

TESTIMONY OF U.S. SECRETARY OF DEFENSE
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Introduction

Mr. Chairman, Members of the Committee.

On September 11th, terrorists attacked the symbols of American freedom, prosperity and military mightKilling thousands. In just a few short weeks, the United States responded. We built coalitions, positioned our forces, and launched devastating military strikes against Taliban and al-Qaeda strongholds in Afghanistan. And before the fires at the World Trade Center burned out, the Taliban had been driven from power and the terrorists were on the run.

We are still in the early stages of a long, dangerous and global war on terrorism. But while much work remains, we can take notice of the achievements of our brave men and women in uniform, who have accomplished so much in so little timeCand who, at this moment, continue to risk their lives in dangerous corners of the world.

September 11th changed our nation forever. As time passes and wounds heal, we should not forget the horror of what befell us that day, and go back to old ways of doing things. We owe it to those who died September 11th and those who will come after us to ensure that our nation learns and heeds the lessons of that fateful day.

The events of September 11th shattered many myths—among them, the illusion that the post-Cold War world would be one of extended peace, and that after four decades on high alert, America could relax, stand down, and cut defense spending.

We learned on September 11th that this is not the case—and that all the things that we Americans hold dear—freedom, security, prosperity—all these are made possible by the peace and stability our Armed Forces provide. And to preserve these precious gifts, we need to invest in the capabilities that the men and women of the Armed Forces need to defend our country and our interests.

This truth was well understood during the Cold War. Then, Americans lived with the knowledge that a dangerous adversary had thousands of missiles on hair-trigger alert, pointed at their homes and schools and places of work. We spent what was necessary for the Armed Forces to deter that adversary, defend our people, and contribute to peace and freedom. And we succeeded.

But when the Cold War ended, so did the consensus behind a robust

investment in our national defense. A defense drawdown took place that went too farCovershooting the mark by a wide margin. Many on this Committee, Democrats and Republicans alike, fought an uphill battle to secure the resources needed. Hindsight is 20/20, and the truth is that we spent much of the 1990s living off of the investments made during the Cold War, instead of making the new investments needed to address the fast-approaching threats of this new century.

Our military was asked to do the impossible: to stay ready for near-term threats, take on a range of new missions, and prepare for the 21st CenturyCall this while absorbing sizable budget cuts. They did their bestCthey always doCbut to meet the near-term challenges, they were forced to put off critical investments in people, in modernization and in the future. And every year those investments were put off, the hole we were in grew deeperCand the task of digging out more difficult.

Now, through the prism of September 11th, we can see the error of that approach. And today, the consensus to spend what is necessary on national defense has been restored.

But as we undertake the task of rebuilding, we must do so with eyes wide open, aware of the size of the task facing us, and what will be required.

Our challenge today is to accomplish three difficult missions at once:

- (1) To win the worldwide war on terrorism;
- (2) To restore our force by making long-delayed investments in areas like procurement, people, infrastructure, and modernization; and in addition,
- (3) To prepare for the future by transforming for the 21st Century.

Each of these tasks must be done—none can be put off. We have no choice but to fight and win today's war on terror; but we must also modernize our forces for the wars we may have to fight later in this decade; and, because of the long lead-times in bringing new capabilities online, we must prepare now for the wars we may have to fight in the *next* decade—in 2010 and beyond.

There are some who say this is too much to ask of our Armed Forces—that any one of these challenges is daunting—but that doing all three at once—fighting a war, modernizing and transforming at the same time—is too difficult. It is not. We can do it.

But even if it were impossible, we would have no choice but to get about the task. *Why? Because our adversaries are transforming.* They are studying how we were successfully attacked, how we are responding, and how we may be vulnerable in the future. And they are developing dangerous new capabilities, and new ways of fighting, to take advantage of what they see as our weaknesses and vulnerabilities. We stand still at our peril.

Far from being a time to put off transformation, now is the moment to pursue it more aggressively. If we do not, new enemies will find new ways to strike us—and with

the increasing power and range of weapons today, those attacks could well surpass the death toll of September 11th.

The 2003 Budget

But transforming our Armed Forces, fighting the war on terror, and selectively modernizing our existing force can't be done without sizable investments over a sustained period.

Because of that, President Bush sent to Congress a 2003 defense budget request of \$379 billion—a \$48 billion increase from the 2002 budget. That is the largest increase since the early 1980s—a significant investment.

It includes \$19.4 billion for the war on terrorism—a \$10 billion contingency fund that will be available, if needed, for the war, plus \$9.4 billion for a variety of programs related to the war, including:

- **\$3 billion for counter-terrorism, force protection, and homeland security;**
- **\$1.2 billion for continuing increased air patrols over the continental United States;**
- **\$800 million for converting Tomahawk cruise missiles to newer versions and for increased procurement of precision munitions such as the Joint Direct Attack Munition (JDAM) and Laser Guided Bombs (in addition to what was already funded).**

Providing U.S. forces faster, more precise, real-time intelligence will

be critical to transformation. The President's 2003 budget includes investments to improve U.S. intelligence collection, analysis, processing, and dissemination.

Moreover, the President has made clear that this is not a one-time increase. It is a commitment to sustained investments over many years. That is why the President's five-year projected budget for 2003-2007 is \$2.057 trillion—about \$400 billion higher than when he took office.

That is a great deal of money—hard-earned tax dollars. But it should be put in context.

Last year, before this committee, I explained that a decade of overuse and under-funding had left us in a hole so deep, that the President's 2002 budget, while a significant increase, would still leave shortfalls in a number of critical areas—including infrastructure, procurement, and operations and maintenance.

Moreover, I advised this Committee that just to keep the Department going in 2003 on a straight-line—with no improvements, simply covering the costs of inflation and realistic budgeting—we estimated that DoD required a budget of \$347.2 billion—an \$18.3 billion increase over the President's 2002 request.

Well, as high as it may have sounded then, it turns out my estimate was low. When one combines the costs of inflation, plus the Amust pay@ bills (like military health care, retirement benefits and pay), plus realistic cost estimates for weapons, readiness and depot maintenance, the correct figure is \$359.4 billion.

When one adds to that the \$19.4 billion in this budget for the war on terrorism, the total comes to \$378.8 billion out of a \$379.3 billion budget.

That is still a significant investment of the taxpayer-s money. And we are investing it differentlyCby accelerating programs we consider transformational. We have also made program adjustments to achieve \$9.3 billion in proposed savings, to be used for transformation and other pressing requirements. At the same time, we are fully funding those areas we must to continue reversing years of under-investment in people, readiness, and modernization.

While it does not correct a decade of under-funding, it is a lot of money. We need to invest that money wisely, if we are to accelerate transformation, continue our efforts to reverse years of under-investment in people, readiness, and modernization, while fighting the war on terrorism. Allow me to briefly set

forth how the budget addresses each of these challenges.

New Defense Strategy

The budget before you is driven by the results of last year's defense strategy review. When President Bush took office, he asked the senior civilian and military leaders of the Department to take a hard look at the emerging security environment and consider whether a new defense strategy was needed.

Given the questions some posed last year, I must say that, it is really quite remarkable, what the people of this Department accomplished. In one yearC2001Cthe Department has:

- _ Developed and adopted a new defense strategy;
- _ Replaced the decade-old two Major Theater War construct for sizing our forces, with a new approach more appropriate for the 21st Century;
- _ Adopted a new approach for balancing risks,
- _ Reorganized and revitalized the missile defense research and testing program, free of the constraints of the ABM Treaty;
- _ Reorganized the Department to better focus on space capabilities;
- _ Through the Nuclear Posture Review, adopted a new approach to strategic deterrence that increases our security

- while reducing our strategic nuclear weapons; and
- Within a week or so we will present to the President a new Unified Command Structure.
- And all this while fighting a war on terrorism.

Not a bad start for a Defense establishmentBmilitary and civilian, executive and legislative, public and privateCthat is supposedly so resistant to change.

In January of last year, we initiated a series of informal strategic reviews. We found a Department filled with dedicated men and womenCuniformed and civilianBwho were doing their best under difficult circumstances to maintain the readiness of our Armed Forces. We also found that the pressure to prepare for near-term risks was crowding out efforts to prepare for longer-term challenges. While we found some transformation underway (such as development of the unmanned combat aircraft employed in Afghanistan), we also found some efforts were without clear goals, measures of success, or the necessary resources. We found chronic under-funding of procurement and infrastructure, and a culture that did not seem to embrace or reward innovation.

These reviews helped pave the way for the Quadrennial Defense Review (QDR), during which the senior civilian and military leaders of the Department came to the unanimous conclusion

that a new approach was needed for the 21st Century. The President's budget has been designed to fund the priorities we identified in the QDR process.

In the QDR, we made three major decisions:

First, we decided to move away from the two Major Theater War (MTW) construct for sizing our forces. Can approach that called for maintaining forces, capable of marching on and occupying the capitals of two aggressors at the same time and changing their regimes. That approach served us well in the immediate post-Cold War period, but after a decade it threatened to leave us too narrowly focused on preparing for two specific conflicts, and under-prepared for other contingencies and 21st Century challenges.

To ensure we have the resources to prepare for the future, and to address the emerging challenges to homeland security, we needed a more realistic and balanced assessment of our near-term war fighting needs. Instead of maintaining two occupation forces, we will place greater emphasis on deterrence in four critical theaters, backed by the ability to swiftly defeat two aggressors at the same time, while preserving the option for one major offensive to occupy an aggressor's capital and replace his regime. Since neither aggressor would know which conflict

would be selected for regime change, the deterrent is undiminished. But by removing the requirement to maintain a second occupation force, we can free up resources for the various lesser contingencies that face us and be able to invest for the future.

Second, to prepare for the future, we decided to move away from the old threat based strategy that had dominated our nation's defense planning for nearly half-a-century, and adopt a new capabilities based approach which focuses less on *who* might threaten us, or *where*, or *when*, and more on *how* we might be threatened and what capabilities we need to do to deter and defend against those threats.

Under the new approach, we will develop a portfolio of military capabilities that not only help us fight and win the wars of the 21st Century, but also help to prevent them. Our goal is to influence the decision-making of potential adversaries to deter them not only from attacking us with existing capabilities, but by demonstrating the futility of potential military competition, to dissuade them from building dangerous new capabilities in the first place.

Third, to put our capabilities-based approach into action, we identified six key transformational goals around which we will focus our defense strategy and develop our force. These are:

- _ First, to protect the U.S. homeland and our bases overseas;
- _ Second, to project and sustain power in distant theaters;
- _ Third, to deny enemies sanctuaryCso they know no corner of the world is remote enough, no mountain high enough, no cave or bunker deep enough, no SUV fast enough, to protect them from our reach;
- _ Fourth, to protect U.S. information networks from attack;
- _ Fifth, to use information technology to link up different kinds of U.S. forces so they can fight jointly; and
- _ Sixth, to maintain unhindered access to spaceCand protect U.S. space capabilities from enemy attack.

We reached these conclusions well before the September 11th attacks on Washington and New York. Our experiences that day, and in the course of the Afghan campaign, have served to validate those conclusions, and to reinforce the importance of moving the U.S. defense posture in these new directions.

In the 21st Century, new adversaries may not to be discouraged from attacking us by the traditional means of deterrence that kept the peace during the Cold WarCnamely, the threat of nuclear retaliation. The terrorists who struck us on September 11th certainly were not deterred.

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This is why the President concluded that stability and security in the new Century require a new approach to strategic deterrence that enhances our nation's security while reducing our dependence on nuclear weapons. With the Nuclear Posture Review, we have proposed deep cuts in offensive nuclear forces, combined with strengthened conventional capabilities and a range of new active and passive defenses against WMD and all forms of delivery to be supported by a revitalized defense infrastructure and improved intelligence. This new triad of nuclear, conventional and defensive capabilities will help deter and defend against the wider range of threats we will face in the decades ahead.

The 2003 budget request is designed to advance each of the six transformational goals. It does so by accelerating funding both for the development of transformational programs programs that give us entirely new capabilities as well as by funding modernization programs that support the transformation goals.

The budget requests \$53.9 billion for Research, Development, Test, and Evaluation (RDT&E)--a \$5.5 billion increase over FY 2002. It requests \$68.7 billion for procurement--a \$7.6 billion increase. It funds 13 new transformational programs, and accelerates funding for 22 more existing programs.

We have established a new Office of Force Transformation to help drive the transformation process, and have tasked each of the services to develop Service Transformation Roadmaps by the summer of 2002.

All together, transformation programs account for roughly 17% of investment funding (RDT&E and procurement) in the President's 2003 budget request. That will rise to 22% over the five year FYDP.

This is a significant investment in the future. However, the investment in transformation cannot be measured in numbers alone. Transformation is not just about new weapons. It is about new ways of thinking and new ways of fighting. In some cases, it does not involve new capabilities at all.

In Afghanistan, U.S. Special Forces are using a mix of capabilities in ways that had never been tried before, coordinating air strikes with the most advanced precision guided weapons, with cavalry charges by hundreds of Afghan fighters on horseback. The effect has been devastating and transformational.

The goal is not to transform the entire military in one year, or even in one decade. That would be both unnecessary and unwise. Transformation is a process, and, because the world is not static, it is a process that must continue. In short, there will be no point where our forces will have been Atransformed.@ Rather, we aim to transform between 5-10% of the force, turning it into the leading edge of change that will, over time, continue to lead the rest of the force into the 21st Century.

We cannot know today precisely where transformation will take us.

It is a process that will unfold over time. But we believe we know the directions we want to take the force. Our goal is to move our military from service-centric forces armed with unguided munitions and combat formations that are large and easily observable, manpower intensive, earth-bound capabilities, and transform a growing portion into rapidly-deployable joint-forces made up of less manpower intensive combat formations armed with unmanned, stealthy, precision-guided capabilities and unmatched space capabilities.

1. Protecting Bases of Operation /Homeland Defense

Even before September 11th, the senior civilian and military leaders of the Department had concluded that defending the U.S. homeland from attack, and protecting U.S. forward bases, should be our top priority. For most of our history, thanks to favorable geography

and friendly neighbors, U.S. territory was left largely unscathed by foreign aggressors. As we painfully learned on September 11th, this will not be the case in the 21st Century.

Future adversaries are at this moment developing a range of new capabilities with which to threaten the U.S.: new forms of terrorism, cyber attacks, ballistic missiles, cruise missiles, nuclear, chemical and biological weapons of mass destruction.

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

- _ \$300 million to create a Biological Defense Homeland Security Support Program to improve U.S. capabilities to detect and respond to biological attack against the American people and our deployed forces.**
- _ \$7.8 billion for a refocused and revitalized missile defense research and testing program that will explore a wide range of potential technologies that will be unconstrained by the ABM Treaty after June 2002, including:**
 - ⌘ \$623 million for the Patriot PAC III to protect our ground forces from cruise missile and tactical ballistic missile attack.**
 - ⌘ \$3.5 million for the Mobile Tactical High-Energy Laser that can be used by U.S. ground forces to destroy enemy rockets, cruise missiles, artillery and mortar munitions.**

- ⌘ \$598 million for the Airborne Laser (ABL), a speed of light directed energy weapon to attack enemy ballistic missiles in the boost-phase of flight deterring an adversary's use of WMD since debris would likely land on their own territory.
- ⌘ \$534 million for an expanded test-bed for testing missile intercepts;
- ⌘ \$797 million for sea, air and space-based systems to defeat missiles during their boost phase;

The 2003 budget requests roughly \$8 billion for programs to support defense of the U.S. homeland, and \$45.8 billion over the five year FYDP (2003-7) an increase of 47% since 2000.

2. Denying Enemies Sanctuary

Another objective of transformation is to deny sanctuary to enemies to make certain they understand that if they attack the United States, there is no corner of the world remote enough, no mountain high enough, no cave deep enough, no bunker hardened enough, no SUV fast enough for them to escape the reach of the U.S. Armed Forces.

To achieve that objective, we must have the capability to locate, track and attack--both mobile and fixed targets--any where, any time, at all ranges, and under all weather conditions, 24 hours a day, 7 days a week, 365 days a year. This will require changes in our intelligence collection, analysis, production and distribution. It also requires development of new capabilities for long-range precision strike including unmanned capabilities as well as the ability to insert Special Operations Forces into denied areas and allow them to network

with our long-range precision-strike assets.

To achieve this, we must develop new data links for connecting ground forces with air support; new long-range precision strike capabilities; new, long-range, deep penetrating weapons that can reach our adversaries in the caves and hardened bunkers where they hide; and special munitions for underground attack.

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

- _ \$141 million to accelerate development of UAVs with new combat capabilities.**
- _ \$629 million for Global Hawk, a high-altitude unmanned vehicle that provides reconnaissance, surveillance and targeting information. We will procure three Air Force Global Hawks in 2003, and accelerate improvements such as electronics upgrades and improved sensors, and begin development of a maritime version.**
- _ \$91 million for the Space-Based Radar, which will take a range of reconnaissance and targeting missions now performed by aircraft and move them to space, removing the risk to lives and the need for over-flight clearance;**
- _ \$54 million for development of a small diameter bomb, a much smaller, lighter weapon that will allow fighters and bombers to carry more ordnance and thus provide more kills per sortie;**

- _ \$1 billion for conversion of four Trident nuclear submarines into stealthy, high endurance SSGN Strike Submarines that can each carry over 150 Tomahawk cruise missiles and up to 66 Special Operations Forces into denied areas;
- _ \$30 million for advanced energetic materials and new earth penetrator weapons to attack hardened and deeply buried targets.
- _ \$961 million for the DD(X), which replaces the cancelled DD-21 destroyer program and could become the basis of a family of 21st Century surface combat ships built around revolutionary stealth, propulsion, and manning technologies. Initial construction of the first DD(X) ship is expected in FY 2005.

The 2003 budget requests \$3.2 billion for programs to support our objective of denying sanctuary to America's adversaries, and \$16.9 billion over the five year FYDP (2003-7) an increase of 157%.

3. Projecting Power in Denied Areas

In the 21st Century, we will be increasingly called upon to project power across long distances.

Today, however, to operate in distant theaters, our forces in many cases depend on vulnerable foreign bases.

Potential adversaries see this and they will seek to develop new weapons and ways of fighting to keep U.S. forces out of their neighborhoods so-called access denial capabilities.

These capabilities could include: saturation attacks with ballistic and cruise missiles to

deny U.S. access to overseas bases, airfields and ports; advanced air defense systems to deny U.S. access to hostile airspace; anti-ship cruise missiles, advanced diesel powered subs, sophisticated sea mines to threaten U.S. ability to project Naval and amphibious forces; as well as the use of chemical and biological agents against deployed U.S. forces.

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

- _ \$630 million for an expanded, upgraded military GPS that can help U.S. forces pinpoint their position and the location of their targets with unprecedented accuracy.**
- _ \$5 million for research in support of the Future Maritime Preposition Force of new, innovative ships that can receive flown-in personnel and off-load equipment at sea, and support rapid reinforcement of conventional combat operations. Construction of the first ship is planned for FY 2007.**
- _ \$83 million for the development of Unmanned Underwater Vehicles that can clear sea mines and operate without detection in denied areas;**
- _ About \$500 million for the Short Takeoff/Vertical Landing (STOVL) Joint Strike Fighter that does not require large-deck aircraft carriers or full-length runways to takeoff and land.**
- _ \$812 million for 332 Interim Armored Vehicles protected, highly mobile and lethal transport for light infantry enough for one of the Army's transformational Interim Brigade Combat Teams**

(IBCT). The FY 2003-2007 Future Years Defense Program (FYDP) funds six IBCTs at about \$1.5 billion each.

- _ \$707 million for the Army's Future Combat System—a family of advanced-technology fighting vehicles that will give future ground forces unmatched battlefield awareness and lethality.
- _ \$88 million for new Hypervelocity Missiles that are lighter and smaller (4 ft long and less than 50 lbs) and will give lightly armored forces the lethality that only heavy armored forces have today

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

4. Leveraging Information Technology

Another transformation goal is to leverage rapid advances in information technology to improve the connectivity and joint war fighting capabilities of different types of U.S. forces. The goal is to find new ways to seamlessly connect U.S. forces—in the air, at sea and on the ground—so they can communicate with each other, instantaneously share information about their location (and the location of the enemy), and all see the same, precise, real-time picture of the battlefield.

The opportunities here to give U.S. forces unparalleled battlefield awareness are impressive—if they can see the entire battlefield and the enemy cannot, their ability to win wars grows exponentially. But as our dependence on information networks increases, it creates new

vulnerabilities, as adversaries develop new ways of attacking and disrupting U.S. forces through directed energy weapons and new methods of cyber attack.

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

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

can be easily relocated as tactical situations require.

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

5. Conducting Effective Information Operations

As information warfare takes an increasingly central role in modern war, our ability to protect our information networks and to attack and cripple those of adversaries will be critical to America's success in combat.

To do so, we must find new ways to more fully integrate information operations with traditional military operations, while developing new computer network defenses, electronic warfare capabilities, and the ability to influence an adversary's perceptions of the battlefield.

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

The 2003 budget requests \$174 million for programs to support this objective--\$773 million over the five year FYDP (2003-7) an increase of 28%.

6. Enhancing Space Operations

From the dawn of time, a key to victory on the battlefield has been to control the high ground. Space is the ultimate high ground.

One of our top transformational goals, therefore, is to harness the United States' advantages in space. Space can provide an ability to see what enemies are doing, anywhere in the world and to ensure global secure communications for U.S. forces.

This will require moving operations to space, improving the survivability of U.S. space systems, and developing a space infrastructure that assures persistent surveillance and access.

As we become increasingly dependent on space for communications, situational awareness, positioning, navigation and timing, space will necessarily become an area we have to defend. Adversaries are likely to develop ground-based lasers, space jamming and killer micro-satellites to attack U.S. space assets.

They will do so whether or not we improve U.S. space capabilities because the U.S. economy and our way of life are growing increasingly dependent on space making U.S. space assets inviting targets for asymmetric attack. Consider for a moment the chaos that would ensue if an aggressor succeeded in striking our satellite networks: cell phones would go dead; ATM cards would stop functioning; electronic commerce would sputter to a halt; air traffic control systems would go offline, grounding planes and blinding those in the air. U.S. troops in the field would see their communications jammed; their precision strike weapons would stop working.

Today, in so far as we know, no nation has the capability to wreak such havoc. We must make sure no one can. Our goal is not to bring war into space, but rather to defend against

those who would. Protecting U.S. military and commercial assets in space from attack by foreign aggressors must be a priority in the 21st Century.

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

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

The 2003 budget requests about \$200 million to strengthen space capabilities--\$1.5 billion over the five year FYDP (2003-7) an increase of 145%.

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Of course, many of the programs I have described support several transformation goals. For example, the Trident-SSGN conversion will help support our goals of operating in access denial environments and denying enemy sanctuary. Together, they represent an emerging portfolio of transformational capabilities that should enable us to

defend freedom in the dangerous century ahead.

Again, it is important to emphasize that transformation is not an event. It is an ongoing process, a journey that begins with a transformed leading edge force, which, in turn, leads the U.S. Armed Forces into the future.

Moreover, it is not only about changing the capabilities at our disposal, but changing how we think about war. Imagine for a moment that you could go back in time and give a knight in King Arthur's court an M-16. If he takes that weapon, gets back on his horse, and uses the stock to knock his opponent's head, it's not transformational. Transformation occurs when he gets behind a tree and starts shooting.

All the high-tech weapons in the world won't transform the U.S. Armed Forces, unless we also transform the way we train, exercise, think and fight.

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As we transform for the wars of 2010 and beyond, we must also prepare the forces for wars they may have to fight later in this decade, by improving readiness, increasing procurement and selective modernization.

To advance transformation and deal with the backlog that resulted from the procurement holiday of the last decade, we have requested \$68.7 billion for procurement in the 2003 budget request. Procurement can increase of 10.6% over FY 2002. Procurement is projected to grow steadily over the five year FYDP to \$98 billion in FY 2007, and will increasingly fund transformation programs over time.

We have requested \$140 billion for operation and maintenance (O&M) accounts in 2003. This includes substantial funding for the so-called readiness accounts: tank miles, steaming days and flying hours for the Army, Navy and Air Force with only minor shortfalls. Funding includes:

- _ Aircraft operations/flying hours: \$11.8 billion, up from \$11.3 billion in FY 2002
- _ Army OPTEMPO: \$3.7 billion, up from \$3.3 billion in FY 2002
- _ Ship operations: \$2.4 billion, up from \$2.3 billion in FY 2002
- _ Depot maintenance: \$4.8 billion, up from \$4.5 billion in FY 2002
- _ Training: \$10.0 billion, up from \$9.4 billion in FY 2002

People/Military personnel

If we are to win the war on terror, and prepare for the wars of

tomorrowCin this decade and beyondCwe must take care of the Department-s greatest asset: the men and women in uniform. They are doing us proud in Afghanistan and around the worldCand today, thanks to their accomplishments in the war on terrorism, morale is high.

But if we want to attract and retain the necessary force over the long haul, we need to know we are looking for talent in an open market place, competing with the private sector for the best young people our nation has to offer. If we are to attract them to military service, we need to count on their patriotism and willingness to sacrifice to be sure, but we must also provide the proper incentives. They love their country, but they also love their families B and many have children to support, raise and educate. We ask the men and women in uniform to voluntarily risk their lives to defend us; we should not ask them to forgo adequate pay and subject their families to sub-standard housing as well.

The President-s 2003 budget requests \$94.3 billion for military pay and allowances, including \$1.9 billion for an across-the-board 4.1 percent pay raise and \$300 million for the option for targeted pay-raises for mid-grade officers and NCOs. It also includes \$4.2 billion to improve military housing, putting the Department on track to eliminate most substandard housing by 2007Cseveral years sooner than previously

planned. It will also lower out-of-pocket housing costs for those living off-base from 11.3% today to 7.5% in 2003Cputting us on track to eliminate all out of pocket housing costs for the men and women in uniform by 2005. The budget also includes \$10 billion for education, training, and recruiting, and \$18.8 billion to cover the most realistic cost estimates of military healthcare.

Together, these investments in people are critical, because smart weapons are worthless to us unless they are in the hands of smart, well-trained soldiers, sailors, airmen and marines.

Cost Savings

While this budget proposes increases in a number of important areas, it also includes a number of terminations. We have proposed terminating a number of programs over the next five years that were not in line with the new defense strategy, or which were having program difficulties. These include the DD-21, Navy Area Missile Defense, 18 Army Legacy programs, and the Peacekeeper Missile. We also accelerated retirement of a number of aging, and expensive to maintain capabilities, such as the F-14 and 1000 Vietnam-era helicopters.

We have focused modernization efforts on programs that support transformation. We restructured certain programs that were not

meeting hurdles, such as the V-22 Osprey, Comanche, SBIRS programs. Regarding V-22, the production rate has been slowed while attention is focused on correcting the serious technical problems identified by the blue ribbon panel and a rigorous flight test program is to be conducted to determine whether it is safe and reliable. The restructured programs reflect cost estimates and delivery dates that should be more realistic.

We are working to generate savings and efficiency by managing the Department in a more business-like manner. For example, today, the B-1 bomber cannot operate effectively in combat environment where there is a serious anti-aircraft threat. So the Air Force is reducing the B-1 bomber fleet by about one third, and using the savings to modernize the remaining aircraft with new precision weapons, self-protection systems, and reliability upgrades that will make them suitable for use in future conflicts. This should add some \$1.5 billion of advanced combat capability to today's aging B-1 fleet over the next five yearsCwithout requiring additional dollars from the taxpayers. These are the kinds of practices we are encouraging throughout the Department.

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

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

We would have liked to save more. Several things have held us back. One example was our decision not to make deep cuts in manpower. Before September 11th, the services were considering such cuts as trade-offs for other needs. In retrospect we are finding that to fight the war on terrorism and fulfill the many emergency homeland defense responsibilities, we have had to call up over 70,000 guard and reserves. It is clear nowBin the midst of the war on terror, the final dimensions of which are unknownBthat it is not the time to cut manpower. Our goal is to avoid having to increase manpower end-strength by refocusing our country=s forces, by tightening up on the use of military manpower for non-military purposes and by phasing down some of the domestic and the many of the international activities that the U.S. military is currently engaged in.

Defense is a manpower intensive businessCsome 60% of defense costs are related to manpower (pay, healthcare, etc.). That leaves only about 40% of the operating budget for everything else. So without end-strength cuts, DoD is limited in what can be done.

Second, Congress's decision to put off base-closure for two more years means that the Department will have to continue supporting between 20-25% more infrastructure than is needed to support the force. I know that members of this Committee worked hard to prevent a delay and we appreciate that support. But the decision to hold up the process another two years will end up costing the taxpayers in the range of \$6 billion annually.

Further, because of the new force protection requirements for forces here in the U.S., DoD is forced to spend to protect 25% more bases than we need.

Moreover, we are forced to put off investments in infrastructure replacement because we can't know which bases will be kept and which may be closed. It would have been a waste of the taxpayers' money to invest significant sums in modernizing bases that could eventually be closed.

By putting off modernization, we are making the cost of modernizing more expensive since the costs of repairing and replacing decrepit facilities grow exponentially each year the investments are put off. So the decision to delay base closure will ultimately be an expensive one for the taxpayers.

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

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

This leads to another area of concern: earmarks. Mr. Chairman, I asked DoD Comptroller Dov Zakheim to check, and he reports to me that last year alone in the 2002 budget Congress made changes to 2,022 individual programs and line items. In some cases, Congress either increased or cut requested programs, and in others Congress added funding for un-requested programs.

Congress changed 13% of all Research, Development, Test and Evaluation programs; 9.5% different changes in all; 8.6% of all procurement

programsC436 individual changes; and 15% of all military construction programsC146 individual changes.

Now each of these individual changes probably seems modestCand each one is. But in the aggregate, their effect is substantial. We find the Department like Gulliver, with thousands of Lilliputian threads over the Department. No one, individual thread kept Gulliver down. But in the aggregate, he couldn't get up.

Between the 2,000-plus earmarks and changes, and the hundreds of reports Congress requires DoD to prepare every year, we find ourselves killing thousands and thousands of trees, and spending hour after hour trying to figure our how we can do our jobs and show respect for the taxpayers dollars that they deserve.

Mr. Chairman, I don't know quite how it happened, but over the past two decades, distrust seems to have developed between the Congress and the Executive Branch. Possibly the Executive Branch did some things that caused distrust in the Congress, and the Congress has, for whatever reasons, decided that they want to try to micromanage the Department by putting literally thousands of earmarks on the legislation. We need to find a compromise of some sort.

Trade Offs

After considering the costs of keeping the Department moving on a straight-line, plus the costs of the war, we have roughly a \$9.8 billion increase. That's a lot of money. But it required us to make a number of difficult trade-offs.

- _ We were not able to meet our objective of lowering average age of tactical aircraft. However, we are investing in unmanned aircraft, and in the F-22 and JSF, which require significant upfront investments, but will not come on line for several years.
- _ While the budget proposes faster growth in Science and Technology (S&T), we were not able to meet our goal of 3% of the budget.
- _ And we have not been able to fund shipbuilding at replacement rates in 2003Cwhich means we remain on a downward course that, if not unchecked, could reduce the size of the Navy to a clearly unacceptable level in the decades ahead.

The FY 2003 shipbuilding budget is \$8.6 billion and procures 5 shipsCtwo DDG-51 destroyers and one Virginia Class submarine, one LPD-17 Transport Dock Ship, and one T-AKE Dry Cargo Ship. There are several reasons for this level. One problem involves contractor difficulties. Also, we are forced to fund ongoing programs where, for whatever reasons, cost estimates were too low.

Second, the Navy has made a calculation that, in the short term, we can maintain the required force level at the current procurement rate because the current average age of the fleet is at an acceptable level. Specifically, we are still benefiting from the sizable shipbuilding investments of the 1980s. The Navy concluded that it was more important now to deal with significant needs that had been underfunded in recent years, such as shortfalls in munitions, spare parts, and steaming hours, which are all fully funded in this budget. Further, the budget would also invest significant sums in SSGN conversion, which do not count in the shipbuilding totals because, while they do provide new capabilities, they do not buy new ships.

To sustain the Navy at acceptable levels, the U.S. needs to build eight or nine ships annually. The proposed Future Years Defense Plan budgets for procurement of 5 ships in FY 2004, 7 ships in 2005, 7 ships in 2006 and 10 ships in 2007.

So we have not done everything we hoped to be able to do. But these remain our goals and we intend to get these trends on the upswing in the years ahead.

Conclusion

\$379 billion is a great deal of money. But consider: the New York City comptroller's office has estimated the local economic cost of the September 11th attacks on the city alone will add up to about \$100 billion over the next three years. *Money* magazine estimates of the cost of September 11th to the U.S. economy at about \$170 billion last year and some estimates range as high as \$250 billion a year in lost productivity, sales, jobs, and airline revenue, media and advertising, and costlier insurance for homes and businesses.

And that is not to mention the cost in human lives, and the pain and suffering of so many thousands of Americans who lost husbands and wives, fathers and mothers, sons and daughters, sisters and brothers that terrible day.

The message is clear: we must invest so our country can deter and defend against the now clear new threats against those who might wish to attack and kill our people. All together, this proposed defense budget amounts to 3.3% of our nation's Gross Domestic Product. Compared to the cost in lives and treasure if we fail to stop another September 11th or worse, it is cheap at that price.

It is a tragedy repeated throughout history that free nations seem to have difficulty recognizing the need to invest in their Armed Forces until a crisis has already arrived. In 1950 just five years after the allied

victory in World War II General Omar Bradley urged President Truman to spend at least \$18 billion on defense. The Joint Chiefs requested an even higher amount at \$23 billion, and the services= country was higher still at \$30 billion. But the President concluded the country couldn't afford that much--\$15 billion was as much as the U.S. could afford.

Six months later, the United States was suddenly at war in Korea. And, just as suddenly, the President, Congress and the American people found they could afford \$48 billion just fineCa 300% increase.

In this time of crisis, let us work together to make the investments necessary to win this war and to prevent the next one. Let us do so chastened by our experiences on September 11th, and with a renewed commitment to ensure that, once the fires burned out, the war ends, and the nation rebuilds, we won't forget the lessons learned at the cost of so many innocent lives; that we won't go back to old ways of doing things. The lives of our children and grandchildren depend on it.

Thank you.

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