchasing power, and we used it both to buy better benefits for people, make sure we had the readiness problems fixed, about half of it was for readiness, and then we put as much as we could into modernization.

Mr. SPRATT. Now the Senate took the President's pay and personnel package which came to, as I recall, about \$35 billion, and added to it over 10 years about \$21.2 billion. Over the next 7 years

the increase comes to about \$7.7 billion, and I think that is roughly divided between discretionary programs and mandatory programs; and some of it would be, I believe, Veterans Administration costs, wouldn't be your costs.

How do you accommodate those additional expenses?

Mr. HAMRE. Mr. Spratt, at the time that the bill was on the floor in the Senate, the Secretary wrote I thought a very strong letter saying, you know, until you pass a budget resolution that accommodates this increase, this bill represents an unpaid IOU that can only be paid by cutting the readiness of the forces or cutting modernization.

And that is where we still are. We still need to have a budget resolution that is passed that would accommodate this higher level of resources for personnel costs. Now, we are not, you know, we are not opposed to doing better by our troops, don't get me wrong, and I don't think anybody in the Senate is that way. But right now it is not paid for.

And unlike other parts of the Federal Government, you put in a pay raise now for the troops and it is higher, we are going to book that through the next 5 years. We have to do that because we are programmed for 5 years. And if there isn't a topline adjustment that accommodates it, we are going to have to unload, cut other things in the budget, more likely than not procurement.

Mr. SPRATT. With respect to the \$112 billion as a \$28 billion item, it is \$84 billion in new money and \$28 billion in new values, so to speak. How much of that is in programmatic savings that you propose to achieve through various management measures, and how much of it is just pure inflation adjustment?

Mr. HAMRE. The \$28 billion, and Bill should correct me, I believe is entirely an economic adjustment based on economic cost adjustments. There is a very important reason. We did not—there are some management efficiencies that we put into this budget where it specifically identified primarily base closures and A-76 competitions. Those are the two big ones.

We have not tried to identify savings from individual management reform initiatives, largely to not take the incentive away from organizations to do the change. As soon as you identify here is how much we plan on saving in this organization by say going to paper-free contracting, what happens around this town is you lose the money, and we are not trying to take money away from people. We want them to reform.

Mr. SPRATT. You are trying to say if you will do this, you can free up money that we will let you have in return to spend on other projects?

Mr. HAMRE. Absolutely, and the services have control over that money and we want it to be that way.

Mr. SPRATT. There is a little bit of disdain for the \$28 billion on the grounds it is kind of funny money, it is just an inflation adjustment, as you put it. Is it real? Can you actually spend it?

Mr. HAMRE. Oh, yes, sir and we programmed it. I mean it is a little like saying when you sit down with your architect, say "I want to build a house," and the house is going to cost \$200,000. When you get done adding up the all the bills and the bills come in and it is \$190,000, you got 10,000 more and you can say, "OK,

let's take and put that bathroom that we didn't think we could afford when we were first building the house." It is real and we are spending it.

Mr. SPRATT. Are you actually seeing these savings turn up in your procurement accounts? In particular, are you seeing cost projections come in lower because inflation is lower?

Mr. HAMRE. Well, yes, sir.

Mr. SPRATT. Actual costs incurred coming in lower?

Mr. HAMRE. Yes, sir, but I am going to be honest, I think most calculations in inflation are highly abstract. You are looking at data that is quite removed from an individual program manager, so an individual program manager, he doesn't have an item in his budget that says "inflation." I mean he budgets what he thinks is the costs for all the things he has to do, and sometimes those costs aren't, you know, everything he wants to do; he doesn't have the dollars to cover it. Sometimes he has more, he can get more done. But individual program managers don't have a line item that says "inflation," so when we take dollars from them because we say inflation has gone down, to me that looks like a real cut and that frankly is causing a problem.

Chairman KASICH. Do you have off the top of your head the number of systems that were—weapons systems or any expenditures that the Pentagon did not want, that the Congress added to your request? Do you know offhand?

Mr. HAMRE. You have just invited me to shoot myself in the head or the foot, I am not sure where.

Chairman KASICH. Why is that?

Mr. SPRATT. Why doesn't the comptroller do it, then?

Mr. HAMRE. I will spare him. There is no place in the Constitution that says the comptroller appropriates money, and that is clearly reserved for the Congress. The Congress appropriates it, and sometimes you put in things that we don't think are the highest priority, but I can't say that that is wrong.

Now I can give you a list of things that we didn't ask for and I can tell you we think those are lower priority than things we asked for, but I am not going to say to you that they are unimportant. Actually, you are the ones that decide what it is that we are supposed to have every year. And I am trying to be honest. I used to work up here for you and that is the way I viewed it at the time. I would—

Chairman KASICH. You are really getting good, John. You keep at this, you could run for office pretty soon. Seriously, you are really getting good. So what is the answer to my question?

Mr. HAMRE. The answer is I will give you a list of all the things that were added that we didn't ask for, and I will identify which of those things that we added that are in our future budgets so you could argue it is simply buying earlier what we would like to ask for. But I will see that you get that list.

Chairman KASICH. OK.

Mr. SPRATT. Let me ask you again about Kosovo. You indicated that the Kosovo deployment, if it occurs, is not included in your budget request for the forthcoming fiscal year.

Mr. HAMRE. Right.

Mr. SPRATT. What is the incremental cost?

Mr. HAMRE. Sir, it is obviously a good deal more expensive to get in because you got the costs of deploying the forces, getting the infrastructure in place, et cetera. So we think the cost here in this fiscal year, if we have to do it, could be between \$1.5 billion and \$2 billion, depending on timing, when it happens and that kind of thing.

Mr. SPRATT. Is that fiscal year 2000 or the current fiscal year?

Mr. HAMRE. That is '99. We would need a supplemental to help us with that. Of course, we will not go in if we don't have a peace agreement. So this is going to be in a benign environment, but it will be expensive. I don't want to mislead anyone. It is going to be expensive if we have to go in. I don't think that should really dictate whether we think it is a good idea or not. We ought to decide that on its merits.

Mr. SPRATT. Over the next fiscal year, 2000, it would be——

Mr. HAMRE. Probably roughly the same range, you know, for——

Mr. SPRATT. The initial cost of getting them in there is the same cost?

Mr. HAMRE. The initial cost is heavy but we only have half of the year left, so it is a steady state cost. We just patterned it after Bosnia. It is roughly going to be comparable to the Bosnia cost, and I think you saw the chart. I think it is \$1.8 billion for Bosnia in this year.

Mr. SPRATT. In submitting the list that the chairman requested, I think it would be useful if we could show how much you downsized since the end of the cold war. You can pick the date——

Mr. HAMRE. OK, sure.

Mr. SPRATT [continuing]. When that begins and give us the number of civilian personnel and DOD and related agencies, the number of active duty personnel, the number of Reserve component personnel, and then the changes from the baseline year to the current year that——

Mr. HAMRE. We will certainly do that.

[The information follows:]

DOD's FY 1999 personnel levels are substantially below levels in FY 1997, the post-Vietnam war peak for end strength of both active duty military and DOD civilians, as shown below:

DEPARTMENT OF DEFENSE PERSONNEL END STRENGTHS  
(End of Fiscal Year in Thousands)

	Cold War	Current	Percent Change
	FY 1987	FY 1999	FY 1987-1999
Active Military .....	2,174	1,390	— 36
Selected Reserves .....	1,151	877	— 24
DOD Civilians .....	1,133	724	— 36

Mr. SPRATT. If you can also give us an indication of what the average pay and benefit package for a DOD civilian and active duty person is, I don't know if you can average that, but if you can give us some notional accounting of how much has been saved in personnel because of these reductions, it would be helpful to have.

Mr. HAMRE. All right. We may have to call back to the staff just to make sure we have your question properly framed, but we will be glad to provide any of that.

Mr. SPRATT. OK, fine. Thank you very much.

[Questions submitted on behalf of Mr. Spratt and Mr. Markey follow:]

ADDITIONAL QUESTIONS POSED BY REPRESENTATIVES SPRATT AND MARKEY

REPRESENTATIVE JOHN M. SPRATT, JR.

1a. Please specify the reductions that have occurred in military personnel, civilian personnel, and National Guard and Reserve personnel from their peak levels in the 1980's to your estimate of what they will be by the end of FY 1999.

b. How much would the FY 2000 DOD budget have to be increased if those personnel levels had not been reduced?

2. By my staff's calculations, the FY 2000 budget will provide, in constant FY 1999 dollars, more than \$73,000 in O&M funding per active-duty member. This is 3.8 percent more than the FY 1999 level, and 48 percent more in real terms than in 1985, the peak year of the Reagan defense build-up.

a. What accounts for this increase?

b. Specifically, to what extent does higher op-tempo and deployments contribute to this increase?

c. Specifically, to what extent does higher repair and maintenance of older weapons contribute to this increase?

d. Specifically, to what extent does personnel reductions since 1985 that are disproportionate to overhead/infrastructure reductions contribute to this increase?

3. The "tagline" often used to defend and justify new weapons systems like the F-22 or the Joint Strike Fighter is "technology overmatch." However, it is generally true that the more one "pushes the envelope" for these systems, the greater the risk of cost overruns, technical shortfalls, and schedule slips.

a. Are you concerned about bringing these major acquisition systems in on-cost, on schedule, and on specification?

b. Are there major systems that are now indicating major cost growth in the future? If so, please identify and describe the potential for cost growth both in terms of program cost, program unit-cost, and procurement "fly-away" cost.

REPRESENTATIVE EDWARD J. MARKEY

1. As I understand it, the budget request is based upon an assumption that the United States must be prepared to fight two major wars in different parts of the globe simultaneously. In his testimony, Mr. Korb argued that this assumption had been developed initially by the Joint Chiefs back in 1990 in order to preserve as much of the existing force structure as possible following the collapse of the Soviet Union. Isn't Mr. Korb correct, and isn't it also true that the two-war assumption is really just a rationalization for the status quo that bears little if any relationship to the real military challenges facing America in the 21st Century?

2. If you believe the two-war assumption is still valid, please explain what you believe to be the most realistic future scenarios in which the United States would have to fight two simultaneous wars.

3. Isn't it true, as Mr. Korb's testimony suggests, that both former Secretary William Perry and former Air Force Chief of Staff Tony McPeak have both concluded that this assumption is unrealistic?

4. Why is it that the civilian leadership over at the Pentagon has not really challenged this assumption?

5. Don't we really need to do a full "bottom up" review of our real national security needs for the post-cold war era before we proceed with the major increases in Pentagon funding contemplated in the administration's budget request?

6. It is my understanding that many critics of the Quadrennial Defense Review believe that the QDR essentially looked backward in time and determined what is needed to better fight a war like Operation *Desert Storm*, rather than determining whether the next military conflict the United States enters into will be different than *Desert Storm* (and if so, what forces and equipment would be needed). How do you respond to this criticism? How have you addressed the possibility that future wars might be smaller, and located in more urban environments where the enemy is difficult to identify?

7. Have any of the major QDR assumptions changed since the last time the Pentagon attempted to reassess the size and scope of U.S. Armed Forces since the end



of the cold war? If not, why does the administration's budget request include such a large increase for defense?

8. Are the underlying assumptions of the QDR valid and realistic? Are there any assumptions that, if changed, will reduce force requirements and/or costs without degrading our national security?

9. I understand that the levels of defense spending provided for in the Balanced Budget Act were derived directly from figures provided by the administration and the Pentagon. Now, less than two years later, the President is asking for a substantial increase in defense spending. Why was it that the Pentagon was apparently so far off the mark two years ago regarding its estimates of the amounts needed for defense?

10. Given the fact that the Department was apparently off the mark two years ago regarding the amounts needed for defense, how can we be sure that it is not now overestimating the spending levels needed for defense today?

11. Mr. Korb estimates in his testimony that "if DOD adopted a one war plus policy, it could safely reduce its Total Force from 2.3 million men and women to 2 million." Do you agree with this estimate? If the Congress were to adopt such a force structure, how much money could be saved compared to the current baseline level? How much could be saved compared to the administration's 5-year defense plan?

12. Mr. Korb's testimony also suggests that the United States could reduce its strategic forces to a level of 1,000 strategic nuclear weapons. How much money could be saved compared to the current baseline and compared to the administration's proposed five year defense plan if we would to make such reductions?

13. Mr. Korb's testimony suggests that the United States move to a one war plus strategy, reduce troop deployments to Europe and Asia by at least 75,000, employ a tiered readiness posture, adopt a realistic procurement strategy and take account of various defense spending "myths" which he outlines in some detail in his testimony. He estimates that if such a strategy were to be pursued, an adequate national security budget would be about \$230 billion a year. Has the Department undertaken any assessment of the merits of this proposal and its potential cost savings? If now, why not? If so, do you concur with Mr. Korb's conclusions?

14. In your presentation to the Committee, you indicated that the administration is seeking to nearly double the budget for National Missile Defense over the next few years, beginning with a request for \$1.3 billion in Star Wars weaponry in FY2000. As you know, the Russians have warned against U.S. deployment of missile defenses that violate the ABM Treaty, and it is quite possible that if the United States proceeds down the path to deployment that it will endanger prospects for the Russian Duma to ratify START II or to conclude a START III agreement. Isn't it in our national interest to maintain the ABM Treaty, secure Russian ratification of START II, and conclude a START III Treaty that provided for additional reductions? Why should we jeopardize the national security benefits these agreements represent for an expensive missile defense scheme that may not even work?

15. How likely is it that the United States may be attacked with a ballistic missile? For decades, the United States relied upon our nuclear forces to deter any missile attack by Russia or China. Why wouldn't deterrence continue to work against these nations should they become hostile or to other potential attackers?

16. How likely is it that a country like Iraq or North Korea would attack the United States with a weapon of mass destruction (i.e., nuclear, chemical, biological) delivered by a ballistic missile, when it could hide such a weapon on a cargo ship, a disguised civilian airliner, smuggle such a weapon into the country, drop biological weapons into a reservoir, or deliver a chemical attack in a crowded subway?

17. In light of the comparative costs and ease of delivering a weapon of mass destruction to a U.S. target, what is the justification for spending billions on a missile defense that would be ineffective against such weapons delivery mechanisms?

18. The Department's budget request includes a request for actual procurement funding to field a ground-based missile defense. Why have you asked for procurement funding for a missile defense that hasn't even been tested yet?

19. In his prepared testimony to the Committee, Mr. Korb indicated that the Department is still spending roughly the same amount of money each year on missile defenses as it was spending during the Reagan years, when there was still a Soviet Union. In light of the end of the cold war, why hasn't the budget for missile defenses been adjusted downward?

20. According to Mr. Korb's testimony, the Department has spent about \$50 billion on missile defense research over the last 15 years, and "to date the billions have yielded no tangible results." In light of this rather sorry record, what is the justification for accelerating spending for this same program?

## RESPONSES TO QUESTIONS SUBMITTED BY REPRESENTATIVES SPRATT AND MARKEY

## RESPONSES TO QUESTIONS SUBMITTED BY MR. SPRATT

*Question 1a:* Please specify the reductions that have occurred in military personnel, civilian personnel, and National Guard and Reserve personnel from their peak levels in the 1980's to your estimate of what they will be by the end of FY 2000.

*Answer 1a:* The peak year for military and civilian personnel levels is FY 1987. The following table shows the reduction in military and civilian personnel from FY 1987 to FY 2000:

	FY 1987	FY 2000	Delta
Active Military .....	2,174,217	1,384,806	- 789,411
Reserve/Guard Military .....	150,855	865,298	- 285,557
Civilians .....	1,127,052	700,219	- 426,833
Total .....	4,452,124	2,950,323	- 1,501,801

*Question 1b:* How much would the FY 2000 DOD budget have to be increased if those personnel levels had not been reduced?

*Answer 1b:* The cost of adding 1,501,801 end strength to the FY 2000 column of the budget cannot be easily quantified. However, increasing the force structure in FY 2000 by 51 percent (1,501,801 end strength) would likely require the DOD budget to be increased by a similar percentage of 51 percent (or \$137.0 billion). The cost of pay and benefits alone would be approximately \$63.0 billion. The cost to procure weapons systems for a significantly increased force structure would drive the costs even higher.

*Question 2a:* By my staff's calculations, the FY 2000 budget will provide, in constant FY 1999 dollars, more than \$73,000 in O&M funding per active-duty member. This is 3.8 percent more than the FY 1999 level, and 48 percent more in real terms than in 1985, the peak year of the Reagan defense build-up.

What accounts for this increase?

*Answer 2a:* The primary focus for the Department continues to be the protection of the near-term readiness of deployed forces. Recently, maintaining the readiness of deployed forces has become increasingly challenging. The FY 2000 budget includes increases in Defense funding to reverse the signs of degradation in the readiness of deployed forces.

The O&M increase from FY 1999 to FY 2000 includes a program growth of \$3.6 billion. Some of the significant program increases include the following:

- Increase for ongoing contingency operations in Bosnia and Southwest Asia. These amounts fund the force structure and operating tempo in place as of the end of FY 1998.

- Increase in Land Forces to fully fund Army's ground OPTEMPO and the replacement of existing M1 tank tracks.

- Increase in Air Operations to adequately fund all aspects of flying hour program, particularly spare and repair parts.

- Increase in Real Property Maintenance to repair aging facilities which have been inadequately funded in the past (repair of barracks, work places and other quality-of-life facilities).

- Increase in Defense Health Program that includes two congressionally directed projects to test new health care options for over-65 military beneficiaries as well as a redesigned pharmacy benefit.

A meaningful comparison between 1985 and the current O&M costs per active-duty member needs to recognize the significant number of functions that are now paid from the O&M appropriations. For instance, from FY 1999 to FY 2000, the Department transferred \$2.2 billion, from Defense Commissaries and Pentagon Renovation programs into O&M. Some of the other notable O&M funding changes that have occurred over the decade which should be considered include the following:

- Increased operation and maintenance support for more advanced and sophisticated weapon systems. Technology enhancements have and continue to increase our maintenance, training and other operating costs. At the same time, more sophisticated equipment is usually less manpower intensive. Therefore, a per capita measure of cost will increase.

- Transfer of Depot Level Repairables (DLRS) funding from various procurement accounts to O&M accounts to introduce more efficiency into spare parts management.

- Transfer of funding from procurement accounts to O&M accounts due to changes in expense/investment criteria. For instance, the expense, investment threshold was \$3,000 in FY 1985 but the current threshold has been increased to \$100,000.

- Increased government contribution into civilian retirement plan with the establishment of the Federal Employee Retirement System in FY 1987, a Increased O&M funding for Voluntary Separation Incentive Pay (VSIP)/Voluntary Early Retirement Account (VERA) due to force structure reductions associated with the Defense draw-down and the Base Realignment and Closures (BRAC).

*Question 2b:* Specifically, to what extent does higher op-tempo and deployment contribute to this increase?

*Answer 2b:* Higher OPTEMPO and deployment will have a minor impact on the increased per capita cost between FY 1999 and FY 2000. The Army increased OPTEMPO funding to restore their readiness accounts to the 800 mile metric. Otherwise, budgeted OPTEMPO and deployments are relatively the same from FY 1999 to FY 2000.

*Question 2c:* Specifically, to what extent does higher repair and maintenance of older weapons contribute to this increase?

*Answer 2c:* The DOD has experienced increased operating and support costs at least in part due to increasing age of weapon systems. As systems age, resources needed to extend the service life and provide the necessary logistics and engineering support to maintain an aging weapon system may also continue to rise. These costs are visible as either maintenance or additional spare and repair parts, but the Services have difficulty in segregating those costs related to aging equipment from other maintenance and support costs.

*Question 2d:* Specifically, to what extent do personnel reductions since 1985 that are disproportionate to overhead/infrastructure reductions contribute to this increase?

*Answer 2d:* Reducing personnel more quickly than the associated infrastructure results in higher O&M funding per average manpower strength. As stated in the Quadrennial Defense Review (QDR), the total active duty military end strength since 1989 will be reduced 36 percent by FY 2003. However, the worldwide base infrastructure will only be reduced by 26 percent. Therefore, more O&M resources are funding infrastructure with less number of people than previous years.

Although significant infrastructure has been eliminated, future rounds of base closure are essential to further reduce excess capacity, reshape our infrastructure, and apply our scarce resources to modernization and recapitalization.

#### RESPONSES TO QUESTIONS SUBMITTED BY MR. MARKEY

*Question:* I understand that the levels of defense spending provided for the Balanced Budget Act were derived directly from figures provided by the administration and the Pentagon. Now, less than two years later, the President is asking for a substantial increase in defense spending. Why was it that the Pentagon was apparently so far off the mark two years ago regarding its estimates of the amounts needed for defense?

*Answer:* We have had some shortfalls in recruiting and a couple of the services are having retention trouble in second and third term re-enlistments. While else are not across the board problems they are warning signs which we don't want to let fester. If we let the quality people we have now in the force leave; it will take us not years but decades to restore. So our highest priority is to take steps to address the recruiting and retention issues, followed by increasing readiness and improving our modernization program.

The package we came up with is the so-called triad with three major provisions which starts with the Chief's highest priority to restore the 50 percent retirement benefit, to provide a large pay raise which puts more dollars in the pocket or our personnel, and to reform the pay table whereby we reward performance. In addition, although not formally part of the triad but an important incentive, is targeted specialty pays and bonuses for surface warfare officers, nuclear officers, special operators as well as increasing enlistment and reenlistment bonuses so that we can target these areas where we see recruiting and retention problems. We have addressed the full gamut of readiness issues such as non-deployed readiness in the Air Force and the Navy and National Training Center issues in the Army. Finally, we're moving towards the QDR modernization goal of \$60 billion and have significantly increased procurement budgets to deal with the coming bow wave in procurement as more and more systems go into production.

*Question:* Given the fact that the Department was apparently off the mark two years ago regarding the amounts needed for defense, how can we be sure that it is not now overestimating the spending levels needed for defense today?

*Answer:* In addition to the additional funding provided to the Department, we assume two major initiatives from which we can realize savings. The first is additional rounds of BRAC. The prior four BRAC rounds have generated substantial savings, recently ratified by GAO. Our procurement funding begins to increase when we begin to realize the savings from these BRAC rounds. The other major source of savings is in the competitive sourcing area. We had an order of magnitude increase in the number of jobs we've been able to compete. We're hoping to continue this over the next several years because whether the private sector or the public sector wins the competition we realize 20-25 percent savings.

12. Mr. Korb's testimony also suggests that the United States could reduce its strategic forces to a level of 1,000 strategic nuclear weapons. How much money could be saved compared to the current baseline and compared to the administration's proposed five year defense plan if we would (sic) to make such reductions?

*Answer:* The Department has not estimated potential savings associated with a reduction to 1,000 strategic nuclear weapons because that posture does not provide a reasonable deterrent force. The risks associated with such a force reduction preclude its serious consideration. Before possible cost savings could be calculated, analysis evaluating the possible weapons and platform mix alternatives—along with risk assessments would have to be done. From an analytic perspective, there is no easy answer.

Chairman KASICH. Gentlemen, let me just ask you one other question, and that is, is the administration contemplating any action in regard to the recent revelations regarding the transfer of technology to China, whether it is the WTO, where are we on that right now?

Mr. HAMRE. Well, sir, this is probably a little longer answer than you want. I will try to keep it short.

As to the specific question regarding what Secretary Richardson did here recently in terms of firing the guy and that sort of thing, I really don't know enough about that. I will find out. But I would like to say I think that we thought about this problem the right way when it got to the satellite launches, and we designed a security system where we thought we were able to control technology loss.

Now, we had a breakdown. We didn't police it as well on the ground as we should have, and that is where the problems came. But I think the basic concept, yes, we can let American companies do business with China as long as for sensitive technology we design the security conditions properly. We thought we did that, we tried to do it, and we failed in terms of some of the implementation. I think that is one of the real messages that is embedded in the Cox Commission report. And I would be happy to sit down and go through that with you.

As to additional steps, let me come back, if I may. I will find out what is going on, because it really largely isn't in our area. Everything in the Cox Commission that they told us to do, DOD, there were eight recommendations, we have already done them. But I will find out what extra is going on.

Mr. SPRATT. Mr. Chairman, I was on the Cox Committee, if I can say just a word about it. One of the things that we found is that it would be useful if DOD carved out a group of people who were dedicated for a particular period of time. I know you had people from time to time for these security details, the company, for the launches.

Mr. HAMRE. Yes.

Mr. SPRATT. Just a little bit of emphasis and more continuity. It is not the greatest unit in the world, but it shouldn't be one of these things where punching your ticket doesn't count for anything if you pull this kind of duty. It needs to be enhanced.

Mr. HAMRE. We heard you say that loud and clear last fall. We actually incorporated that in the budget that we built as basically the execution of '99. We already started hiring those people, and we agree with you on that.

Mr. SPRATT. Basically the technology transfers occurred, to the extent that they did, in the failure analysis process—

Mr. HAMRE. That is exactly right.

Mr. SPRATT [continuing]. Not in really having somebody derelict in duty and not watching the satellite while it was sitting in a building somewhere in China.

Mr. HAMRE. I think our concept for controlling our technology was right but we executed it poorly. And that is—we do owe responsibility for that.

Chairman KASICH. Mr. Chambliss has 5 minutes.

Mr. CHAMBLISS. Thank you, Mr. Chairman.

And John, let me just start out by saying I couldn't help but see a little humor in your statement about the fact that the United States Army is welcomed all around the world. You know, I liken that to Santa Claus being welcome in my house, but come January the 20th, I don't look forward to getting those bills, and having to scrape and scrounge to try and pay for it.

I mean if we are going to send a billion dollars over to Kosovo, I can understand why they would welcome us coming in there, and we as a Congress need to have serious reservations about whether we do that. I hope the White House is having those same serious reservations.

You also mentioned in your opening statement that with respect to base closure, that we have achieved some \$5 billion in savings to this point. I have seen your figures and I have also seen GAO's figures, and frankly I don't feel comfortable with either one of them. I think it would be a good idea to get some independent audit of exactly what we have achieved, and I would think that you would welcome that, as well as GAO would welcome that, and Congress and the administration would be better served by having that done.

Let's find out what we are saving before we go through the pain and the agony of additional base closure. And if we are not saving big dollars like we think we are going to save, then for goodness sakes, let's figure out another way to achieve the end result that you are talking about to get to those savings.

I was also pleased to hear your statement with respect to a national missile defense system and the priority of that system in this budget. But I am a little bit puzzled by that, because if I understood what you said, that the administration has done an about-face on the need for deployment of a national missile defense system; am I quoting you correctly, John?

Mr. HAMRE. I didn't say we did an about-face. I would like to give—I think what we did, we always said there were two conditions that had to be met: one, you had to have a threat that is im-

mediate that you needed to act on; and the other was if you had to have the work, you had to have the technology in hand.

I think we feel, because of the Taepo Dong launch and other things, that we have seen that first condition largely met, and that is why we got the dollars in the budget. Now, we still have big questions about will it work. I think there are huge risks associated even with the program we put in front of you, and some people would like us to go even faster.

So I wouldn't characterize it as an about-face. I think it is really funding the program we said would be there before when the threat came, and I think we have honored that. But I realize that from your perspective we made quite a change in direction.

Mr. CHAMBLISS. But I guess maybe it is because you have not seen the threat, when I say the about-face, at least one of the conditions that you have out there has been met. What bothers me about that is that you are taking—in this budget you are taking \$230 million out of the national missile defense program to pay for Wye River. What possible connection could the Wye River peace accord have with the national missile defense system?

Mr. HAMRE. Sir, we of course were given a billion dollars in the supplemental last fall which was supposed to go for missile defense. We could do it from national missile defense, we could do it for theater, whatever. It was up to us. We had to come back and tell you what we wanted to do.

The administration felt that in order to get the Wye River Planation going without having made—declaring it an emergency was to use some of those funds. But they gave us every bit of it back, and it is included in the extra \$112 billion that we got when added to our topline. We didn't give away that \$230 million. It was a phasing issue. We got everything we needed in '99, everything we needed in '00, and that \$230 million shows up in the outyears. So we actually did exactly what you told us. It was simply a timing.

Mr. CHAMBLISS. Well, but the fact of the matter is that you want to take that \$230 million out of the current appropriated money for the national missile defense system to pay for part of Wye River, which I think is going to be difficult, John.

Mr. HAMRE. Sir, I know it is difficult. It just doesn't have any effect in the field. We couldn't have spent it in the time that we had it right now, and it was coming back when we did need the dollars. I understand your perception of it, but I actually think on the ground it doesn't have an impact.

Mr. CHAMBLISS. OK.

Mr. HAMRE. I would be glad to go through that with you.

Mr. CHAMBLISS. The other real red flag that sticks out at me or jumps out at me with respect to your budget is regarding the funding for Bosnia. Now, there has not been any funding in the budgets, previous budgets, for Bosnia. I appreciate the fact that you have come forward this year, put money in there. But as I look at your budget, basically you funded Bosnia for '00 and for 6 months of '01, but there is no money in there after about the first 6 months of '01.

Is that by design, that we are going to be out of there by then, or is there some other underlying reason why we are not funding

it, such as this President will be out of the White House by the time we get to the end of that money?

Mr. LYNN. It is certainly not the latter. The approach we took to Bosnia was, as you suggested, was to fund it in the budget request, I think as really requested or directed by Congress, and not to seek an emergency designation for Bosnia this year. We embedded it in the budget. We would plan to do it again in '01, which is a budget this President in fact will submit to the Congress.

We don't know how long or how large a presence we are going to have in Bosnia in '01, so we have put \$1 billion in the planning level right now, with an agreement with OMB that next fall when we are building the '01 budget, we will revisit that. I think there is some prospect that our presence in Bosnia might at least be smaller at that point and therefore costs less. But we will revisit what the actual costs are and we will budget for those actual costs in '01.

Mr. CHAMBLISS. I hope you are right, Mr. Lynn, that it is a smaller presence. Thank you.

Mr. HAMRE. Mr. Chairman, could I say—it will take 30 seconds, sir. You pinned me on BRAC, and I know that BRAC is a hard decision. You asked how real were the savings.

The two organizations that estimated the savings independent of us, it is the Congressional Budget Office and it is the General Accounting Office, and they are both congressional organizations. They don't report to us. I think they are an independent report, and they showed that frankly the savings are higher than we had estimated and the costs were less than we thought they were.

So I would be glad to sit down and go through it and see if there is some other area that we need to estimate here to try to find out, to reassure you. We are saving real money. That doesn't make it an easier political problem to face. It is a tough problem, and you have had to live through it. I know it has been very hard. So I would be glad to sit down and go through it with you.

Chairman KASICH. Ms. Rivers.

Ms. RIVERS. Thank you, Mr. Chairman. I have several questions, some having to do with policy and some having to do with particular decisions.

You mentioned early on in your testimony that you felt that leadership in Europe has been hard coming but it is starting to emerge. I get a lot of questions about the expenditure of American dollars defending other parts of the world. Is this kind of leadership likely to emerge as long as we continue to take the lead role in all of these places? As long as we put the most troops in, we use our equipment, as long as the American taxpayers underwrite defense of other countries and peacekeeping, why would anybody come forward and take over that role?

Mr. HAMRE. Ms. Rivers, first let me say we are not over there defending them. We are over there defending us. I mean we are there because we think it is in our interests not to have a conflict in Kosovo explode and drag all of NATO into a bigger fight or create fights, frankly, inside of NATO.

Now, there has been definite progress. When we went into Bosnia, we were 35 percent of the force that went into Bosnia; on this one we are 16 percent of the force, and the leadership role is actu-

ally with other countries in Europe. They are needing our help as we are formulating it and building it, but frankly I think we are heading in the right direction, exactly what you articulated.

Ms. RIVERS. I was talking about two separate issues, peacekeeping being one, but also our role relative to Japan, for example, roles that we have historically taken and underwritten. And now as we look at a budget that is making it increasingly difficult to be in many places at the same time, my question is really whether we can expect help from any of our allies in this area or if it is our intention as a policy to maintain that role, no matter what it costs us.

Mr. HAMRE. Well, our forces in Japan, the Japanese Government pays for everything except for the salary of the troops. They build the buildings. They pay for the heat that goes into the buildings. I mean it is a huge contribution on the part of the Japanese, and they have been doing that for years.

Ms. RIVERS. Those are just the troops that are in Japanese territory or in the region in general?

Mr. HAMRE. No, it is in Japanese territory. Now in Korea, we have a cost-sharing thing with the Koreans and the Koreans contribute substantially to our forces, not 100 percent, as do the Japanese, but the Koreans help extensively. Again let me say we are there because we think we need to be there, not because we are just trying to give them a handout. This isn't foreign aid, this is national security, and we think it is important for us.

Ms. RIVERS. OK. I have another question about a specific decision that is moving its way through Congress. When we were talking about the package that was passed in the Senate, you mentioned that it was not paid for from your view.

Mr. HAMRE. Right.

Ms. RIVERS. I am less interested in whether it is paid for at this point than if it is justified. And I am particularly interested in the pension proposal, given that REDUX was supposed to be implemented to increase retention. Is there anything to suggest that increasing pensions is actually going to pay off in increased retention, particularly when we are dealing with the claim as you made that people at the lower ranks of pay are the ones who are leaving?

Mr. HAMRE. Ma'am, the military we have today is dramatically different compared to the military that we had in 1986 when REDUX was first legislated. Back then we had a much bigger military, the employment wasn't as strong, frankly people had good jobs being in the military. And now we are having a hard time holding on to folks.

We implemented—everybody that was in was grandfathered. And so all of a sudden we were looking at a situation where people who had been in 12 years were at a critical reenlistment point, the economy is booming, they can double their salaries by walking out the door. And we are saying we are trying to hold them, and one of the things that they say, "You really don't respect me because you are lowering my retirement, and I am standing side-by-side with another guy who has 50 percent and I am at 40 percent."

It is enormously corrosive. Had we not made that change, I think we would have had a hemorrhage in our senior NCO corps. I think we did the right thing, and I think that the data is very clear if



you talk to people. It is a lot harder to see analytical, machine readable data from. And there we felt there was a much higher payoff for providing changes to the pay tables so that more senior people got paid better, that is, where they were really underpaid. Our junior people, E-1s, E-4s are not so badly underpaid. It is the E-5s through E-9s that are underpaid.

Ms. RIVERS. Right. Doesn't the salary proposal raise everybody's salary, including the people at the very highest ranks where there is no indication that that was necessary?

Mr. HAMRE. Everyone is getting a cost-of-living adjustment. The President proposed 4.4 percent, and that is going across the board. The pay table reform increases pay for those in the grades where the analytic data is very clear we are underpaying them and where we really have retention problems, and that is the more senior NCOs, E-5s and up, and field grade officers. That is where we have the biggest additional increase beyond the 4.4 pay raise.

Ms. RIVERS. You are saying outside of those two groups, the pay increase would not—other than cost-of-living, would not impact any other troops? It would not have—you would not have colonels, like colonels, generals, majors, getting pay increases?

Mr. HAMRE. They may. I will have to get the pay tables and get it to you. They get the 4.4 percent. I will have to find out what they get beyond that.

Ms. RIVERS. In terms of retention, if somebody has got 18 years invested, I mean are we having a problem that they are washing out just a couple of years before they would draw retirement because salaries aren't high enough?

Mr. HAMRE. No, no, clearly not. But we are also really cheating them. These people are working enormously hard. The data is very clear. I would like you to get this briefing from the Rand Corporation that shows that the people who are badly underpaid are our senior NCOs and our officers, and that is part of the reason we wanted to hold them, that is the biggest productivity advance, that we can give them a pay adjustment. But I will get both the pay tables to you and that study.

Ms. RIVERS. OK, good. The last question—I am out of time. I apologize.

Chairman KASICH. You can have one more. Go ahead.

Ms. RIVERS. The last question I have is about peacekeeping in general. In the time I have been in Congress, since '94, even though we have had peacekeeping forces deployed in other parts of the world with an expectation that they would continue on beyond a single fiscal year, we have not had line items in the budget to pay that cost. Do you think it would be reasonable to have a peacekeeping line item in your budget and put the onus on you to make those—to handle that within the general spending that you do?

Mr. HAMRE. Congresswoman, we tried that back in 1983 and we got shot down. Excuse me, '93. We tried that, and we got shot down badly. We asked for a line item of \$300 million to do exactly that, and we just can't get it appropriated. The reason is that Congress doesn't want to give us a line. We don't know where our peacekeeping activities are going to be 18 months from now.

So we proposed to have an entry that would cover the costs of that, and we can't get it funded, and it is because Congress—I un-

derstand this, by the way. I don't quarrel with this. I think this is one of those fault lines in the Constitution, and I can understand why the legislative branch doesn't want to preposition dollars for us to go off and do exercises without their having oversight. That is what you are really debating on Kosovo.

Ms. RIVERS. Which brings me to my last question relative to peacekeeping, which is, if in fact supplemental funding was not available, do you think the recommendations would be different about deploying troops in these peacekeeping places? In other words, if the money had to be found within the existing budget, you said it shouldn't be an issue but I am asking you if it would be an issue.

Mr. HAMRE. Ma'am, I was a comptroller for 4 years, and every time the Secretary came to me and said "Can we afford this?" I said, "It doesn't matter. We will find a way to pay for it." If the Commander in Chief gives us an order to undertake a mission, if it is to go to war or to go impose peace, we are going to do that in the Department, and it is up to the political back and forth between the administration and the Congress to decide is that a good idea or not, and under what terms should we do this. But from our standpoint this is a military exercise, a military operation. We are going to do it. We will find it. We will have to give something up.

Ms. RIVERS. Thank you.

Thank you, Mr. Chairman.

Chairman KASICH. Mr. Thornberry is recognized for 5 minutes.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Dr. Hamre, I want to go to your second big question that you posed, "Are we ready for the challenges of the next century?" There are a number of people who believe that we are in or about to be in a revolution in the way warfare is conducted, on such a scale that has only occurred maybe a dozen times over the last 800 years or so, where it is not just the tools that we have or could have that are changing but also the threats and the security environment we operate in.

Do you think that that is where we are historically? And are you haunted, as I am in a way, by these historical analogies which may be precedents, that sometimes a country seems to be on top of the world and they can't ride this wave of change and warfare, and in the blink of an eye nearly they are under somebody's boot?

Mr. HAMRE. Sir, two ways I would like to answer. First of all, I agree, I think we are at an historic point.

And let me use the analogy: We had so many casualties during the Civil War for one reason, and that was the technology of communications lagged badly behind the technology of firepower. So all of the troops had to be close enough so that the commanding officer could yell an order to them or they could hear a drum beat or a bugle, you know. So everybody was close by, and of course firepower just exploded at that time with the breech-loading musket—I mean rifles and cannon, et cetera, and we just had astounding casualties because of it.

We have exactly the reverse condition that is right in front of us, where our troops don't have to be anywhere close and can be well out of harm's way and can bring precise fire on the bad guy through information technology. We are in a—I hate to say in an

exciting time, but an exciting time from the standpoint of efficient military operations where we can minimize our casualties, impose maximum leverage on the bad guy and get it over with fast.

Now the question you have asked—and nobody has worked at this harder than you have, and I really respect everything you have been doing the last 8 months. There are other what we call assymetric threats that we are facing, because we are so good on the battlefield and people aren't close to us right now, and I don't think they are going to get close any time soon. But there are other ways the bad guys want to get at us, and that is things like chemical or biological acts by a terrorist here in the United States.

This is a heck of a problem, and this is one where we need to spend a lot of time and a lot of energy. We have started. I don't think we have got it all in hand yet, but it is really where we need to put some emphasis here.

Mr. THORNBERRY. But aren't you concerned, I hope like I am, that it seems like that we are spending so much of our time, effort, money, intellectual energy on worrying about problems of today, that we are not giving the attention that we need in the future? If you look at where our money goes in the budget, for example, the things that seem to be out there which can give us enormous advantages like arsenal ship, carrier-after-next, get pushed back or go away. We heard last week, Joint Strike Fighter pushed back, I understand in your budget the R&D funding goes down nearly 20 percent over the FYDP. So are we really doing what we need to in the future? Aren't we mortgaging that really for today?

Mr. HAMRE. Well, sir, I guess I don't think so. But I would have to sit down with you and go through what we need to spend on this face-to-face and look at specifics and try to give you an answer. I think that we have some really very exciting work going on in the services. You have seen it, frankly you pushed us into it with the Joint Experimentation down at Tidewater. Each of the services is designed battle labs, and they are doing very exciting things.

It is a little bit like yeast in dough. You know, you don't need a lot of it for the whole thing to get better, and I really think that is where we are right now as a Department.

Are we diverting efforts from the future in order to sustain the present? That is a big question. Frankly, we are fighting in the present, and it is hard to know if you are prepared to make trade-offs. I don't know of things I don't want to do today, that I am willing to set aside simply to invest more in the future that I can't predict, and I think that becomes the dilemma.

Mr. THORNBERRY. I think that is one of many concerns that people may have with the vote that we are going to have today, and our continued deployments in other places around the world that cost in so many ways beyond dollars even, and what that takes away from what we need to do.

I might just mention to you, and I know you have looked into this far more than I have, but historically it is usually not the technology that causes the problem, it is the failure to have the organization and the concepts to take advantage of the technology that causes the problem, and that worries me where we are.

Let me ask you one last question, if I may. Following up on Ms. Rivers, if we cannot establish by some convincing standard of evi-

dence that changing the retirement system is going to help our retention this year, do you think it would be a better idea to hold off for a year at least on that part of it, and study and try to know the effects of what we are doing before we commit such an enormous amount of money which may not really help the problem that we are trying to solve?

Mr. HAMRE. Sir, I actually think it will help the problem, and you feel it every day when you go out and talk to the troops. Failing to change it now I think would have a devastating effect.

I think there are other elements of the Senate bill which I think are problematic. I would ask you to take a hard look at some of the things that were proposed to change veterans' benefits. For example, one of the things that was proposed was to let a veteran pass on his GI bill benefits to his kids. That sounds good in the abstract, but what is it going to be to recruit those kids in 15 years if they can inherit their GI benefits rather than earn them?

I think there are some real questions that we need to take a look at, and so we would be happy to go through any of that with you. Your point is right, we need to study this before we jump off with both feet.

Mr. THORNBERRY. Thank you.

Mr. CHAMBLISS [presiding]. Now is Ms. Baldwin.

Ms. BALDWIN. In your presentation you outlined some of the reasons for celebration and some issues of concern. What I would like first in sort of outline form, but also if you can follow up in writing, is some sense of how much of the increase is directed at responding to those concerns.

Let me follow up on a couple of the pieces of information or questions that have been asked regarding recruitment and retention. You talked about having some recruitment issues, particularly with regard to some highly skilled positions. Are any of the increased funds aimed at people specifically focused on the issue of addressing those recruitment issues that you are challenged by right now?

I know a lot of the things that we have been talking about are across the board, pay increases across the board, benefit issues, which will certainly help incrementally, but you have some specific problems. Are there initiatives specifically focused on those?

Mr. HAMRE. Yes, there are. What I would like to do is give a list of those, but there are, for example, targeted bonuses for enlistment. There are, especially in the retention area, there are targeted bonuses to try to hold onto people. And we have a long list of things that we added and asked for in the budget request, and I would like to submit that to you, if I may.

Ms. BALDWIN. OK. With regard to another concern you address, equipment aging at an unacceptable pace, I would like to see a breakdown of the procurement budget, and what percentage roughly would you say right now is aimed at that particular challenge and that particular concern versus expansions or—you know, I guess basically expansions?

Mr. HAMRE. We can get more detail. I don't know, Bill, if you have a sense of how much is new procurement versus, say, upgrades.

Mr. LYNN. I don't have those numbers in my head.

Mr. HAMRE. We are not buying nearly enough things. What we are—our budget has a fair amount for upgrading existing weapons systems, so we will put on a new radar or we will put on a new fire control system or this sort of thing. I will get you a breakdown on what that is like in the budget. I don't have that off the top of my head.

Ms. BALDWIN. And you know, if you look at the spectrum of remedial work versus maintenance versus expansion—

Mr. HAMRE. Yes.

Ms. BALDWIN [continuing]. You know, that type of pay breakdown—

Mr. HAMRE. Yes.

Ms. BALDWIN [continuing]. With some specifics would be helpful.

Mr. HAMRE. Of course.

Ms. BALDWIN. One other question relating to—you were indicating that in terms of missile defense, national missile defense, now a condition has been met that wasn't previously there. But the questions relating to the technology, we are shortly going to be considering a resolution on the floor, my understanding is that there is no cost estimate associated with that. But I would like to hear, you know, your thoughts right now on how much deployment and operation is going to cost, you know, in the next 5 years.

Mr. HAMRE. Well, we have budgeted I think a total of \$10 to \$11 billion for both development and deployment. But may I say, I think that while there were two basic conditions that were important, that there had to be a threat and that this thing has to work, there is also a big debate going to emerge here this week or maybe next week in the Senate, and probably over here as well, and that is over the impact this might have on arms control treaties under the ABM treaty.

This is a big deal, and it is not one that we ought to sidetrack. This is the centerpiece, I think, of dispute between the various groups up here on the Hill: Should we retain the ABM treaty? Is retaining the ABM treaty holding us back from deploying a missile defense system we need for the country? Can you deploy a viable NMD system and do it within the terms of an ABM treaty? If not, what do you need to change in the ABM treaty?

I think those are all the crucial questions, and I think the administration's view is there are definitely things that we need to do that probably will require an amendment to the ABM treaty, and we need to start talking with the Russians right now to do that.

We don't intend to deploy a system that is designed to counter—kind of the old "Star Wars" against a huge, huge, missile threat coming from outside. We are trying to deal with a system that is effective against small numbers from a rogue state or from an unauthorized launch, some individual that has kind of grabbed control of a bunch of missiles.

That is not a threat to Russia, we believe. We believe that actually this sort of a capability would be reassuring to Russia. And it is very possible to do this, but we will have to amend the ABM treaty to do it. We think we ought to start and talk with them about that now, and we think it is possible to get them to agree with us that it is in their interests and our interests to do it. But I think it is a very important issue we have to talk about together.

Ms. BALDWIN. Thank you.

Mr. CHAMBLISS. Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. Hamre, I want to go back to this \$28 billion in reapplied savings. What portion of that is available in this current fiscal year?

Mr. HAMRE. Oh, I think about \$3.9 billion of it, sir, something like \$3.8, \$3.9 billion.

Mr. COLLINS. If those funds are available, then why are we behind in modernization a million dollars?

Mr. HAMRE. Well, because frankly we needed the dollars to put against our O&M costs and our personnel costs. They were a higher priority. So we put the dollars against—we funded the Bosnia operations, the operations in Southwest Asia. We had higher personnel costs because of the pay raise, things of that nature. So all of those things had a higher priority when we were going through and spending the \$12.5 billion, and that was part of how we got the \$12.5 billion. So we fell a billion short.

Mr. COLLINS. You have \$3 billion that is available this year of the \$28 billion?

Mr. HAMRE. Yes, sir. We diverted it and put it on to other things that were a higher priority.

Mr. COLLINS. OK. You have a list of suggestions on \$1.6 billion in rescissions for '00?

Mr. HAMRE. No, sir, not yet. You know, we certainly are holding back to make sure that we are able to execute on that when we get a clear direction. Most of the direction we have had from the first day we said we were going to propose it is that Congress has said, "No way." And so we don't think we ought to develop a list if the clear guidance says "We are not going to agree to it, no way." So right now we have not built a list.

Mr. COLLINS. How did you arrive at the figure?

Mr. HAMRE. We needed that amount of money. I mean it was—we knew that we would have to dig in, and in some cases it wouldn't be a hard decision to make, and in some cases it would be a hard decision to make. How we really did it was, we took the total request that the Chiefs felt that they needed to have, we narrowed that down as much as we could, deferred the things that we thought were deferable, we got the list as small as we could get it. I think that was in the neighborhood of \$14 billion initially. We then went through some further policy changes that got it down to about \$12.5 billion, and then we said, OK, how are we going to pay for the \$12.5 billion?

We then had dollars, topline adjustment we got from OMB. We were allowed to keep the inflation money. We had this change in concept for military construction, and what was left over we said, well, we will just have to propose a rescission and find the dollars that way. So it wasn't derived from individual programs per se.

Mr. COLLINS. But it is an admission that there were \$1.6 billion in rescissions that could be made?

Mr. HAMRE. Yes, sir. Yes, sir, that is right.

Mr. COLLINS. If you needed \$3.6 billion, would you have put \$3.6 billion?

Mr. HAMRE. Yes, sir, but I think it would have been a lot harder. I think it would be a lot harder to come up with a list of \$3.6 than \$1.6 billion.

Mr. COLLINS. It is interesting that you would concede that there are moneys that could be rescinded, and not rescind them in your budget when you submit.

Mr. HAMRE. Well, sir, what we actually submitted, and there isn't anybody up here that likes this idea, but what we actually submitted was a provision that lets the Secretary of Defense decide which \$1.6 billion were the things he doesn't want to do. Now nobody up here likes that idea, Republican, Democrat, House or Senate. I mean that is basically saying the Secretary of Defense gets to decide, has a second bite of the apple as to what we just appropriated, and that is why of course nobody likes it.

Mr. COLLINS. Would you not have that decision when you make a decision—or could you not make that decision when you submit the budget?

Mr. HAMRE. For a rescission?

Mr. COLLINS. Yes.

Mr. HAMRE. If we were directed to do it, we would do that, yes, sir.

Mr. COLLINS. When you submit a budget you are proposing to spend X number of dollars. You can say, "We don't want to eliminate this program," and "include this program." You do have that authority?

Mr. HAMRE. We have the authority to do it if we were directed to do it that way. We were not directed to do it that way. Instead it was a provision we asked for 2, 3 years ago. It was basically I guess two times, and we simply reproduced exactly the same proposal that we had before. Congress didn't approve it then either.

Mr. LYNN. Congressman, if I can add, Congress actually has the last several years approved rescissions; \$1.6 billion is somewhat larger. The rescissions have been generally in the half-a-billion to a billion-dollar range. So this is not inconsistent with some of the actions Congress itself has taken in the last several years.

It is somewhat larger and therefore a little bit more aggressive. And the reasons for that—the reasons Dr. Hamre gave having to do with the requirements that we thought were at an irreducible minimum.

Mr. COLLINS. My point is, if you are going to produce a budget and you admit you have \$1.6 billion of rescissions that you could make, why not put through rescission requests in the budget that you present?

Mr. HAMRE. Sir, you could do that. We were not directed to do that, and instead we submitted a legislative proposal that would give the Secretary the authority to do it. Again, I would rather doubt that Congress is going to give us that, but that is what we proposed in the budget.

Mr. COLLINS. We were talking about two different things, in my mind, maybe different to you.

Thank you, Mr. Chairman.

Mr. CHAMBLISS. Mr. Minge.

Mr. MINGE. Thank you, Mr. Chairman.

It is nice to see you, Dr. Hamre.

Mr. HAMRE. Good to see you. Thank you.

Mr. MINGE. Even though I am from Minnesota, I don't handle the ice too well. So I am trying to struggle through this. I have read with interest comments by Lawrence Korb from the Council on Foreign Relations, and I would like to start by asking you about the weapons systems that have been challenged in his briefing paper. I expect you are familiar with that.

Mr. HAMRE. I am, and he is sitting right behind me, so I will be polite in how I respond if I disagree with him. I am not sure I do, I don't know yet.

Mr. MINGE. Well, there is a chart in there, and they detail a whole series of adjustments in both the configuration, the size of the Armed Forces, and also the weapons systems that would be necessary. One of the suggestions, just to give you a specific, is to reduce the size, I believe it is of the Marine Corps, to 150,000 personnel, which is the number suggested by the former Chief, Chairman of the Joint Chiefs of Staff, Gen. Colin Powell, and generally to reduce the size of the force from 2.3 million to 2 million.

Going beyond that, there is a great deal of discussion about specific weapons systems: Just as an example, to reduce the number of *Seawolf* submarines being purchased to those currently in the pipeline, and challenging the purchase of 30 new submarines at a cost of \$64 billion. The *Nimitz* carriers. The *Comanche* helicopters, as I understand it there is a request to purchase 1,292 of these at a total cost of \$48 billion. And the list goes on and on.

And one concern that I have is that we are sort of in the "guns or butter" situation here in the country, and by "butter" I guess I am referring to the collapse of the farm economy and sort of a matter of priorities, and what we can afford to try to handle through our budget and what can be deferred.

The question I would like to ask is, to what extent could the Defense Department accept a reduction in the outlays in the next 5 years for these weapons systems in order to allow us to try to deal with some of the other pressing problems that we face in areas such as the agricultural economy, while at the same time maybe having budget authority so that as we work through these other problems, the Defense Department knows that there is support for adequate hardware.

But just a question, do we have to invest in this hardware at this point in time? So I would just like to pose that more general question based upon the report from the Council on Foreign Relations.

Mr. HAMRE. Yes, sir. First, the question you posed was exactly the one that President Clinton posed to the Secretary and the Chairman when we sat down with him this fall and said "We need \$148 billion added to our budget," and he said, "I don't know that I can afford \$148 billion for the budget right now. I need you to go through and parse out what do you have to have right now and what can you defer."

And that led us to the process where we backed down our request to go from \$148 billion down to \$112 billion, and almost everything that we took off the list was in the area of procurement and installations. That is why the highest amount, 75 percent of it, is all for basically ongoing operations, readiness-related spending, and we did indeed defer on the procurement side.



We feel that we have really deferred a long time on procurement. We have now had 12 years of making that the primary place where we have drawn down, and you are seeing very, very tough aging problems in our aircraft and in our fleets, for example. We should be buying in the neighborhood of 9 to 10 ships a year in order to maintain the average age of our fleet, and instead we are buying six and seven ships a year. We should be buying several hundred aircraft a year, and we are buying in the dozens of aircraft a year.

So I fully appreciate the problem that you pose, and it is a "guns-butter" time. The President basically decided that of the surplus, he was going to put roughly one-third of the surplus in the discretionary account to the guns side, us, and two-thirds to the butter side, the domestic side. The domestic side in the Presidents program is about twice what he was proposing to increase to us. I think he tried to take consideration of the point that you made and still realize that we do have to have some increases in DOD.

Mr. MINGE. In that regard, I have not had a chance to read all of this testimony, I didn't benefit from some of the earlier comments, but is there a table in here that shows what the caps are, what they would be for fiscal year 2000 if we simply continued from 1999 without anything other than an inflation adjustment?

Mr. HAMRE. Sir, there could be, and Mr. Spratt went through some of that in his opening statement as well. I don't have those numbers under my belt.

Mr. MINGE. OK.

Mr. HAMRE. We are barely above kind of a "hold the line" sort of budget. There is a little bit of growth in this 5-year plan that we submitted to you, but it is not a dramatic reversal; and you would see that where we are at, you know, an historically low point in terms of gross domestic product that we are devoting to the national defense, even in the President's budget with an increase. It still is around 3 percent and, boy, we are in the late '30's when we were at that level. So I don't think it is an unacceptable burden on the American economy.

Mr. MINGE. You talked about the 4.4 percent increase for inflation for the personnel, 4.4 inflation increase, I think you said.

Mr. HAMRE. No, sir. That we have paid for, but across the board how much extra dollars we added for DOD and does that keep us even with inflation, what it does, it puts us slightly ahead of inflation, which is the first time in 12, 14 years where we are slightly ahead of inflation.

Mr. MINGE. I was under the impression when you used the term 4.4 it was related to the compensation package.

Mr. HAMRE. That is right, it is pay.

Mr. MINGE. Over what period of time was that 4.4 percent?

Mr. HAMRE. The 4.4 is for fiscal year 2000, and then it drops down to 3.9 percent all the succeeding years in the 5-year plan.

Mr. MINGE. How would that compare to the civilian work force?

Mr. HAMRE. Well, the civilian work force it is——

Mr. MINGE. That is, not the entire U.S. economy but the Federal civil service.

Mr. HAMRE. Oh, that is the same. It would be comparable. We budgeted the same amount for civil servants. But if you say what is the comparability to the private sector, it is based on private sec-

tor wage rates. That is how we got to the 4.4 percent. And in both cases it is above the rate of inflation, but that is because frankly right now there is a scarcity of skilled labor in the country, and you have to pay higher than the rate of inflation in order to get people right now.

Mr. MINGE. Well, I know one thing I run into when we talk about people who are retired and are on Social Security, they are told they have a 1.3 percent inflation factor, they are quite upset. And then they ask what is happening with compensation with the Federal employees, and if the inflation factor used for the Federal employees is higher than for themselves, they begin to see red. I am wondering if you had any discussion about that.

Mr. HAMRE. Yes, sir. They really are measuring different things. In the case of the retirees, you know, that is a case of how do their costs of goods compare, last year to this year, and their cost-of-living adjustment ought to be with the change of the prices they pay. When it comes to pay comparability the question is, what does it cost you to get that kind of talent, and frankly right now there is such a scarcity in the economy of talented labor that you have to pay more than the cost-of-living adjustment for just goods and services.

So we are really measuring two different things, which accounts for the disparity, even though politically I realize lots of people say they ought to be the same.

Mr. MINGE. On one of the charts here there is—I guess it appears throughout the budget material, the outlays and of course above that, the budget authority. I notice that the budget authority appears to be substantially greater than outlays in almost every year. At what point does that catch up with us?

Mr. HAMRE. Well, sir, it has caught up with us several years in the past, and it is really a function of the relative proportion of dollars that are going into procurement versus in operations. Because there is big increase in our procurement budget here over the next 5 years, budget authority is going to outstrip outlays over this 5-year period, because frankly we are putting dollars into accounts that aren't going to be spent as fast.

But I think as you are talking about the outlays, sir, this is—I know there is a controversy about a disconnect between OMB's estimate of outlays and CBO's estimate of outlays. It isn't any more money for DOT. We are not getting another penny if you were to agree to a higher outlay estimate. It is simply the dollars are spent faster under CBO's estimate than under OMB's, but there is no more money coming to DOD.

Mr. CHAMBLISS. Mr. Minge, we are going to need to move on. We will try to get back to you.

Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. I got a meeting I am late to, Dave.

Mr. MINGE. I wasn't watching the clock. Sorry.

Mr. GUTKNECHT. I want to follow up, though, with my colleague from Minnesota, what he was talking about, because you know he is talking about there are only two options, guns or butter. I think there is a third option, and I think we in the United States have

been slow to pursue that, and that Ms. Rivers talked about, essentially about cost sharing.

Do you recall what the total cost of the *Desert Storm* operation was?

Mr. HAMRE. Well, I think about \$62 billion.

Mr. GUTKNECHT. And what proportion did ultimately the United States taxpayer have to shoulder?

Mr. HAMRE. It was—I don't remember the precise numbers. I can get it for you, but it was overwhelmingly paid for by contributions both from Arab allies in the region and then also from others overseas. We received significant contributions, some in kind, but from other countries, Japan, Germany and others.

Mr. GUTKNECHT. But approximately what, 95 percent was paid by taxpayers?

Mr. HAMRE. Let me get the number. I don't have it off the top of my head. It was a very high percentage.

[The information follows:]

Incremental U.S. costs of Operation *Desert Shield/Desert Storm* totaled \$61.1 billion. About \$56.4 billion, or 92 percent was offset by contributions from U.S. allies (\$53.8 billion) and by minor other offsets (\$2.6 billion). Net U.S. cost was about \$4.7 billion.

Mr. GUTKNECHT. That was my understanding, it was close to 95 percent.

Since we started bombing Iraq again on December 16, approximately what has been the cost of that operation? And those bombing raids continue as we speak.

Mr. HAMRE. Sir, the number I have in my mind is one that includes both the November-December operation—Bill knows it—Bill, why don't you.

Mr. LYNN. It is approximately \$200 million, and that doesn't—

Mr. GUTKNECHT. That seems a little light. How many cruise missiles did we fire? I thought they were half a million to fire.

Mr. LYNN. If you included the cost of munitions, which traditionally we haven't done when we asked for supplementals, but if you were to do that, the cost would approximately double. It would be in the \$400 million range.

Mr. GUTKNECHT. Have we gotten any help from our allies on that expense?

Mr. HAMRE. Sir, we feel that is our obligation. We have not asked for it. Now, our ongoing presence in the region, in Saudi Arabia, for example, the Saudi government substantially pays for our forces there. They pay for fuel, they pay for food, they pay for lodging, so—

Mr. GUTKNECHT. Are we getting any help from the European allies? The reason I ask that is, now my understanding is we get very little oil from the Middle East; is that correct?

Mr. HAMRE. Well, I don't know the answer to that.

Mr. GUTKNECHT. I am told that almost all the oil from the Middle East either goes to Asia or Europe.

Mr. LYNN. It is correct that we get more from Venezuela and others, although we get I think more than—I think we are approaching over 50 and up to 60 percent of our oil from foreign sources, and that any disruption in the Middle East oil would obviously

have a worldwide impact and would disrupt the flow of oil into the United States.

Mr. GUTKNECHT. Well, the point that I am making is that we did a very effective job back when we fought *Desert Storm* of getting our allies to help shoulder the costs, and it seems to me that is an idea that is beginning to slip away.

And I want to come back to you. You mentioned in Kosovo we would supply only 16 percent of the ground troops. I believe that is correct, but I don't think it is correct to assume that 16 percent of the costs would be borne by the American taxpayers. I understand that if there are air raids that they will be heavily—that the brunt of the aircraft and all that goes with any kind of air raids that might take place would be American aircraft; is that correct?

Mr. HAMRE. On the combat side, sir, I think that is right.

Mr. GUTKNECHT. I mean 95 percent?

Mr. HAMRE. Probably.

Mr. GUTKNECHT. Would we get any help from our allies? Would NATO help cover some of the costs?

Mr. HAMRE. I mean they were contributing in other ways, if there is to be an air operation. We don't know if that is going to be the case. And obviously with the ground operation, we tend to resource our forces more handsomely, give them better protection and that sort of thing, so that is why the bill is different for us.

Mr. GUTKNECHT. Well, I do hope that the folks in DOD and policymakers here in Congress will not forget the lesson that hopefully was learned in *Desert Storm*, that it is not all, you know, that it is all our responsibility and all the expenses have to be borne by the American taxpayers.

Finally, and I would encourage any Members who have not spent some time meeting with our troops, I had the privilege last year of going out on an aircraft carrier for a weekend. I will tell you what, the greatest salesman that you have are those kids that work out on the deck. Average age of 19, I mean, what we pay them and what we get back in return for the taxpayers, I mean I felt guilty when I got on that plane and came back.

Clearly we have got a problem, and I understand we are 14,000 sailors short. But the other issue I think we have got to address, and it seems to me that this will not happen without the prompting of the Congress and frankly this committee, and that is the issue of bureaucratic inertia. I mean at the same time I think we are 14,000 sailors short, I submit we probably are not one admiral short.

And I know that we had a Speaker until a few months ago who had said on many occasions that it was his intent to turn the Pentagon into a triangle. Implicit in that comment was that bureaucratic inertia happens in every organization, and the Pentagon is certainly not exempt from that.

I think at some point we do have to do a better job of trying to see if, in fact, compared to any other corporation that has gone through downsizing and restructuring, that perhaps we have become a bit top-heavy over the last 20 or 30 years.

I think here is one question, and I don't expect to have the answer today, but I have been told, and I don't know if it is true or not, but I would like to know the exact numbers, the numbers of

generals and admirals one star and above that are currently in the Armed Forces, compared to the number that were in the Armed Forces at the peak of World War II. Now I am told that we actually have more generals and admirals today than we had at the peak of World War II, and I would really like to know the exact number, because I think each one of those has their own staff and their own little bureaucracy and so forth.

I am not saying what is right or wrong, but I think we do have to monitor the tendency of every bureaucracy to sort of become extremely top-heavy. I think we probably have that problem in the Armed Forces today and it is something that, as I say, I think this committee above all has got to do everything we can to make certain that we combat. So if you can get that information for me, I would very much appreciate it.

Thank you, Mr. Chairman.

Mr. HAMRE. Can I just say we will absolutely get the information for you, and I hope I might be able to sit with you and give you some context for it. We probably do have as many admirals and generals as we had in World War II—

Mr. GUTKNECHT. I am told it is more.

Mr. HAMRE. Maybe. I hope there is, frankly, because in part you mobilize people to bring them on board. But back in World War II, we didn't have people worrying about developing a national missile defense. We didn't have the sophisticated weapons systems we have now. We turned it over to industry. We weren't managing that like we have to do that now. We want that kind of talent. I would like to talk to you about it because I know it is, on its face—people say why in the world do we have as many or more flag officers today than we had in World War II? I think there are very good reasons. I may not convince you, but I would like to talk to you.

Mr. GUTKNECHT. I will certainly listen. Thank you.

Mr. CHAMBLISS. Can I take that statement to mean we are going to have less privatization in the military?

Mr. HAMRE. No, no, sir. I don't think so, because we are pushing—

Mr. CHAMBLISS. I am asking somewhat facetiously, since you and I have been fighting over that for 4 years.

Mr. HAMRE. I think we have got a flag down there that is running one of the better depots in the country.

Mr. CHAMBLISS. I agree.

Mr. Clement.

Mr. CLEMENT. Thank you, Mr. Chairman.

Deputy Secretary, Under Secretary, I'm pleased to have you before the Budget Committee. I think we do have a real opportunity, a wonderful opportunity for a substantial increase in the defense budget this year and for the future years, and I think we need a substantial increase. I am for a strong national defense.

I am a veteran myself and proud of it, and realize we are spread extremely thin and the cold war is over. We have got more regional ethnic conflicts in the world, and I expect that to continue. I did want to ask you about the National Guard and the Reserve as well. You know we have that so-called total force concept now.

Mr. HAMRE. Yes, sir.

Mr. CLEMENT. And I know in the National Guard and Reserve you are utilizing the support elements, the service support units, but you are not using the combat arms in various places around the world. If we are going to have this total force concept, are we going to start utilizing them as well, or are we still going to depend strictly on the service of the service support units in the Guard and the Reserve?

Mr. HAMRE. Sir, we utilize reservists in combat arms. For example, the Air Force extensively deploys reservists, for example, in Bosnia or in Southwest Asia or wherever. It is a lot harder for ground units, although we are trying something very bold, and I give great credit to General Rymer for this. One of the rotations in Bosnia is going to be done by a Reserve brigade.

That is going to be a real challenge, because that means that whole unit has now got to go through an incredible buildup period for the next 6 months or so and then deploy as a unit. That is hard for Reservists and it is difficult in the community. All of a sudden we are going to take out everybody and say for the next 6 months or next 10 months I am going to take out all the guys who do bus maintenance for the school district or whatever, because these guys tend to be in government-related service jobs as well. So it is harder to do but it is something that we are trying to do, but it is a challenge.

But if I could say, there is an absolutely new important role that is coming for the Guard and the Reserve, and that is this homeland defense role where we are trying to find ways to protect this country against acts that could be both chemical or biological terrorist incidents. In this case we have our forces—the entire thing is on its head. The forward deployed forces for homeland defense are Guardsmen and Reservists. They are the forward deployed element, and we need to find ways to utilize them for this mission. And it is a mission of honor and it is one we know they are going to be in the forefront of dealing with.

Mr. CLEMENT. I also want to ask you about Kosovo. I was in Bosnia last year and realized the importance and significance of the United States' presence. Whether we like it or not, we are the superpower, and I don't want us to be the big brother of the world. I do like other countries coordinating with us, and I do like burden sharing; it has been mentioned as well.

But I also know that Milosevic watches and observes everything we are doing or fail to do, and now we have got a vote today on Kosovo. Senator Dole just said yesterday before the House International Relations Committee, "I would rather have the vote come after the agreement between the Kosovar Albanians and the Serbs." Do you agree with that?

Mr. HAMRE. It is very much our preference that we not confound the negotiations right now with a vote. It would be our preference not to have this vote, because it is very delicate ongoing discussions about how we can land this. We do need to find a peaceful resolution for the problem in Kosovo, and we think that could very well involve ground troops, part of—the United States is a small contributor, but the United States and others. We need to land these negotiations successfully, and they are tough. And frankly it would

be a lot better if we didn't have the vote, but I understand Congress needs to be consulted and be a part of this decisionmaking.

Mr. CLEMENT. Aren't we also sending mixed messages to NATO? NATO has been through a lot since the cold war, so there were a lot of changes, a lot of organizational, structural changes and all, and now we seem to be giving very confused messages concerning Kosovo and even our presence in the entire area.

Mr. HAMRE. Yes, sir. I mean the guidance that we received in all of our informal discussions with Congress was that this is an operation that ought to be under NATO control, not UN control. You remember how things got fouled up in Bosnia when it was UN control, and we got that straightened out; we went into Bosnia under NATO auspices. And we do need to do this under NATO auspices.

That means NATO as an alliance is making this decision and as an alliance, it is a consensus process. I mean we would be really letting people down in a damaging way if we walked away from this now, because we have been working very closely with them, dealing with a security threat that is important to NATO as an alliance and to us. And this isn't something that we are doing, as you said, out of the generosity of our heart. We have real security interests to ourselves that are at risk here.

Mr. CLEMENT. Thank you.

Mr. CHAMBLISS. Mr. Knollenberg.

Mr. KNOLLENBERG. Mr. Chairman, thank you very much.

And welcome again, gentlemen. I appreciate your being here. I have a couple of questions, but I appreciated your revisiting the Civil War in terms of what the conditions were then.

It seems to me that today firepower versus technology is not the clash. It would seem to me that technology plays such a huge role, whether it is offense or defense, whether it is firepower, whether defensive-type techniques that are used. And I know that one of the challenges that you face and we face is the defense against ballistic missiles, any attack.

As you know very well, the American people are finding out that there is no defense that we have against incoming ballistic missiles. It appears to be that now a need has been shown, North Korea being the one in question, the rogue state, that we have to worry about. Russia, it seems that her weakness threatens us more than her strength, because now we have these potentialities occurring around the world. And it is not just North Korea, it is Iraq, it is Iran, as you know, and we seem to be—the administration, which has held to a policy of being against deployment, seems to be moving more favorably in the direction of doing something.

The question is, what and when? North Korea claims that, through U.S. intelligence sources, and some of this gets into the classified arena, that there may be other sites, and we have urged in my other subcommittee, the Foreign Operations, to look at those other potential sites. But in revisiting our failed policy, which I feel is failed regarding the Kyoto agreement, of rewarding Korea, right now they are holding out in a fashion that demands that we give them a carrot, that being the \$300 million, to allow us to get in and to see what is taking place what actually is happening on-site.

There is a bipartisan bill in Congress that I was an original or a very strong cosponsor, the original cosponsor, and I know that

many people in this committee probably are as well. Congressman Spratt, the ranking member, I believe is one of the original cosponsors of that bill as well, and it declares that the U.S. policy should be to deploy a missile system.

The questions I have for you, and I hope that the Department of Defense will join us, join Congress in bringing about something as soon as possible, does the Department of Defense sincerely support the idea of making this commitment?

And as a secondary question—this may have been asked previously but I wasn't in attendance—what is the possibility of doing it within the next 2 years, if in fact you do support it?

Mr. HAMRE. You are talking about deployment in the next 2 years for NMD?

Mr. KNOLLENBERG. Yes.

Mr. HAMRE. Sir, you said that you felt the administration was against deploying an NMD system. I don't think that they were.

Mr. KNOLLENBERG. Let me correct that and say that there hasn't been a system put in place.

Mr. HAMRE. Well, we were developing it, but we didn't have dollars allocated in the budget for the deployment of it until this year. I mean basically we had a program to develop a system, and we have been working at that pretty hard.

Mr. KNOLLENBERG. Then go to the second question, which is, could we do something, do you think, within 2 years?

Mr. HAMRE. Sir, I think that the risks would be so astounding that it would be rushing to failure if we were to try to do that. I think we absolutely need to press ahead to develop this capability, not a question in my mind, and I don't think there is a question in the administration's mind now.

I don't think that we press ahead in order so fast that we throw all discipline overboard and then end up with a failed program. We kind of did that on the THAAD missile system. We said, "We are just pressing ahead as fast as we possibly can, come hell or high water," and what did we get? Six failures in a row in the test shots. We don't want that here in national missile defense.

Mr. KNOLLENBERG. Do you agree there is a problem in North Korea?

Mr. HAMRE. Sir, we believe that we are either at it now or very soon confronting a problem that we want to have a national missile defense to confront, I don't think that is a question any longer.

Mr. KNOLLENBERG. We reached that—

Mr. HAMRE. I think that is right, sir. May I say that we now have to have a system that will work, and we want to do it in the manner where we can still retain the value of the ABM treaty so we don't have a bigger problem downstream with Russia.

Mr. KNOLLENBERG. Do you think that we are doing enough right now in North Korea to prevent any further actions by North Korea? I refer back to the three-stage rocket. The Rumsfeld report indicated very strongly that, back prior to that event taking place back in midsummer, that we are vulnerable to those rogue states. No one really thought it would come about quite so soon, but it has happened, and you can say that it hasn't gotten to us yet but the potentiality for that is there, to get to the U.S. coastline.



I think that that alone would begin to accelerate the action that the Department of Defense would take. Certainly Congress is moving in that direction, and I think it is a bipartisan idea here that I believe needs to be fulfilled sooner than later. And I know money is an issue, but can we do anything in the meantime, while we are struggling to put this thing together, to neutralize North Korea in particular and other rogue states who might sneak up on us and do it quicker than we thought? Technology, again, isn't unavailable to them.

Mr. HAMRE. Sir, we were surprised that it turned out to be a three-stage launch. I don't know that anybody forecasted that. Clearly we do have a problem in that they were moving faster than we had thought. And having said that, I don't think it was faster than was contemplated when the three-plus-three strategy was developed, in the sense that we would have the capacity to deploy something in 3 years. It is still an enormously high risk to try to do that.

I would also say that while we—and I don't want this to be interpreted in the wrong way—we absolutely do want to deploy an effective national missile defense system once we can work out the details with Russia in terms of modifying the ABM treaty, but frankly there are a lot of other ways that the bad guys can get at us besides ICBMs. If I were a bad guy, I wouldn't do it with ICBMs because it is unequivocal where they came from. It is a lot easier just to sail a ship into New York Harbor, you know. If you wanted to do it with a nuclear weapon or if you wanted to do with chemical or biological, there are a lot of easier ways to get at it than to do it with an ICBM.

Now we still want to be able to protect ourselves against an ICBM threat, because I think it is more important from the continuum of deterrence, to be able to maintain that deterrence, to have an effective NMD system. But I mean we have got bigger problems that I think are more realistic from a warfighting standpoint today than this. But we are still pressing ahead with the program.

Mr. KNOLLENBERG. I appreciate those responses. I do have some additional questions I will submit for the record, rather than asking you now.

Mr. Chairman, thank you.

Chairman KASICH. John, do you have anything further?

Mr. SPRATT. I have two questions for the record, that is all. Thank you very much.

Mr. HAMRE. You have got another panel here.

Chairman KASICH. Gentlemen, yes, we do. And we are going to go vote and come back. And to Mr. Krepinevich and Mr. Zoellick, we appreciate your patience. And to Dr. Hamre and Mr. Lynn, thank you very much for your time, for being here and for your service to your country.

Mr. HAMRE. Thank you so much, sir. Thank you, sir.

Mr. CHAMBLISS. We will stand in adjournment pending these two votes.

[Recess.]

Chairman KASICH. I understand Mr. Spratt is not going to make it back, so, gentlemen, it is going to be us.

Mr. Krepinevich and Mr. Zoellick, we are pleased to have you all here. And we look forward to hearing your opening statements, and then we will proceed from there. So I don't know who would like to go first, but all right.

**STATEMENT OF ANDREW F. KREPINEVICH, EXECUTIVE DIRECTOR, CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS; AND ROBERT B. ZOELICK, PRESIDENT AND CEO, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

**STATEMENT OF ANDREW F. KREPINEVICH**

Mr. KREPINEVICH. I will lead off.

Chairman KASICH. Dr. Krepinevich, that is great.

Mr. KREPINEVICH. Thank you. As you know, I have submitted prepared testimony for the record and will summarize my remarks.

Mr. Chairman, the purpose of any strategy is to apply the resources available to the Defense Department so as to minimize the overall risks of the national security; that is, not only to address the threats we see today but also to prepare for the kinds of challenges and threats we will see tomorrow.

This is particularly important right now, and especially stressful for defense planners, because, as many believe, we are in a period of transformation, a period of discontinuous change in the threat environment. So it is not self evident that the forces we buy to be effective against the threats of 2000 or 2002 are necessarily going to have the same level of efficacy in 2012 or 2022. And yet our major systems are intended to last 20 or 30 years or longer.

In examining the defense budget, the defense planners typically address two questions: First, how much is enough to execute the strategy and protect our security at a certain level of risk? And, second, how wisely are we investing? In other words, is this strategy likely to minimize the near-term and long-term risk to our strategy? I would like to briefly address these two questions, with emphasis on the latter.

So, first, you have the \$112 billion increase proposed by the administration warranted? In order to support the full increase, one would have to assume that the QDR represents the optimal defense strategy, which I believe it does not, for reasons I will elaborate upon in a moment. However, whatever strategic flaws may characterize the existing defense posture, we should ensure the immediate readiness of our existing forces.

Along these lines, therefore, I believe that additional funding to cover maintenance backlogs, training shortfalls, and the 4.4 percent pay raise proposed for year 2000, is warranted. On the other hand, it is not clear to me that other proposed increases, such as locking in long-term future pay raises or returning to the pre-REDUX retirement system, offer the best way of addressing recruitment and retention problems in particular, or our readiness problems in general.

I now would like to move on to my second, and what I consider to be more important, issue, the issue of how wisely we are investing our defense resources. Again, we assume that we have an optimal strategy, that a dollar invested in this strategy will produce a good result. However, if we have the wrong strategy, we may find

ourselves investing very efficiently, but not getting a very effective military force in return.

Simply stated, I am concerned that the QDR focuses far too much emphasis on creating an improved version of today's force, when what we will actually need are very different kinds of forces and capabilities to meet the very different challenges our military will encounter in the coming years.

Now, in my testimony I mentioned a number of these emerging threats. I would like to concentrate on the power projection challenge, because this really drives most of our requirements and much of our modernization program.

I would like to consider, for example, the growing disconnect in terms of how we utilize our forces in power projection operations. That is to say, I think over the next 10 or 15 years we are going to find our access, our ability to use forward bases and fixed facilities, increasingly problematic. This will invalidate to a significant extent the way that we have projected power over the last century.

Typically, we mobilize forces here in the United States, and then move them through major nodes overseas, such as ports and air bases. Next we build up supplies, and then go on the offensive. Whether it was in France in World War I, Australia and Britain in World War II, Pusan in Korea, or the ports along the Gulf, that is how we projected power.

I am concerned that the diffusion of military technology is going to make this an increasingly problematic proposition. Simply put, over the next 10 or 15 years or so, other militaries are going to gain the ability to do what our military showed it could do 10 or 15 years ago. As a consequence of the proliferation of satellite technology and satellite availability, potential adversaries will be able to stare at a fixed point on the earth's surface for a protracted period of time, to focus on key ports and airfields, and even choke points in the littoral area. And with the diffusion of ballistic missile and cruise missile technology, they will acquire the ability, over time, to hold these large, fixed nodes at increasing risk.

This is something that not only concerns me, it is something that has concerned our senior military leaders to an increasing extent. As General Fogleman pointed out when he was Chief of Staff of the Air Force, this emerging threat could even deter us from deploying forces into theater in the first place. Admiral Jay Johnson, Chief of Naval Operations, observed a little over a year ago that he considers this challenge, and I quote, "the single most crucial challenge in projecting and sustaining U.S. military power where it is needed in the early part of the 21st century."

In essence, our competitors will fulfill the prophecy of Joint Vision 2010, which says it is not the symmetric competitor, the enemy that will attempt to build a better air force or a better army than ours, that we have to concern ourselves about. Rather, we must prepare for an adversary that will admit it can't beat us on a technological plane or a scale in terms of the forces that we can deploy. They will try and defeat us by having a better strategy.

This strategy, which some have called the "anti-access" strategy, does not invest in an air force, but creates a missile force, to hold fixed facilities at risk. When this challenge emerges and comes to pass, how will the Army be able to deploy its heavy digitized divi-

sions into theater? How will we be able to forward base our short-range tactical Air Force that we are in the process of modernizing at great expense?

In fact, a number of our senior military leaders have indicated to me that this base access problem already exists, in embryonic form, on the Korean Peninsula. We have no clear way of getting at the numerous ballistic missiles that the Northern Koreans possess. If they choose to mate these missiles with chemical warheads to threaten some of the key ports and airfields—Osan, Kimpo, Pusan—it could really throw an enormous monkey wrench into our ability to quickly resupply and reinforce our forward-based forces.

In effect, the enemy will say to us, “I can’t shoot down your F-22s. I can’t outgun your upgraded M-1 tanks. I am going to practice virtual attrition by denying you the ability to get such forces into theater or resupply them.

Now, in examining this threat and in looking at the budget, we are essentially putting the budget cart before the strategy horse. We are now engaged in a rampup of our procurement program, increasing it by about 37 percent over the period of the FYDP, while simultaneously necking down to relatively few new systems, “buying in bulk.” That is the way to buy new equipment efficiently. But we are locking ourselves in to single point solutions inconsistent with the military’s strategic vision document, Joint Vision 2010, which says the future is going to be characterized by uncertainty and by these asymmetric kinds of challenges.

In a sense, our budget offers a false efficiency, because we have a modernization program that does not take this kind of uncertainty into account—the uncertainty of not knowing who the next challenger will be, when they will appear, and how they will compete, or whatever a symmetric form they might take and how they may use this rapidly diffusing technology.

A good budget strategy would take uncertainty into account. It would do so through at least two means. First, it would avoid locking us into large numbers of new systems before we have identified how we are going to meet these very different emerging challenges.

Secondly, it would support a program of vigorous experimentation with a wide range of systems to find out what works, what kind of new capabilities we will need to develop, and what kind of old capabilities we will need to sustain. We would be buying ourselves options that we could exercise once the threat comes into clearer focus. But this is not what we are currently doing.

Look at some of the options that we have denied ourselves: We have canceled the arsenal ship. The B-2 has been terminated. Conversion of the *Trident* submarines into cruise missile carriers is presently under review, and it is unclear whether the Pentagon is going to move forward. Development of unmanned aerial vehicles and UCAVs is proceeding, but at a relatively slow pace.

Mobile offshore bases have been discussed for at least 5 or 6 years now. While we have talked about them, there has been little experimentation involved. And the same issue may apply to the *Sea Shadow*, a stealthy surface combatant which the Navy calls their “street fighter.”

The Army strike force, which was touted as the experimental force that would lead the service to the Army-After-Next, has been

reduced down to a headquarters element. *Sea Dragon*, the Marine Corps' initiative, is sustained on chewing gum, string, and paper clips.

Atlantic Command which, as Dr. Hamre mentioned, assumed the responsibility for Joint Experimentation in 1998, received only \$40 million this year, and its first really significant joint experiments won't begin until 2004.

In my estimation there is very little sense of urgency here. Yet we should be conducting the experiments on how to meet new threats before buying the equipment, before committing to purchasing equipment that we expect to maintain for 20 or 30 or 40 years.

As procurement increases by 37 percent, it essentially locks us into systems before we get answers, while at the same time RDT&E, which is designed to address questions and give you answers, is programmed to go down about 17 percent in real dollars over the course of the new FYDP.

In conclusion, let me say, Mr. Chairman, that in minimizing the overall risks to our security, both in the near and long term, the challenges are not principally budgetary in nature, they are strategic. To be sure, some additional funding is certainly warranted to maintain the near-term readiness of our forces.

The greatest gains, though, in terms of reducing the risks to our security, are not going to come from accelerating a modernization process that will allow us to arrive in the wrong future more quickly. Rather, what we need is a modernization strategy that focuses on addressing tomorrow's challenges, as opposed to preparing yesterday's; a strategy that reduces uncertainty surrounding future investments rather than assuming it away; and a strategy that buys capability options we can execute quickly when the future threats come into clearer focus.

In short, there is much to be gained from questioning the fundamental defense strategy and the resources needed to accomplish it, as opposed to simply adding money to the current approach.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Krepinevich follows:]

PREPARED STATEMENT OF ANDREW F. KREPINEVICH, EXECUTIVE DIRECTOR, CENTER FOR STRATEGIC AND BUDGETARY ASSESSMENTS

#### DEFENSE STRATEGY AND THE DEFENSE BUDGET

A defense strategy's principal purpose is to minimize the overall risk to national security, both by addressing those challenges that exist in the near term, and by preparing now for those challenges that will emerge over the longer term. A defense strategy does this by informing the allocation of resources—the means available to achieve the strategic end of minimizing the nation's security risks. The strategy that currently informs the allocation of our defense resources was developed in the Pentagon's Quadrennial Defense Review (QDR).

As it serves as the blueprint for resource allocation, it is extremely important to "get the strategy right." Unfortunately, nearly all of the recent debate over the defense budget has concerned "How much is enough?" to fund the QDR program. Very little discussion has focused on the more critical question of "How wisely are we spending?" our defense dollars.

This is regrettable, as the QDR strategy that guides the use of defense funding has some major flaws. The Defense Department continues to focus the vast majority of its resources on familiar threats, requiring "traditional" kinds of forces, despite the fact that future challenges to our security are likely to be very different from those we face today, and thus require very different kinds of forces and equipment. This prospective change is the result of both the geopolitical revolution marked by

the end of the cold war, and the ongoing military revolution (or “revolution in military affairs”). The latter is related especially to the dramatic advances being made in information-related technologies.

My testimony provides some observations on the two questions raised above: “How much is enough?” and “How wisely are we investing?” with emphasis on the latter. It concludes that:

- The additional funding proposed by the Clinton administration to shore up the readiness of today’s force is, in many respects, warranted. However, it is far from clear that locking in future pay raises for the military, and returning to the pre-REDUX retirement system offer the best ways of attracting and retaining quality people for our Armed Forces.

- The administration’s modernization plan does not take into sufficient account the very different security challenges (and capabilities) that are emerging as a consequence of the ongoing geopolitical and military revolutions. Far too much emphasis is placed on modernizing U.S. forces to meet today’s threats, and far too little on preparing for the very different emerging threats that will confront us in the not-too-distant future. This can be seen in a procurement budget that focuses on producing a few major systems in large numbers, and in an RDT&E budget that is projected to decline by 17 percent in real terms over the Future Years Defense Program (FYDP).

- A budget strategy is needed that will allow the military to reduce the high level of uncertainty that exists with respect to future threats and emerging capabilities, and that creates capability options that can be quickly exercised once the future threat environment comes into clearer focus.

#### HOW MUCH IS ENOUGH?

In May 1997 the Clinton administration unveiled the results of its Quadrennial Defense Review. In doing so, the administration determined that essentially flat defense budgets would be sufficient to fund the Quadrennial Defense Review (QDR) defense plan over the long term. That conclusion was reaffirmed only a year ago when the FY 1999 defense budget request was submitted. Yet, this February the administration announced plans to add \$112 billion to the defense budget over the next six years. Why, in such a short span of time, has the administration so substantially changed its assumptions about the QDR’s funding requirements? There are three main factors that have contributed to this sudden about-face.

#### HIGHER OPERATION AND MAINTENANCE (O&M) COSTS

First, after years of “O&M migration”—shifting funds intended for modernization accounts to cover O&M funding shortfalls—the administration has taken a more realistic view of funding requirements for O&M activities. O&M funding covers the costs of fuel, spare parts, depot maintenance and other activities critical to the day-to-day operation of the military, as well as most Department of Defense (DOD) infrastructure activities, such as base operations and health care. Over the years this has been the area of greatest cost growth within the Defense Department. Given this trend, last year’s Future Years Defense Program (FYDP) appeared to substantially underfund O&M. This fact became increasingly apparent over the course of last year. For example, in 1998 Air Force mission capable rates for major weapon systems fell to about 10 percent below their 1991 levels, due to spare parts shortages and other factors. Likewise, in 1998 Army tank crews fell short of their training goals by some 22 percent (measured in tank miles per year), while Navy aircraft crews fell 15 percent below their goals for flying hours.

The administration’s new request represents a reasonable estimate of the funding required to sustain high levels of readiness in FY 2000. At \$103.5 billion, it would provide far more O&M funding per troop than the Defense Department provided in FY 1990, the year the United States began sending forces to the Persian Gulf in preparation for Operation *Desert Storm*. This is true even if one subtracts that portion of the O&M budget allocated to tasks which some observers have argued are not closely related to traditional military missions, such as contingency operations, environmental clean up at military bases and drug interdiction.

It is less clear whether the funding levels projected for the latter years of its FY 2000-05 defense plan will be adequate. In real terms, O&M costs per troop have tended to increase over time. Moreover, the idea that O&M costs will continue to increase might find support in DOD’s projection that the average age of many aircraft, ships and other weapon systems in its inventory will grow by 20-25 percent over this period. The military’s O&M costs would also obviously increase if U.S. forces are deployed to Kosovo for peacekeeping duties. On the other hand, the administration’s latest budget proposal clearly provides far more for O&M activities

over the next six years that was projected to be provided in last year's defense plan. And, if DOD's plans for outsourcing and other reforms are aggressively pursued and successful, the level of funding projected in the administration's plan for O&M over the longer term may prove to be adequate.

#### DECLINING RECRUITMENT AND RETENTION

Second, recent problems with recruitment and retention have persuaded the administration to increase military compensation. Both the Navy and the Army fell short of their recruitment goals last year, and the Navy and the Air Force have experienced declines in retention, especially among pilots. Although these problems are centered primarily in certain military skill categories, the administration is right to take these trends seriously. The administration has decided to address these personnel problems, in part, by providing substantially higher military pay raises and improved retirement benefits. Figures released by the Congressional Budget Office (CBO) suggest that this plan could add some \$37 billion to DOD's costs over the next 10 years. The Senate recently passed a bill, S. 4, that would provide even more generous pay raises and retirement benefits. CBO has estimated that this plan would cost about \$55 billion over the coming decade.

There are some very positive elements in the administration's proposed compensation package. These include the 4.4 percent across-the-board pay raise in FY 2000, substantial targeted pay raises, and various initiatives to improve recruitment and retention. Taken together, these measures would add some \$10 billion to the Defense Department's costs over the next six years. They would also send a powerful signal to the men and women of the Armed Forces about the commitment of the administration and Congress to ensuring adequate compensation, not only next year, but over the long term as well.

Perhaps the most problematic element of the administration's plan is its proposed repeal of REDUX, the Military Retirement Reform Act of 1986. Under current law, personnel who joined the military on or before July 31, 1986 can retire after 20 years of service at 50 percent of their basic pay. Under REDUX, those who joined after that date will be able to retire after 20 years at only 40 percent of basic pay. The administration's proposal would raise retirement benefits back to 50 percent of pay after 20 years for all military personnel. This change would cost about \$6 billion over the next six years and some \$1.5 billion a year thereafter.

However, according to recent studies by CBO and the General Accounting Office (GAO), there is very little evidence that the existence of REDUX has been responsible for the recent declines in retention. We should also be cautious about repealing REDUX, in part, because its provisions closely track the recommendations of seven different commissions and study groups in its treatment of retirees with 20 years of service. The recommendations of these groups, which met between 1947 and 1986, differed in many respects. But every one of the groups recommended that the immediate retirement benefits received by personnel leaving after 20 years of service be reduced to less than 50 percent of basic pay. They made this recommendation because they believed that providing this annuity was seriously harming the Services' ability to retain individuals beyond their 20-year service point.

It is possible that, nevertheless, REDUX should be repealed (perhaps on equity grounds). But any change in the military retirement system of this magnitude should be made only after the likely effect of the change and other possible options for changing military retirement have been thoughtfully, and deliberately, considered. This probably means deferring any action on retirement benefits until next year.

The Senate bill would provide even more generous benefits for military personnel who retire after 20 years. It would also create a thrift savings plan for certain military personnel and increase funding for veteran's readjustment benefits by nearly \$5 billion over the next six years and by some \$2.5 billion a year over the longer term. As with the administration's plans for changing military retirement, it would be a mistake for Congress to act on the proposed changes in the Senate bill before it has had time to thoughtfully review those proposals.

The other main flaw in the Senate bill is that it contains a provision that would lock the Services into providing what may turn out to be excessively large military pay raises in future years. It would do so by requiring, by law, that future pay raises be set at one-half a percentage point above the employment cost index (ECI), a measure of salary changes within the overall civilian workforce. To be sure, pay raises larger than those called for in the administration's proposal may prove necessary in coming years. But it is also possible that the Services' problems with recruitment and retention will be stemmed by the raises included in the administration's plan, the use of improved deployment patterns that reduce personnel tempo

(such as the Air Force's Air Expeditionary Force concept), and other non-pay related changes, or by a downturn in the civilian economy. In any event, the Services should not be legally locked into providing what could turn out to be overly large pay raises for the indefinite future—especially on the basis of a measure as suspect, in terms of its relevance to military pay, as the ECI.

#### MORE FOR MODERNIZATION

Third, the administration has decided to expand some acquisition programs and, in particular, to more fully fund its national missile defense (NMD) efforts. Acquisition funding accounts for the smallest share (about 25 percent) of the administration's proposed \$112 billion increase for defense. As noted above, the administration's latest defense plan provides substantially more for O&M than the previous plan. However, if history is any guide, it is likely that future O&M costs will prove at least somewhat higher than projected, even under the latest plan. Military personnel costs may also prove higher if S. 4 is adopted or, even if it is not, if higher pay raises prove necessary in the future in order to stem persistent declines in recruitment and retention. As such, it is unlikely that the Defense Department will be able to increase military procurement by 37 percent over the FYDP, as projected in the administration's plan, unless the topline for defense is further increased, or cuts in force structure or readiness are accepted. Nevertheless, because of the substantial plus-ups provided in the new plan for the O&M and military personnel accounts, there may be less "migration" from procurement to these other accounts in the future than there has been in the recent past.

#### OTHER WAYS OF TACKLING THE FUNDING SHORTFALL

As noted above, if one assumes the QDR provides us with the optimal blueprint, or strategy, for minimizing the overall risk (i.e., near- and long-term risk) to our national security interests, then increased funding for defense may be the appropriate response to the plans-funding mismatch. However, in addition to increasing the budget, there are also several other means for addressing the problem.

One is to increase the efficiency with which currently programmed funding is used. Initiatives designed to squeeze greater efficiencies out of the defense budget have been staples of DOD management, particularly since the end of the Reagan defense buildup. While such endeavors are laudable, they have typically only yielded a small fraction of the savings projected for them. The QDR, for example, called for two additional rounds of base closures to reduce excess infrastructure. It also argued that greater efficiencies could be realized by competing more of the work that has, in the past, been reserved for government depots. Several such efficiency initiatives are currently under way in the Pentagon, with Secretary Cohen's Defense Reform Initiative at the forefront. Unfortunately, the current program-funding mismatch is, in part, a product of the Defense Department's "banking" of hoped-for efficiency savings before they are realized.

Another means for reducing the program-funding mismatch is to convince our allies to shoulder a greater share of the burden of providing for our common security interests. Always a difficult proposition, ally burdensharing does not seem to have been a significant element in the QDR's funding strategy, or in more recent efforts by the Defense Department, to redress its budget problems.

Still another way to shrink the Pentagon's program funding deficit is through more innovative approaches to operating. This is different from trying to meet existing requirements more efficiently. Rather, it involves meeting existing requirements by operating in very different ways. A good example is the opportunity the Navy currently has before it to adopt innovative ways of conducting forward presence operations by periodically substituting converted Trident SSBNs (SSGNs, or conventional precision-missile carriers) for carrier battle groups.

Finally, we might agree to accept some increased risk in our ability to execute the existing strategy. For example, we might accept a higher level of risk in our ability to respond in the event that two major theater wars (MTWs) erupt nearly simultaneously. Or we might decide to be more selective in that part of the administration's strategy of Engagement and Enlargement that pertains to U.S. involvement in peacekeeping operations.

#### SUMMARY

The above discussion suggests that the administration's latest budget proposal may go a significant way toward addressing near-term readiness concerns and closing DOD's long-term plans/funding mismatch. However, the fact that there is a significant funding gap in the current defense plan does not necessarily mean that more money should be provided for defense, even if the emergence of significant



budget surpluses make such increases appear more feasible than in the recent past. Indeed, if one believes the QDR strategy is seriously flawed, then the remedial courses of action described above may not increase our security, or will do so in a very ineffective way. Indeed, a strong case can be made that the long-term risks to U.S. security could be better minimized with a revised defense strategy and plan that would require little additional funding.

My principal concern here is that we are not implementing the changes in our approach to modernization that these revolutionary times demand. While there appears to be a consensus among senior national security officials that transformational change is needed, it is not yet adequately reflected in our modernization strategy or programs. For example, the QDR yielded three future U.S. force “options” for consideration. But these options did not represent different U.S. modernization programs; rather, they essentially offered the choice of executing essentially the same modernization program at three different rates of change. It is a modernization program that emphasizes the pre-transformation threat environment, while according insufficient attention to what is likely to be a far more dangerous post-transformation conflict environment.

Consequently, our modernization effort will produce a force that is likely to depreciate rapidly over the next two decades, while its principal value will be realized during a period of relatively low risk to the national security. If this occurs, the consequences may be severe. At best, we would probably be forced to recapitalize the force, at great expense. At worst, we could see our vital security interests placed in jeopardy. In short, while the current modernization program likely suffers from a serious program-funding mismatch, the primary problem with our approach to defense modernization is not, at its core, budgetary in nature, it is strategic.

#### HOW WISELY ARE WE INVESTING?

##### WHY TRANSFORMATION?

There are two fundamental factors driving the need for transformation. The first is that, over the next decade or two, our military will likely confront very different challenges from those we faced during the cold war, or during the Gulf war. Potential adversaries have strong incentives to present us with different military problems than did Saddam Hussein during the Gulf war, and increasingly, with the diffusion of military technology, they will have the capability to do so.

The need for a transformation strategy also is being stimulated by a growing awareness on the part of a number of leading military organizations, ours included, that the world is entering into a period of military revolution. This century has witnessed two such periods of military revolution. The most recent is the nuclear weapon-ballistic missile revolution of the 1940s and 1950s. An earlier revolution occurred in the 1920s and 1930s, and was characterized by the transformation of warfare on land, which culminated in the blitzkrieg; at sea, with the rise of naval aviation and carrier battle groups; and in the air, with the emergence of strategic aerial bombardment. Such periods are characterized by discontinuous leaps in military effectiveness, the result of an integration of new military capabilities, doctrine and organizations. With respect to modernization, there are dramatic shifts in the military “tools” available to commanders: carriers displace battleships, tanks displace horse cavalry, etc. Moreover, entirely new capabilities and corresponding new military operations arrive on the scene: the submarine and strategic submarine blockade; bombers and strategic aerial bombardment; radar and integrated air defenses are but a few examples.

We must ask ourselves: What are the emerging and declining systems of this military revolution? How do we ensure that the emerging dominant “sunrise systems” get into the hands of our commanders? How do we avoid investing too early in promising new systems that may quickly depreciate in effectiveness, as the technologies on which they are based continue to advance rapidly, or as the challenges to our security change? How do we divest ourselves of declining “sunset” systems, or at least avoid locking ourselves into large quantity purchases of such systems, with their 30- or 40-year life spans? How do we hedge against the uncertainty of not knowing which new systems will prove decisive and which will decline in value?

These issues take on greater importance given that the Defense Department confronts this era of transformational change with limited resources. There is the risk that if the wrong transformation path is chosen for modernization (or if no attempt is made at transformation), it will prove difficult, if not impossible, for the Pentagon to buy its way out of its mistakes.

Moreover, it is important to begin the transformation process soon. It is no exaggeration to say that, given the time it takes to field new military systems, develop

new doctrine, and field test new combat organizations, the U.S. military twenty years hence is already being formed (and limited) by decisions being made today. Regrettably, the Defense Department's modernization effort remains predominantly focused on improving its capabilities to conduct power-projection operations against a threat similar to that which was encountered during the Persian Gulf war, both in terms of scale and character.

In summary, rather than undertaking a military transformation, we continue to pursue a modernization strategy that was set principally by the momentum developed over forty years of cold war with the Soviet Union, and that severely discounts the revolutionary changes under way in the geopolitical environment and in military-related technologies. The result is that the current defense program will produce a slightly smaller, but similar U.S. military as compared to the one called for by the QDR's proximate ancestors, the Clinton administration Bottom-Up Review (BUR) force, and the Bush administration Base Force.

#### MODERNIZATION FOR WHAT? IDENTIFYING EMERGING THREATS

How should we think about modernization in a period of transformational change? Of primary importance is a sense of the emerging threats to our security, and the operational challenges it will pose to the U.S. military. Only then is it possible to get a sense of the optimal mix of military capabilities commanders will need in order to be effective in the future. If the new operational challenges are not identified, the Defense Department may persist in "baselining" its future requirements based on its Gulf war experience. Indeed, much of the wargaming that supported both the 1993 Bottom-Up Review and the 1997 QDR were oriented on *Desert Storm*-like contingencies in the Persian Gulf and on the Korean Peninsula.

#### NEW CHALLENGES: THE CASE OF POWER PROJECTION AND THE "ANTI-ACCESS" CHALLENGE

Take the case of power-projection operations. Joint Vision 2010 states that "power projection \* \* \* will likely remain the fundamental strategic concept of our future force." However, relying on experiences from an eight-year old conflict to determine forces for future contingencies in a rapidly changing competitive environment seems unlikely to provide the kind of insights needed for a modernization program to support military transformation. The U.S. military's traditional method of deploying air and ground forces at or through ports and airfields is almost certain to be invalidated by the growing proliferation of national and commercial satellite services and missile technology. National and commercial satellite services will allow even regional rogue states to monitor U.S. deployments into forward bases, and (unless one makes heroic assumptions regarding advances in missile defenses) hold them at risk through the deployment of large numbers of ballistic and cruise missiles. Senior U.S. military leaders have already voiced strong concern over our ability to deal with such a contingency. General Ronald Fogleman, then Air Force Chief of Staff, observed that

Saturation ballistic missile attacks against littoral forces, ports, airfields, storage facilities, and staging areas could make it extremely costly to project U.S. forces into a disputed theater, much less carry out operations to defeat a well-armed aggressor. Simply the threat of such enemy missile attacks might deter U.S. and coalition partners from responding to aggression in the first instance.

The Navy's Chief of Naval Operations, Admiral Jay Johnson, expressed very similar concerns when he declared

Over the past ten years, it has become evident that proliferating weapon and information technologies will enable our foes to attack the ports and airfields needed for the forward deployment of our land-based forces.

I anticipate that the next century will see those foes striving to target concentrations of troops and materiel ashore and attack our forces at sea and in the air. This is more than a sea-denial threat or a Navy problem. It is an area-denial threat whose defeat or negation will become the single most crucial element in projecting and sustaining U.S. military power where it is needed.

Perhaps most revealing, however, are the comments of a retired Indian brigadier general, who observed that future access to forward bases

[I]s, by far the trickiest part of the American operational problem. This is the proverbial "Achilles heel." India needs to study the vulnerabilities and create covert bodies to develop plans and execute operations to degrade these facilities in the run up to and after commencement of hostilities. Scope exists for low cost

options to significantly reduce the combat potential of forces operating from these facilities.

According to a recent study by the Defense Science Board, a regional power's development of this kind of anti-access capability by 2010 is certainly plausible, even given relatively severe resource constraints. According to some senior U.S. military leaders, North Korea already possesses a significant base denial capability. And Iran seems far more interested in fielding anti-access systems, such as ballistic and cruise missiles, anti-ship cruise missiles, submarines, and advanced antiship mines, than military systems such as tanks and combat aircraft that proved largely ineffective for the Iraqis during the Gulf war. Indeed, what Third World regime today is looking to create its version of the Republican Guard? Furthermore, a major power like China may not choose to increase its military leverage in East Asia by aping the U.S. Navy's affinity for carrier battle groups. Rather, Beijing might follow an asymmetric competitive path, developing an ability to isolate Taiwan through long-range blockade forces comprising precision-guided ballistic and cruise missiles, and close-range blockade forces centered on submarines and advanced anti-ship mines.

#### OTHER EMERGING CHALLENGES

In its report to the Congress, the National Defense Panel identified several other new operational challenges the U.S. military will likely encounter in a post-transformational world. These challenges were derived from an examination of major geopolitical, military-technical, demographic, and economic trends. They include:

- Projecting power far inland;
- Defending U.S. assets in space, and denying enemy access to space;
- Defending the U.S. homeland from nontraditional forms of attack, to include irregular force use of weapons of mass destruction (WMD), and attacks on the information infrastructure; and
- Evicting enemy forces from, and controlling, urban terrain.

Correspondingly, U.S. forces might seek to exploit the potential of what may be new forms of military operations, to include precision and electronic strike, information superiority, and space control.

#### ELEMENTS OF A MODERNIZATION STRATEGY

A modernization strategy that supports military transformation must take into account the fact that transformations typically take several decades to play out. Indeed, today even those military systems that are placed on a "fast track" for development and fielding often take ten years or more to reach forces in the field. Considerable additional time is required to determine how best to employ new military systems, and to make the appropriate force structure adjustments. Periods of military revolution also are characterized by an increased risk of strategic surprise, such as that which occurred, for instance, with submarine warfare early in this century, and which might occur again with the onset of anti-access capabilities and competition in space. Given these considerations, senior Defense Department leaders must begin now to develop and execute a transformation strategy if the U.S. military is to be prepared for the very different kinds of challenges they see confronting the Armed Forces over the long-term future.

Finally, military revolutions typically find the effectiveness of certain military systems in rapid decline. The displacement of the battleship by the aircraft carrier is but one example. However, it is far from clear in advance which military systems, operational concepts, or new force structures will work, and which will not. Put another way, not only will a transformation strategy need to be initiated soon, it also will have to take into account military-technical uncertainty. How might a modernization strategy account for this?

For a start, the military services will have to tap into rapidly advancing technologies to develop new military systems that can be applied within the framework of new operational concepts (e.g., long-range precision strike) executed by new kinds of military organizations. It is this combination of technology, emerging military systems, new operational concepts and force restructuring that often produces the discontinuous leap in military effectiveness characteristic of military revolutions. Thus greater emphasis should be placed on our R&D efforts in support of "wildcatting": experimenting with a limited (but operationally significant) number of a wide variety of military systems, as well as operational concepts, and force structures, with the goal of identifying those that are capable of solving emerging strategic and operational problems, or exploiting opportunities, and of eliminating those which are not.

Wildcatting has been a hallmark of successful modernization transformation strategies. For example, the 19th century military transformation at sea saw wood-

en ships powered by sail yield to ships constructed with metal hulls and powered by turbine engines. During that transformation, among the 30 vessels of the Royal Navy fit to take a place in the line of battle in 1870, there were three types of steam engines, four screw arrangements, 16 varieties of armor protection, 18 hull models, and no fewer than 20 scales of armament. Similarly, during the rapid advances in aviation technology that occurred in the 1920s and 1930s, the U.S. military developed and flight-tested 12 medium and heavy bombers, and nearly 70 attack, fighter and trainer aircraft. None, however, were produced in great numbers.

This reveals a second element of a successful modernization strategy for transformation: to avoid being “locked in.” Lock-in occurs when limited resources are spent to purchase a system in large numbers. The result both narrows the range of options (as fewer types of systems are procured) for dealing with emerging challenges, and locks the force into the current state of technological advancement. Resources that could have supported exploring a wider range of systems and sustaining continued advances in technology are, instead, locked into the existing force. This may work well if we “guess right” (i.e., if the fielded force serendipitously turns out to be the “right” force to meet the post-transformation challenges), and if the rate of technological advance slows. If not, we will have committed ourselves to a single-point solution in a very uncertain world. We will have either bought the wrong systems, or the “right” systems prematurely—before the rapidly advancing technologies that enable them have matured.

The U.S. Navy understood this well in the 1920s and 30s, during the transformation from a battle fleet centered around battleships to one focussed on carrier battlegroups. It was unclear whether naval aviation would be optimized by spreading it throughout the fleet (e.g., having a few aircraft on every surface combatant), or concentrated on aircraft carriers. Moreover, it was also unclear what kind of carrier would be optimal. Consequently, the Navy created options for itself by wildcatting. It invested in three classes of carriers, but only produced four carriers in all. It also experimented with aircraft on carriers and on surface ships, and even tried working with dirigibles.

On the other hand, Britain’s Royal Navy, which emerged from World War I with a dominant lead in carrier aviation, chose to lock itself in to existing technology by keeping its carrier force. The result is that the Royal Navy had to absorb operations, maintenance and personnel costs, which limited funding for R&D on naval aviation (which was progressing rapidly), and on new carriers that might have optimized the potential of air power at sea. Moreover, Royal Navy carriers depreciated rapidly in effectiveness as more powerful naval aircraft (requiring bigger carriers) came on the scene. The Royal Navy also saw U.S. Navy and Imperial Japanese Navy, who entered the competition in naval aviation at a much later date, become dominant in this new form of warfare.

Not only has wildcatting been an effective element of a modernization transformation strategy within Services, but increasingly among them as well. Thus the Army, Navy and Air Force each had ballistic missile programs in the 1950s. The Air Force program led, ultimately, to the Minuteman ICBM, a key element of the U.S. nuclear strike mission force. The Army program was instrumental in the birth of the space program, and the Navy program led to the Polaris submarine and the nuclear ballistic missile submarine force, a cornerstone of U.S. nuclear deterrence.

The end result of each of these wildcatting efforts was the creation of strategic “options” on a range of military capabilities. These options could be used both to dissuade prospective competitors from resuming a high level of military competition and, in the event dissuasion or deterrence failed, exercising those options to prevail in the competition itself. It is important to note that creating such options need not involve a defense budget “train wreck.” Recall that the U.S. military developed the foundation for strategic aerial bombardment, the carrier navy, modern amphibious warfare, and mechanized air-land operations during the relatively lean budget years of the 1920s and 1930s. What it does imply, however, is a different set of strategic—and budget—priorities.

For example, it is not yet clear how the military will surmount the “anti-access” challenge to power-projection. A solution may be found in Air Force long-range aerospace precision-strike operations. Or strikes from a Navy task force comprising a “distributed” capital ship (i.e., from carriers, arsenal ships and Trident “stealth battleships” fitted with hundreds of vertical launch systems for long-range PGMs, all linked by an expanded version of the Navy’s Cooperative Engagement Capability battle-management network and Marine Hunter Warrior “infestation” forces) may be critical to defeating enemy anti-access forces. Perhaps a critical role will be performed by highly networked, distributed Army forces employing long-range missiles, dispersed air and missile defenses, and unmanned combat aerial vehicles (UCAVs). Or it may be that a combination of these capabilities is needed to meet the chal-

lenge, or perhaps something quite different. Our modernization strategy must provide for an opportunity for the Services to experiment—alone and in combination—with a wide variety of systems in an attempt to solve this problem before it emerges as a threat to our interests.

Unfortunately, the administration's modernization effort seems to be at odds with historical precedent. The Defense Department's FYDP proposes ramping up serial production of a relatively few systems, thus exacerbating the lock-in effect, while cutting RDT&E funding by roughly 17 percent in real terms over the FYDP, thereby reducing opportunities to engage in wildcatting.

Wildcatting is often informed by a vigorous level of field experimentation. Properly done, such experimentation can help reduce uncertainty by determining what systems and forces are best able to meet emerging operational challenges. Supporting experimentation and innovation in a period of great change and uncertainty also implies a heightened tolerance of honest failure. If a "no mistakes" approach to transformation is adopted, the result will likely be a smaller, but similar, U.S. military, as strong incentives will exist to deviate as little as possible from what is "proven" to be effective in today's military. In effect, the misplaced desire to maximize efficiency may well crowd out the innovation that will enable transformation.

Having said this, what remains unclear is how several of the major pillars of the Defense Department's current modernization program will help the military meet emerging operational challenges. If forward bases, ports and airfields are at high risk of destruction or pre-emption early in a conflict, how will we forward deploy our relatively short-range tactical air forces? Our heavy digitized divisions? Will we be able to move our new class of carriers through choke points like the Strait of Hormuz, or even the Taiwan Strait, at an acceptable risk? Yet our modernization program calls for the military to spend tens—and in some cases—hundreds of billions of dollars to deploy new tactical aircraft, upgrade our tank fleet and launch a new class of carriers.

There is a profound disconnect here. As our military leaders have said, future adversaries will almost certainly present us with a very different set of problems than we saw over eight years ago in the Persian Gulf. In pursuing the current modernization strategy, we may be locking ourselves in to military capital stock that will depreciate rapidly in value far in advance of its expected life cycle. At the same time we are also crowding out investment in wildcatting opportunities, such as going forward with the arsenal ship and Trident conversion, fielding a dramatically different Army division, exploring more fully the systems that could enable the Marine "Hunter Warrior" concept, and facilitating the Air Force's transformation to a "space and air force." In short, our current modernization strategy risks locking us in to single-point solutions that assume away uncertainty, instead of investing in options that hedge against it.

A transformation modernization strategy should also take into account the need to create incentives for industry to support the military's efforts in this area. The recent consolidation of the industry has actually reduced such incentives. Fewer competitors means less competition, and hence less innovation. Today in the name of efficiency the Defense Department has attempted to settle on a relatively few number of systems and to produce them in fairly large quantities, so as to minimize cost. Defense firms have strong incentives to lock in long production runs on these relatively few systems, thereby guaranteeing a steady stream of revenue, and little incentive to experiment with their own R&D funds to develop new military systems. A transformation modernization strategy would place a higher priority on providing a wider range of systems to our commanders. However, industry consolidation has made this a difficult proposition, and it is not clear what approach to modernization might undo its more pernicious effects.

Over the past two centuries the commercial sector has played an important role in successful transformation modernization strategies. Commercial advances in steam engines helped fuel the naval transformation of the nineteenth century. The rapid rate of technological growth in aviation, radio, and mechanization in the commercial sector during the interwar years helped underwrite a transformation in war. Joint Vision 2010 declares that "the emerging importance of information superiority will dramatically impact how well our Armed Forces can perform its [sic] duties in 2010." Consequently, a modernization strategy for transformation will have to exploit the rapid advances that are being made in the commercial sector in information technologies.

This should not be surprising. Each military transformation over the last hundred years or so has seen a corresponding transformation of the defense industrial base, as new firms with new skills have entered the field (much as new military systems and organizations characterize transformation).

Moreover, any transformation modernization strategy also should explore how we might tap into the “dual-use” capabilities being created in the commercial sector. For example, the armies of the mid-nineteenth century exploited the commercial sector’s construction of railroad and telegraph networks to boost their effectiveness. So, too, should we consider how we might best exploit the “information railroad” being put into space, the fiber optic networks being created on earth, and the “armor plating” being developed by the commercial sector to defend its information assets, among other things.

A core competence of our transformation modernization strategy will be our ability to dominate time-based competition. With the technologies that underwrite transformation being far more broadly available than those that supported the nuclear transformation (i.e., nuclear weapons and ballistic missiles), it will likely be increasingly important to translate commercial technologies into military capabilities more rapidly and effectively than our enemies. Moreover, with geopolitical and military-technical uncertainty being so high, we may have relatively little warning of the appearance of post-transformational threats. The more our transformation modernization strategy allows us to avoid “lock in,” the more wildcatting we do to create an array of options, and the more innovative our defense industrial sector, the greater will be our ability to meet the post-transformation threats to our security. As noted above, however, our defense modernization effort actually promotes lock-in, and discourages wildcatting. Compounding the problem, the time elapsed from program inception to initial operational capability often stretches beyond a decade.

To be sure, a transformation modernization strategy will require additional funding. The National Defense Panel, in advocating a transformation strategy, called for \$5-10 billion a year to begin the process. Of course, some of this funding might be offset if the Defense Department avoids premature lock-in to serial production of new systems (save in those instances where such systems offer a true “leap ahead” improvement in military effectiveness), and as military system divestiture candidates are identified. To date, however, promising new capabilities are being put on the back burner or, worse yet, cancelled in an attempt to sustain a modernization strategy that cannot likely be maintained without a major increase in modernization funding. Even if fully funded, however, such a strategy could fail precipitously when confronted by post-transformation challenges.

#### CONCLUSION

It is likely that at least some funding will have to be added to DOD’s O&M and military personnel accounts in FY 2000 to address near-term readiness problems. However, DOD’s procurement plans should be subjected to a rigorous strategic review. The purpose of such a review should be to determine not only how well major new modernization programs contribute to meeting today’s challenges, but also how well they will contribute to meeting the emerging threats that will characterize the post-transformation security environment.

The administration’s current modernization plan (which the Defense Department would apparently like to accelerate) would see us purchasing major new weapons platforms with life spans measured at 20-30 years or longer, without having determined how effective they might be against emerging threats. To be sure, we may continue to rely heavily on our legacy forces—tanks, short-range tactical aircraft, and carriers—far into the future. On the other hand, we will almost certainly need to develop new kinds of systems and forces needed to sustain our military effectiveness. What we do not need is to put the modernization budget cart before the strategy horse. Rather than investing in modernization along traditional lines, we need to take counsel of our own words: we are living in revolutionary times, both in a geopolitical and in a military-technical sense. We must take the change, the uncertainty, and the opportunity that such times offer in crafting a budget strategy to modernize the U.S. military.

What this means is that, before proceeding with its modernization strategy, the Defense Department needs to explain to Congress and the American people how it plans to meet tomorrow’s challenges, as well as today’s. A collaborative effort by DOD and congressional leaders provides one example of how to do just that. Last year Atlantic Command was given the responsibility for joint experimentation. The goal of such experimentation should be to determine how the U.S. military can best organize, train, and equip itself to deal with the very different challenges noted above before they emerge, and before we ramp up our procurement spending. That will mean placing a wide range of military systems in the hands of commanders. An accelerated program of joint and Service experimentation focused on future challenges can best inform how U.S. forces will need to operate, and what mix of forces

will be needed. This, in turn, can provide DOD and Congress with a far better sense of those current programs that should be sustained, those that should be terminated or put on the back burner, and those new military systems whose development should be accelerated.

In summary, it is neither necessary, nor prudent, to accelerate the modernization of U.S. forces as currently called for in the QDR, or in the Joint Chiefs' proposal. The key is to fund a robust—but far from “budget busting”—program of vigorous experimentation (to include prototyping some systems not in the current plan) to ensure that both today's and tomorrow's forces will be ready for the challenges that will confront them.

Mr. CHAMBLISS. Thank you, Dr. Krepinevich.  
Mr. Zoellick.

#### STATEMENT OF ROBERT B. ZOELICK

Mr. ZOELICK. Thank you, Mr. Chairman. I am pleased to be here with you. I appreciate the time you have taken personally. I will summarize my written statement and ask that it be put in the record.

Mr. Chairman, there has been a significant disconnect between the Pentagon's security strategy and the defense budgets that are supposed to fund that strategy, and frankly, one or the other is going to need to change if plans and resources are going to be aligned. Now, estimates of the size of this gap vary, but all of the numbers are very significant.

Costs have been boosted by the increased pace and frequency of so-called small-scale contingencies, another one of which you are debating today. Over the fiscal year 1990 to '97 period, the U.S. military has deployed in 45 of these small-scale contingencies, compared to only 16 in the cold war. That averages out for the Clinton administration to about one every 9 weeks.

Now in the face of this gap, the Pentagon has made an understandable but troublesome choice of trying to fund present needs at the expense of future capabilities. We are not investing in the weapons and defenses that the United States is going to need for the future. The administration's proposal for increased defense spending, while welcome, leaves many questions about the availability and allocation of future funds for modernization.

The procurement allocation in this year's budget actually falls \$1 billion below the amount that was projected in last year's budget, and as others mentioned here, the numbers for research and development have fallen. Mr. Collins, I believe, asked the question about how much of the \$12.6 billion goes to modernization. The number is about \$3 billion, but that \$3 billion is primarily for spare parts and training munitions, so you are not really buying modernization.

Now, a failure to modernize is especially risky because of the aging of the military's current weapons. Frankly, we have been living off the planes, helicopters, tanks and other assets that we purchased in the buildup of the late 1970's and 1980's. And wheels come off this equipment, all about the time around 2010, requiring sizable purchases of either replacement or successor weapons.

As one Marine general said to me, if parents are uncomfortable sending their sons and daughters to college in 25-year-old cars, what would they think about sending them into battle with 25-year-old helicopters? The average age of all Air Force aircraft will

be 20 years in fiscal year 2000. That is up from 13 years in 1990, and the average age in 2010 is projected to be 28 years.

Old equipment costs more to maintain and is out of service longer, pulling even more money from investment to fund current operations, the nature of Ms. Baldwin's question. Last year, Under Secretary of Defense Gansler called this downtrend a death spiral. General Shelton referred to it as a nose dive. Those are strong words.

The squeeze on modernization and procurement will make it hard or perhaps impossible to invest in the so-called Revolution in Military Affairs, the point that Dr. Krepinevich was talking about here, an approach that would draw on a combination of sophisticated sensors, information technology, real-time communication and precision target weapons that could assure U.S. military dominance into the future.

I just came from spending 5 years in the financial sector, which I rejoined after leaving the Bush administration, and one thing that was striking to me is that U.S. companies that did not incorporate the revolutionary advances in information and communications technology were swept away with surprising rapidity. A possible winning strategy by potential enemies is to invest asymmetrically. They don't have to win everywhere. They have to focus on the development of new weapons, to develop a particular location or type of conflict, even for a limited purpose or point in time, and they only need to win once.

The urgency of today's needs is also likely to drive out investment in homeland defense to meet the increased threat that more enemies of different types will have the capabilities to wreak catastrophic destruction on the United States. The failure in preparedness will come around the end of the next decade, a period when the Pentagon forecasts stronger and more regional adversaries. And as this committee knows well, that is also the time that the baby boom generation starts to retire, increasing the demand for entitlement expenditures.

So it is imperative that the United States take a longer term view about its defense strategy and budgetary planning. The United States has been living off depreciating assets and taking from investments that are supposed to buy the means to protect the country in the future. It is not only a question of whether we spend as the consensus is building, but asking the question about how we spend.

Now my statement offers eight suggestions. First, to assist long-term planning, I suggest that the executive and the Congress state a policy of devoting a minimum percentage of GDP, at least 3 percent, for defense over the next decade.

Now, I recognize that any floor involves an element of arbitrariness. Nevertheless, given the critical modernization choices the country faces over the next 10 years, I think such a figure would give important guidance for planning. And given the fact that our current budget is about 3 percent of GDP, I don't think this minimum is excessive. At some point, a policy of doing more with less just becomes doing less with less.

Second, as a general matter, the U.S. defense strategy should seek to align our military strength with our Nation's strength, its



technology and its people. The United States should harness its skill at developing new technologies and, equally important, applying these technologies.

Third, the United States should accelerate the acquisition of a transformational RMR force, which will lead the way for a gradual recapitalization of the defense base and force structure that draws on these new capabilities. Now, in many respects technology is the easy part. The challenge is learning how to integrate it into operational concepts. In June 1940 the French Army had more and better quality tanks than the Wehrmacht, but the Panzer leaders knew how to use the blitzkrieg to overwhelm France within weeks.

Fourth, the United States will need to complement its ability to project power with the capability to defend America. The country should be developing an end-to-end strategy to counter weapons of mass destruction, missile, and information technology threats both to the U.S. forces and to the homeland. A comprehensive plan should include better intelligence systems, covert and special operations capabilities, steps to lower the likelihood of penetration, preemptive options, counterforce capabilities, and an integrated theater missile and national missile defense systems as well as nuclear deterrent.

Fifth, to achieve integration and to use limited resources effectively, U.S. defense planning is going to have to become more joint, integrating all the services to the development of strategy, plans, procurement and budget. Now, today the military regional commands are committed to joint operations, but joint budgeting is still an experiment at best.

Given the uncertainty and diversity of potential threats, the U.S. military probably need fewer assets but ones which can handle more missions. The strategic procurement goal should be to develop a capability which could draw on any weapon from any platform to support any unit, regardless of service or location. Whether a target is artillery, a SAM or a SCUD site, or a terrorist unit or a weapons of mass destruction facility, and whether it is identified by satellite or airborne radar or marine patrol, the United States should be able to destroy it with precise, highly destructive weapons, whether from a submarine or an arsenal ship, unmanned or standoff aircraft, or a more agile armored vehicle.

Sixth, the United States is going to need to draw more from each person. To supplement and complement the regulars, the United States will need to draw on the National Guard and Reserve forces effectively, especially for homeland defense in smaller scale operations. Pay should be targeted to officers, the senior enlisted ranks and people with critical skills. Career links, pension systems and health care provisions are going to have to adjust as well.

But the administration also needs to recognize that the new compact with the military will have to involve more than money. Especially in a world of frequent but often long-lasting peace operations, a voluntary military will need a balance of opportunities, rewards and considerations for families along with sacrifices.

Seventh, it is important that the executive and Congress revisit the possibility of saving money by cutting infrastructure.

Then, eighth, the Pentagon can still learn a great deal from the private sector about cutting costs. Like other professional organiza-

tions, the Defense Department must focus on its primary missions and outsource supporting activities.

America has the best military in the world. But it also has the greatest number and the hardest missions. Moreover, its unmatched power is based on equipment that has finite life spans, and at some point the existing assets are going to have to be replaced.

Now, at times in the past the United States and other great powers have taken their security for granted. We, and they, paid for hubris or complacency many times over. Some powers never recover from their mistakes.

After the Vietnam war, a group of reforming officers trying to learn from the past published a book entitled "America's First Battles." Each chapter described a defeat, America's traditional way of starting wars.

Now, the nature of war and weaponry today, combined with the present world of alliances, coalitions and partnerships, all underpinned by the United States, no longer affords America the leeway to bounce back from early defeats. Having learned the lesson of America's first battles, the U.S. military was prepared to win the Gulf war in its first campaign. But in the past, great military victories have made it hard for countries to shake off self-satisfied attitudes and to prepare for the next challenge.

Today America's military is being run ragged in reactive operations of all types in all quarters of the globe. If the U.S. defense strategy and budget remains preoccupied with the current environment, the country will be risking the world's stability, our home territory and population, and the young men and women who put their lives on the line to safeguard our country. Most of all, it will be risking America's greatest cause, the future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Zoellick follows:]

PREPARED STATEMENT OF ROBER B. ZOELICK, PRESIDENT AND CEO, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Chairman Kasich, Representative Spratt, and Members of the Committee:

I am pleased to have the opportunity to appear before the Committee today to comment on national security strategy and the defense budget.

After making initial summary points, my statement addresses three topics:

- The threats the United States security strategy needs to address.
- The risk of a "defense budget train wreck"
- Suggestions for the Committee's consideration.

#### A. THE DANGER

The U.S. defense spending strategy will lead to a dangerous future.

- There has been a significant disconnect between the Pentagon's security strategy planning and the defense budgets that were supposed to fund the strategy. One or the other needs to change if plans and resources are going to be aligned.

• Estimates of the size of the expected gap vary. By way of illustration, the Center for Strategic and International Studies (CSIS) has estimated that in FY2000 the Pentagon needs a budget of about 3.8 percent of GDP to fund the operations, maintenance of quality, and modernization of the force associated with the Defense Department's Quadrennial Defense Review strategy; in fact, the United States is spending about 3.0 percent of GDP on defense, and the Pentagon's 1998 5-year budget plan proposed a reduction to about 2.6 percent by FY 2003. This mismatch produces shortfalls estimated in a range of \$20 billion to \$100 billion a year.

- In the face of this gap, the Pentagon has made the understandable but troublesome choice of trying to fund present needs at the expense of future capabilities.

The extra expenditures in the administration's most recent proposal are focused primarily on just keeping up with today's requirements. As a result, the United States is creating a problem different from the hollow force of the 1970's; it is a failure of preparedness. We are not investing in the weapons and defenses the United States will need for the future. Spending, while welcome, leaves unanswered many questions about the availability and allocation of future funds for modernization. Indeed, the optimistic assumptions about "savings" and offsetting sources increase the risk that R&D and procurement will continue to be crowded out. It is worth noting that the procurement allocation in this year's budget actually falls \$1 billion short of the amount projected in last year's budget.

- A failure of preparedness is especially risky because of the aging of the military's current weapons. We have been living off planes, helicopters, tanks, and other assets purchased in the buildup of the late 1970s and 1980s. The wheels come off these weapons at about the same time—around 2010—requiring sizable purchases of either replacement or successor weapons. As one Marine general said to me, "If parents are uncomfortable sending their sons and daughters to college in 25-year old cars, what will they think about sending them into conflict in 25-year old helicopters?" Old equipment costs more to maintain and is out of service longer, pulling even more money from investment to fund current operations as time goes on.

- The squeeze on modernization and procurement will make it hard or perhaps impossible to invest in the so-called Revolution in Military Affairs (RMA), a combination of sophisticated sensors, information technology (IT), real-time communication, and precision-targeted weapon systems that could assure U.S. military dominance into the future. U.S. companies that did not incorporate the revolutionary advances in information and communications technology were swept away by their competition with surprising rapidity. A possible winning strategy by potential enemies is to invest "asymmetrically"—to focus on the development of new capabilities to dominate a particular location or type of conflict. They only need to win once.

- The urgency of today's needs is also likely to drive out investment in a "homeland" defense to meet the increased threat that more enemies, of different types, will have capabilities to wreak catastrophic destruction on the United States.

- The failure in preparedness will come around the end of the next decade, a period when the Pentagon forecasts stronger and more threatening regional adversaries. It will also be the time when the baby boom generation moves into retirement, increasing the demand for entitlement expenditures.

- Given the time it takes to develop, test, and procure new weapons systems, the United States must be acting now to prevent a "defense train wreck" that would occur by 2010, or earlier. (CSIS has produced an extensive briefing, which I would be pleased to make available to the Committee, that explains the case behind these points in detail.)

## B. THREATS AND DEFENSE STRATEGY

The U.S. defense strategy should begin with an assessment of the threats that we must address. The amount the United States spends on its security—and how it does so—must of course be related to the risks the country faces.

We are operating in an era of flux, and there is considerable uncertainty about the security challenges for which we must plan. There is no doubt that the United States is by far the dominant power in the world. There are concerns, however, about how that power translates into capabilities to deal with current or potential threats to our country and its allies. The Pentagon must prepare for a broad range of possible missions in an environment that is more complex and less predictable.

The U.S. defense strategy needs to account for three security challenges.

First, shifting relations among large powers can generate fears or challenges to peace. Thucydides ascribed the cause of the Peloponnesian War to the rise of Athens and the fear it inspired in Sparta. Throughout the subsequent centuries, including at the start of this one, people were forced to relearn the lesson that the peace of the moment can be shattered by the rivalries among powers; these competitions have been and might be again fueled by the perceptions of danger stimulated by shifts in relative influence. To take an example from last year, India's nuclear test, which triggered Pakistan's nuclear breakout, can be traced in part to India's perception of China's ascendancy.

Second, nations might threaten or attack neighbors in order to dominate a region of interest to the United States. Aggression in the Persian Gulf, the Mideast, or Northeast Asia would trigger chain reactions of destruction that would draw in America.

Third, the United States will have to determine the need—and its capacity—to intervene when local killers incite large-scale violence, whether within a society or

against others. The violence might be driven by ethnic or religious hatreds, a design to divide and conquer, a scheme to control narcotics trafficking, or moves to dominate organized criminal networks. The result in each case is a breakdown of civil society and the intimidation of and assault on innocent people. Chaos and anarchy may create spillover dangers to others, including the United States. Some transnational groups even seek to take over sovereign states as a base for operations. Fanatics and thugs may target America—out of resentment, to make money, or to keep the United States away from their home turf.

Over the FY 1990-97 period, the U.S. military deployed to cope with 45 so-called Small Scale Contingencies (SSCs), as compared to only 16 during the whole cold war. During the Clinton administration, the United States has committed U.S. forces to a new deployment for these contingencies, on average, once every nine weeks. Not only has the number of SSCs increased but the durations were extended, often lasting years. The unexpected and uncertain nature of these operations, combined with the pace and frequency of operations (optempo), places enormous stress on personnel.

The weaponry that can be used by or against the United States in the context of all three of these challenges is changing rapidly.

One development is the so-called RMA, an effort to combine new capabilities to radically change warfare in a fashion analogous to the way IT transformed the business world. The proponents of these capabilities foresee networked forces relying on real time intelligence that will dominate battlefield awareness. The forces would have greater range, speed, flexibility, and lethality; they also would be designed to complement one another more effectively.

A second development is the increased availability of weapons of mass destruction. In particular, nuclear and biological weapons supply a strategic capability to cause enormous damage and paralyze opponents. As recently reported by the Rumsfeld Commission established by the Congress, the United States and its allies either are or will soon be vulnerable to attack by ballistic missiles, which could be armed with weapons of mass destruction. Even without missiles, small terrorist cells—whether or not backed by states—can use these weapons to frightening effect.

Third, opponents and even hackers may try to target America's information infrastructure, which is increasingly central to the provision of finance, power, communications, transportation, public health, and indeed basic needs of our society. (Just consider the effects on parts of local Maryland and Virginia after the recent ice storm blacked out electricity services for a matter of days.)

Although the United States dominates all others in its capability to use most of these weapons (except biological and chemical), potential opponents might prevail with so-called asymmetric strategies: achieving superiority in a particular locality or with particular weapons systems, even if only for a limited purpose or time. This superiority might place the United States in checkmate, preoccupy us, or raise the stakes of conflict to a point that America is fearful of action.

To cope with these security challenges, given these developments in weaponry, the United States' defense strategy should concentrate on three core capabilities.

First, the United States needs to be able to defend its homeland, including from missiles and catastrophic terrorism. Except for nuclear scenarios, the country has been fortunate not to have had to think about this topic for many years. If the United States does not have this defense, the fear of retaliation is likely to make the United States increasingly unwilling to project power to prevent or counter other threats. All potential enemies need to be reminded of the young United States' resolve: "Don't tread on me." There are steps the country can take to limit the prospects of successful attack, which when combined with enormous retaliatory capabilities, will help deter potential opponents.

Second, the United States needs modern and well-trained forces, in sufficient size, to project power rapidly to key regions of the world in the face of possible countermoves of opponents. The very existence of this capability will help America to deter challenges to vital and important interests; the United States wants to maintain enough superiority to dissuade potential rivals from even initiating a serious competition.

Third, the United States should seek, over time, to transform its key alliance relations into stronger partnerships. Both our NATO and Pacific allies can be integrated to a much fuller degree to better address problems of weapons of mass destruction, missiles, terrorists, and other threats. In addition, the United States and its allies need a combined effort to maintain peace and stability in regions of traditional national interest.

America should also promote its NATO allies' capability and will to handle local issues of conflict—for example in Bosnia and Kosovo. The United States will need the ability to act in concert with others on these and other contingencies—including

operations providing humanitarian assistance, disaster relief, and peacekeeping—but these missions should not divert the country's preparations and resources from primary threats. Our alliance strategy must lead our partners to accept greater responsibility for these operations.

At times, unilateral tactics will seem much more appealing than working and compromising in order to lead coalitions; indeed, in some cases, the United States will have to act alone. Yet the United States will not be able to deal with all—or even many—of tomorrow's challenges by itself. The United States should aim to extend its influence and strengthen its reach by drawing others to our standard.

### C. THE "DEFENSE BUDGET TRAIN WRECK"

The United States is on its way to a "defense budget train wreck." One expert summarized the outlook as follows:

We are trapped in a "death spiral." The requirement to maintain our aging equipment is costing us more each year \* \* \* But we must keep the equipment in repair to maintain readiness. It drains \* \* \* resources we should be applying to modernization \* \* \* So, we stretch out our replacement schedules to ridiculous lengths and reduce the quantities of the new equipment we purchase—raising their costs and still further delaying modernization. Compounding this problem is the increased operations tempo \* \* \* which more rapidly wears out the old equipment. And, if this weren't bad enough, we must deal with the uncertainty of unanticipated crises such as the Y2K computer problem \* \* \*

The rhetoric of "death spiral" is not from a hawkish critic of the administration; these are the observations, from August of last year, of Jacques Gansler, the Under Secretary of Defense for Acquisition & Technology, to the administration's own Defense Science Board.

Last September, General Shelton, the Chairman of the Joint Chiefs, told the Congress:

In my view, we have "nosed over" and our readiness is descending. [W]e should apply corrective action now. We must "pull back on the stick" and begin to climb before we find ourselves in a nosedive that might cause irreparable damage \* \* \*

Death Spiral. Nosedive. These are strong words. What is going on? After all, the administration's February 1998 budget request was designed to ensure the implementation of the administration's 1997 Quadrennial Defense Review (QDR). The QDR plan and budget was supposed to ensure security well into the future based on annual budgets of about \$260 billion (in constant FY99 dollars). The temperature of the Pentagon appears to have risen intensely between last February and August/September.

I suspect that two factors contributed to the administration's recognition that its own QDR defense strategy was unsustainable under its own budget. First, the Pentagon realized that its earlier forecasts of costs for operations-maintenance and acquisition were unrealistic, a conclusion supported by 50 years of historical data on costs. Second, the administration had not been willing to make hard choices to limit the overall budget, and relied instead on "savings" from factors such as improved purchasing power because of falling inflation. The administration's most recent proposal for increased spending appears to repeat this technique by "funding" new expenditures through assumptions about lower inflation and declining oil prices.

It is expensive to have large, ready, active, and deployed forces. It is unrealistic not to budget for operations like Iraq and Bosnia. If the U.S. security strategy is going to be viable, the funds need to match the plans.

The point of these observations is not to criticize honorable public servants seeking to balance multiple concerns. After all, the Pentagon was willing to admit that the country faces a serious problem that no one likes to hear about. In assessing future defense needs, however, the lesson needs to be that we must examine budgetary components carefully to analyze the assumptions and possible disconnections among various interrelated items.

### 1. OPERATIONS & SUPPORT

The primary budget item for the Department of Defense is Operations and Support (O&S). These funds pay for the salaries and benefits of all military and civilian personnel as well as the operation and maintenance of the Armed Forces and military installations. In FY 1998, this category accounted for 65 percent of the Department's budget and was expected to fall, under the Pentagon's 1998 plan, to 62% by FY 2003. In fact, the newest Pentagon proposal would increase this percentage to 66% by FY 2004. Given the likelihood that O&S share will increase, not decrease,

we must expect that these expenditures will crowd out investment, modernization, and procurement.

After cutting back the size of forces to accord with the Bush administration's 1991 Base Force, the Clinton administration's two planning reviews (1993, 1997) led to relatively modest cuts in numbers—except for naval forces. Given the many demands on the U.S. military around the world—including a heightened optempo and extended deployments—the reluctance to cut personnel further is understandable. But then the budget must fund them.

Moreover, for the past 40 years, the O&S costs have risen (on a per capita active-duty person basis) at an annual rate of 1.3 percent. In fact, the percentage growth rate increased slightly during the Clinton administration. Pay hikes and readiness increases will push it up further, as will the demands for maintaining older equipment, covering health care costs for an aging beneficiary profile, and performing new functions (e.g., drug interdiction, on-site nuclear inspection, environmental tasks).

## 2. INFRASTRUCTURE

The reductions in the Pentagon's infrastructure—its base capacity—did not keep pace with the force structure changes made at the end of the cold war. In FY 1997, the Department's infrastructure base occupied roughly 40,000 square miles, an area the size of Virginia.

Last year, the Pentagon estimated that it had excess base capacity of 23 percent at 259 major military installations. According to the Defense Department, this extra capacity would correspond to about 55 additional military bases.

The Congress is well aware of the sensitivity of base closings. The successful 1988 Base Realignment and Closure Commission spawned three more rounds, which unfortunately floundered when the Congress sensed that the administration's actions in 1995 and 1998 undermined the integrity and shared political burden of the process.

Given the breakdown of this process, any new savings would be delayed until later years. It requires on average seven years from the time a decision is made to close a base until net savings are achieved. And while helpful, further reductions will not provide a "magic bullet" to save the other accounts.

## 3. PRICING THE DEFENSE BUDGET

As this Committee knows well, when government accountants cannot cut personnel and infrastructure, they will be especially inventive with pricing. This has been the case during the Clinton administration. Working from President Bush's January 1993 budget projections for FY 1994-99, the Clinton administration has been able to "save" \$119 billion. It turns out that an estimated 92 percent (\$109 billion) of those savings can be attributed to lower inflation, smaller pay raises, and positive economic and defense industry variables generally outside the "control" of Pentagon planners and budgeteers. I applaud saving money through lower costs. I question, however, whether we can reasonably expect more such "savings" in the future.

If we cannot—if low inflation estimates "straightlined" into future operations and procurement plans do not hold—the current defense budget planning will be "under-priced". The Pentagon either will need more money or will have to cut back its plans for forces, operations, or procurement.

## 4. FROM GREEN TO GRAY: OLD & AGING HARDWARE

The last account in this budgetary summation is RDT&E (research, development, testing and evaluation) and procurement—the account that buys the equipment. It has not fared well.

The United States military has been living off the assets it bought in the 1980s (or even earlier). The "procurement holiday" of the 1990s will leave America with a bad hangover.

Consider a few examples:

- The Air Force recently reported that the average age of all its aircraft will be 20 years in FY 2000, up from 13 years in FY 1990. The average age is projected to rise to 28 years in FY 2010. (The QDR posited a "steady-state" average age of 15 years, an assumption clearly in trouble.)
- From FY 1990 to FY 2002, there will have been large increases (5 or more years) in the average age of strategic bombers (average age of 28 years in 2002), the Abrams main battle tank (15 years), the Bradley fighting vehicle (14 years), and Apache helicopters (13 years).
- Of the ten major Pentagon weapons classes, seven will be near or well in excess of their estimated service half-lives in 2002.

Moreover, in categories where the average age is forecast to increase, but less dramatically, the difference is usually due to cutting assets by removing the older ones; few new ones are added.

At times in the past, other administrations also deferred defense expenditures, piling up problems for their successors. But the particular danger this time is that the vast majority of the existing military hardware will reach the end of its "useful" life almost at once—about 30 or more years after the start of the last modernization and procurement phase.

The implications for this graying military are enormous. As Marine Corps Commandant Krulak stated before the Senate Armed Services Committee:

Each successive year this equipment, much of which has exceeded its projected service life, breaks down more often, and must spend more time awaiting and undergoing repair. It is lost to the unit for training. The associated maintenance costs continue to rise \* \* \* [W]e must take money from our procurement, research and development, military construction and quality of life accounts \* \* \* In many cases we have passed the point where this equipment has consumed more dollars \* \* \* than would be spent in procuring new equipment. Even within our O&M accounts \* \* \* money which would normally be dedicated to training \* \* \* is currently being spent to maintain this aging equipment. It is a vicious cycle, and one that becomes increasingly expensive to stop with time.

One could add to this rueful account that the aging equipment has a higher incidence of failure or accidents and leaves less flexibility for operational planners who must prepare to adjust to unforeseen events. For example, the 1997 report of the National Research Council Committee on Aging of U.S. Air Force Aircraft expressed serious concerns about aircraft structural safety in the future.

Those reports are based on real-life problems. Imagine that as you check in at an airport the airline announces that for the past six months your 27-year old plane has been flying at twice the FAA's recommended use rate—but that new aircraft are expected in 8 to 13 years. That was what happened to a C-130 squadron in Germany in 1996-97 after it had been employed continually in Bosnia and the Gulf; it had to be supplemented by a North Carolina squadron that was supposed to be available in the United States and devoted to fly the 82nd Airborne Division at a moment's notice.

This budget strategy is leaving a dreadful legacy. When future defense officials are compelled to act to meet replacement or modernization needs, they are likely to choose equipment that can meet quick near-term necessities and be delivered quickly. They will have to continue to mortgage the future.

Investment in new capabilities—for example those associated with RMA, missile defense, or other anti-proliferation strategies—is likely to be squeezed tightly.

##### 5. IN SUM

In sum, the U.S. defense budget has lived off past investments in equipment and borrowed from the future in a vain effort to keep up with present needs. As it has become increasingly clear that even these "future-is-now" budgets could not fund present operations, the procurement and modernization account has received more and more IOUs. As these liabilities have grown, net worth has shrunk.

Furthermore, the defense budget strategy has had little left to fund programs that the United States will need to remain the world's leading-edge force and to counter the threats in this new environment.

The consequences of a persistent mismatch between plans and funding, as well as between operations and funding, will be serious. This path will compel America to choose between an obsolete force, unable to modernize itself to meet new threats safely, or a smaller military unable to meet U.S. obligations around the world. Even worse, the U.S. military could turn out to be both overstretched and out-of-date.

##### D. A SUGGESTED APPROACH

It is imperative that the United States take a longer-term view about its defense strategy and budgetary planning. I recognize that this Committee faces many demands and is asked to treat numerous problems as "top priority." If the United States assumes a near-sighted posture toward its security, however, the type of threats and weapons we face today could overwhelm America's safety before the country could rely on its traditional resilience to catch up.

Others may reasonably debate questions about the size of the defense shortfall and forecasts of costs and savings. You will hear different perspectives about whether the United States should invest in the RMA, and if so, how it should do so. Ex-

perts will also have various ideas about how to handle homeland defense under these new circumstances.

The fundamental problem, however, cannot be avoided: The United States military has been both living off depreciating assets and taking from investments that are supposed to buy the means to protect the country in future. This is a failure of preparedness.

I will close with eight suggestions to help remedy this troubling situation.

First, to assist long-term planning, I suggest that the Executive and the Congress state a policy of devoting a minimum percentage of GDP—at least 3 percent—for defense over the next decade. I recognize that any such floor involves an element of arbitrariness. Nevertheless, given the critical modernization choices the country faces over the next ten years, such a figure would give important guidance for planning. This percentage would require the Pentagon to spend smarter, not just proceed with more of the same. It might also compel the Executive to weigh more carefully whether to commit the military to more current operations that will squeeze out modernization; if an administration wants more resources for smaller scale operations, it should make the case for them to the Congress so the money for them will be on top of the core security needs.

In return for this long-term funding commitment, the administration should overhaul its QDR plan. The Pentagon's statements last year, and the administration's FY2000 budget request, are acknowledgements that the administration has been unable to fund its own defense plan. Piecemeal increases in funding run the risk of failing to remedy faulty, underlying assumptions. The mistaken assumptions are likely to lead to a continuing underestimation of demands for current spending, thereby creating an ongoing pressure to fund present needs out of resources that should be allocated to the future.

Since the current defense budget is about 3 percent of GDP, my proposed minimum certainly is not excessive. Indeed, this is the lowest level since 1940, before we faced up to a different preparedness challenge. At some point, a policy of doing more with less just becomes doing less with less. We have reached that point.

Second, as a general matter, the U.S. defense strategy should seek to align military strength with the nation's strengths: its technology and people. The United States should harness its skill at developing new technologies and, equally important, applying these technologies through superior doctrines, operational methods, platforms, and weapons systems. America must also draw on and sustain the high quality and professionalism of the all-volunteer force with its heavy emphasis on rigorous training and military education. The aim should be to have more teeth and less tail.

Third, the United States should accelerate the acquisition of a "transformational" RMA force, which will lead the way for a gradual recapitalization of the defense base and force structure that draws on these new capabilities. The U.S. military needs to have the ability to identify diverse types of targets with a variety of sophisticated sensors and then to destroy them with extreme precision from any number of platforms at long range. As a corollary, a fully integrated and networked RMA force can be smaller, quicker, and should need fewer sorties to destroy targets. It will not need the long time for building up forces which a shrewd foe, after observing *Desert Storm*, will prevent; it should be less dependent on distant bases that may not be available if enemies have missiles and weapons of mass destruction and terror.

This transformation will take time. In many respects, the technology is the easy part. The challenge is its integration into new operational concepts, doctrines, organizational structures, and practice. In June 1940, the French army had more and better quality tanks than the Wehrmacht, but the panzer leaders knew how to use the blitzkrieg to overwhelm France within weeks.

It is likely to take 10 to 15 years for the United States to retool its forces along these lines. (Consider that it took a decade or more for U.S. businesses to figure out how to integrate IT into their business processes effectively enough to really boost productivity.) In the meantime, the U.S. military will need many of the ships, planes, tanks, and other assets—plus trained troops—that have characterized U.S. might in past decades.

Fourth, the United States will need to complement its ability to project power with a capability to defend America. The country should develop an end-to-end strategy to counter WMD-missile-IT threats, both to U.S. forces and the homeland. The comprehensive planning should include better intelligence systems, covert and special operations capabilities, prevention steps to lower the likelihood of penetration, preemptive options, counterforce capabilities, an integrated Theater Missile and National Missile Defense system, and nuclear deterrence. It needs to include a major research effort on WMD, especially related to biotechnology, genetic design,



and computer viruses. As a country, we will also need to prepare to respond—psychologically and operationally—once a biological or nuclear weapon is used.

Fifth, to achieve effective integration and to use limited resources more effectively, U.S. defense planning will need to become more “joint”—throughout the development of strategy, plans, procurement, and budgets. Today, the military’s regional commands are committed to joint operations, and there is an effort to match future forces to a “Joint Vision 2010.” But “joint budgeting” is still an experiment at best, and the services remain legally obligated and authorized to spend over 85 percent of the defense budget as they see fit.

Given the budgetary limitations, the Pentagon must avoid the path of least resistance: letting each service develop large-ticket weapons systems independently, then imposing an across-the-board percentage cut when the Defense Department realizes that the systems are unaffordable. This route will produce a future military that is both smaller and only partly modernized.

Given the uncertainty of and diversity in potential threats, the U.S. military will probably need fewer assets, but ones which can handle more missions. The strategic procurement goal should be a capability to draw on any weapon from any platform to support any unit—regardless of service or location. Whether a target—say artillery, a SAM or Scud site, or a terrorist unit or WMD facility—is identified by a satellite, airborne radar, or a Marine patrol, the United States should be able to destroy it with precise, highly destructive weapons from a submarine, arsenal ship, unmanned or standoff aircraft, or more agile armored vehicle.

Sixth, the United States will need to get the most from each person. We need to recognize that a budget at a level of 3 percent of GDP would probably require a cut in the size of the overall force. (It would be more prudent, and in my view preferable, to devote more to defense to maintain force levels until the benefits of the move to RMA capabilities are clear, but if those expenditures cannot be made the force levels will need to reflect a balance among competing demands.)

To support and complement the regulars, the United States will need to draw on National Guard and Reserve forces effectively, especially for homeland defense and smaller scale operations. (They will also need to be integrated with local, state, and federal law enforcement and civil disaster authorities to cope with the threat of catastrophic terrorism.) The Executive branch will need to recognize that extensive, frequent, and long deployments on peacekeeping, policing, and humanitarian missions are wearing down equipment, training, and ultimately people. Each mission may appear to be for a worthy cause, but at these budgetary levels, the U.S. military cannot do all of them and still be prepared for the future.

If U.S. forces are reduced in size, each soldier, sailor, airman, and Marine will matter even more and deserves the proper pay and support. Pay should be targeted on officers, the senior enlisted ranks, and people with critical skills; career lengths, pension systems, and health care provisions will need to adjust as well. The administration’s recent recommendations for compensation increases is an effort to address some of these needs.

The administration needs to recognize, however, that the new compact with the military will need to involve more than money. Civil-military relations will become more complex as even less of America has contact with its military. Especially in a world of frequent but often long-lasting peace operations, a volunteer military will need a balance of opportunities, rewards, and consideration for families along with the sacrifices.

Seventh, it is important that the Executive and the Congress revisit the possibility of saving money by cutting infrastructure. I expect that to rebuild trust in a revived base closings process, the administration will need to demonstrate that it is willing to pay a fair share of the political costs of base closings and cuts in personnel.

Eighth, the Pentagon will need to learn more from the private sector about cutting costs. Although the cost of civilian IT systems has fallen tremendously, the prices of analogous military IT systems have not. Like other professional organizations, the Defense Department must focus on its primary missions and outsource supporting activities. Outsourcing of a host of activities is critical to efficiency. For example, off-the-shelf software purchases may both save money and prepare the way for more rapid upgrades. Even many repair and maintenance tasks may be performed by contractors.

At least in the area of IT—and perhaps with other leading edge technologies—the Pentagon should be able to leverage civilian commercial R&D. This represents a major shift in thinking from the era when the Pentagon’s R&D led the civilian sector. The challenge, I suspect, will be to develop hybrid efforts that draw on civilian work while customizing for or focusing additional efforts on unique Pentagon needs.

America has the best military in the world. It also has the greatest number of and hardest missions. Moreover, its unmatched power is based on equipment with finite life spans; at some point, the existing assets will need to be replaced.

At times in the past, the United States, and other great powers, have taken their security for granted. We, and they, paid for hubris or complacency many times over. Some powers never recovered from their mistakes.

After the Vietnam war, a group of reforming officers, trying to learn from the past, published a book titled *America's First Battles*. Each chapter describes a defeat, the American way of starting wars. The nature of war and weaponry today—combined with the present world of alliances, coalitions, and partnerships underpinned by the United States—no longer affords America the leeway to bounce back from early defeats.

Having learned the lesson of *America's First Battles*, the U.S. military was prepared to win the Gulf war in its first campaign. But in the past, great military victories have made it hard for countries to shake self-satisfied attitudes and to prepare for the next challenge.

Today, America's military is being run ragged in reactive operations of all types in all quarters of the globe. If the U.S. defense strategy and budget remains preoccupied with the current environment, the country will be risking the world's stability, its home territory and population, other vital interests, and the young men and women who put their lives on the line to safeguard their country. Most of all, it will be risking America's greatest cause: the future.

I would be pleased to try to answer any questions.

Mr. CHAMBLISS. Gentlemen, again I thank you, both of you, for being here. And I am not going to keep you just to dialogue with me, but just a comment or two and a question or two.

You know, General Electric Co. is one of the best-run companies in the United States of America, and if they need a new airplane they call up Cessna, they call up Gulfstream and say, "I need me a new airplane. Be here next week. Make me a proposal." They come in, and they have an airplane with 90 to 120 days.

For us to get an airplane, it takes us 15 or 20 years, and there is absolutely nothing efficient about that, and I think, Dr. Krepinevich, you somewhat alluded to that in your comments there. You know, we are trying to make some improvements in acquisition that will hopefully help save some money down the road.

Do either of you have any comment about what we are doing from the standpoint of acquisition or forms, or anything that we are not doing that you feel like we ought to be doing from an acquisition standpoint?

Mr. KREPINEVICH. I would just say, Mr. Chairman, that given, as you mentioned, the length of time it takes to get new military systems into the inventory, and given what we know from history, it really does place a premium on what people in the business community call "time-based competition." One way to deal with uncertainty is to build options, and to be able to execute them more quickly than your competitor, once the future becomes clear. General Estes, who recently retired as CINCSPACE, had a great way of putting it: "It can't be that a President will come to one of my successors in 2012 and tell him or her that we need to be able to control space by 2016. If we are going to control space in 2016, we need to begin to think about and plan to develop the capability for that in 1998."

Look at the transformation, for example, from a battleship Navy to a carrier Navy. We were still very much a battleship Navy going into World War II, but we had conducted 20 years of experiments with different kinds of carriers. We had actually built three different classes of carriers, but only *four* carriers in all. The Navy

continued to build naval aircraft, but only in small numbers because the technology was moving so fast.

And what they avoided doing was locking into rapidly changing technology before the threat emerged. Therefore, when the war began, our Navy had the industrial base in place to provide them with the capability, both in terms of ships and aircraft, they had a doctrine for how to fight, and they had an officer corps and sailors trained in how to operate carriers, how to launch aircraft off of carrier platforms, and how to recover aircraft on board. These are things that took the Navy 20 years to develop.

The issue is how do you prepare for future challenges? When I talk about our adversaries holding bases at risk, this is a demonstrated capability. Our ability to defeat that threat hasn't been demonstrated yet.

In meeting the challenge we are giving our commanders very few tools to work with, when in fact we need to give them a wide range of tools to work through the problem.

Take one option: Dr. Hamre has said that if we had a converted *Trident* submarine that could carry 150 cruise missiles, and launch all 150 within 6 minutes, we would not have lost the element of surprise in the *Desert Fox* operation. This is an option we didn't have. We have the option to convert these boats now. If we fail, it is an option we may not have in the future because people will say that it doesn't fit into the Navy's procurement plans right now; that there just isn't enough money to buy this sort of option.

I am not an expert on the details of acquisition reform and what we can do to speed up the process. I will only observe that, in the past, whether it was the arsenal ship prototyping that was on a fast track, or the construction of the F-117 aircraft which proceeded from initial negotiations to a prototype in about 4 years, we have demonstrated that we can develop new systems quickly. I think it is a matter of empowering the Defense Department to undertake, No. 1, this kind of development and, No. 2, to do it in a way that allows us to buy options.

Mr. ZOELLICK. Mr. Chairman, since I don't consider myself an expert on procurement, I will just make a couple of brief points on this. I have served in the government, a number of departments, I have been in the private sector in a number of different capacities, and what always strikes me is that the Pentagon is basically a command form of economy that tries to operate in a market economy, and the disconnect is always striking.

Now, it might have made sense in an era of particularly specialized purchases from a limited number of sellers, where the Pentagon and the defense establishment was often the leader in technology and had to be on the cutting edge. But I think with some of the changes that we have talked about, where the strength of the United States is to draw on the strength of the country, the strength of our military in information technology, I would strongly endorse the idea of trying to get the Pentagon to focus on its core missions and trying to see what could be outsourced and drawn from the private economy.

And here let me talk about information technology in particular. Thirty years ago the Pentagon led the United States in many aspects of information technology. That is no longer true today, and

I think there would be ample opportunities to draw on what is happening in the private sector in different types of information technology and to customize it as appropriate and probably save a significant sum of money.

Now, to be fair to the Pentagon, they live in a world of regulations that were also developed for a different age and developed for a very important purpose, to save the taxpayers money. But I suspect that if we are going to give the Pentagon additional flexibility to not do pure specifications, allow the bids, monitor the bids, but actually engage with the private economy somewhat more, one might need to give them some flexibility and then perhaps do it in an experimental fashion, and where one might audit it in that degree.

So I think part of this will have to come from the side of the Congress and those who justifiably want to be concerned about how the Pentagon spends its money because, as you know from your experience, if an institution just becomes defensive and worried about the auditor, then it is less likely to be flexible in changing methods, and I think it will have to change methods to get the advantage of the full scope of developments in the private economy.

Mr. CHAMBLISS. With respect to base closure, I think you all were probably sitting here when I asked Dr. Hamre about whether or not that \$5 billion he keeps referring to is realistic, and I assume you all maybe have seen those numbers also. I frankly am a little bit concerned about that. I don't know whether we are really saving that money or not.

Do either of you have a thought on whether or not that number is correct, if we really are saving any money, and whether or not any kind of independent audit would be advantageous to us to think in terms of?

Mr. KREPINEVICH. My understanding, Mr. Chairman, is that the estimates are derived based on numerous assumptions about what is included and how you cost out the various assumed savings. Beyond that, I am not an expert in any great detail. An outside audit would be helpful to at least give transparency to the assumptions that were made, with respect to how the savings are generated.

Mr. ZOELLICK. Mr. Chairman, in the course of preparing for my testimony, I looked into some of these, and some of my facts are in my full written statement. I was struck that the land under Defense Department control is roughly the size of the State of Virginia, my State where I now live, and that is a healthy piece of territory. As you probably know, the Defense Department estimates that they have about 23 percent overcapacity in bases, works out to about 55 bases.

I think the important point here in the base closing area is that—you would know this better than I would—that the process broke down because the very important political arrangement that had been struck between the executive and the legislative, which we all know is critical to make this go forward, eroded because the executive was seen as trying to slant things in their own direction in the case of some particular bases. I think that was a real tragedy.

And to come to your point, I think if the administration would like to go forward with this again, people like Senator McCain, who

I worked with on things, wants to go forward with it again, anything that gives the Congress some additional confidence on the benefits of this, an extra form of audit, is worth it, whether you have money to put into it, because I am afraid the process broke down for political reasons. To get that restarted, we are going to have to get all sides comfortable there is a merit.

The problem, from again the analysis I have looked at, is that the payoffs tend to be over 5 or 6 or 7 years and often there is an initial cost, and so that also makes it harder for anyone making the decision. I do feel that we are going to need to cut infrastructure if we are going to be able to pay for these other things that we are asking to pay, and I think it will involve the executive and the legislative rebuilding that confidence, and if that audit is a way to do it, you know, I would highly recommend it.

Mr. CHAMBLISS. Well, gentlemen, again I thank you for being here. Thank you for your patience this morning, and we have your full written statements in the record, and we appreciate your comments. Thank you. Thank you very much for coming.

Mr. ZOELLICK. Thank you.

Mr. KREPINEVICH. Thank you, Mr. Chairman.

Mr. CHAMBLISS. We will stand adjourned.

[Whereupon, at 2:03 p.m., the committee was adjourned.]

