

**Transcript of Remarks by Senate Budget Committee Chairman Kent Conrad (D-ND)
Hearing on the President's Fiscal Year 2003 Defense Request
February 28, 2002**

Opening Statement:

I first want to thank our witnesses for being here this morning. We appreciate, especially in the case of Mr. O'Hanlon, whose wife is due any day now, for being here. I appreciate all the witnesses for being here. Mr. Weston, who is the Honorary Chairman and former CEO of Automatic Data Processing, and Vice Chairman of Business Executives for National Security, and Co-Chairman of the "Tail-to-Tooth" Commission, which did really very important work helping us understand the defense needs of the country going forward. Michael O'Hanlon, a Senior Fellow at the Brookings Institution, who is a recognized expert on the resources for defense, and Loren Thompson, the Chief Operating Officer of the Lexington Institute. Welcome, it's good to have all of you here today. We certainly appreciate your taking the time, and I can say we look forward to your testimony.

As we all know, the President indicated in the State of the Union that "we will spend what it takes to win the war on terrorism." And let the message go forth from this hearing room that Congress is standing shoulder to shoulder with the President in that regard. No adversary should doubt that we are going to provide the resources necessary to defend this nation and win this war on terrorism. No adversary should take any comfort in the debate that we will have about what that level of necessity is. That's the strength of America, to have a debate, to have a discussion, so we can do the things necessary to make certain America is strong.

Unfortunately, we do face a budget situation that requires us to examine every part of federal spending. We can't provide a blank check to any part of the federal government, because as the chart shows, we're facing trust fund deficits as far as the eye can see. If we look ahead, we can see red ink for the entire next decade.

Understanding the long term budget outlook requires focus on each of its major elements, including defense, which represents roughly half of all discretionary spending.

For several years, I have been pushing for increases for spending in national defense. In the budget I presented last year, I had a larger increase for defense over the 10 years than did the President's initial budget, because I could see we needed to put more money into defense over the next decade. And there is no question a further defense increase is needed in 2003.

However, serious questions deserve to be asked about the President's request. I will discuss those in detail during the question and answer, but let me first turn to a couple charts to frame the debate on defense spending.

Defense is clearly a major priority in the President's budget. Relative to baseline, national defense receives a \$36 billion increase in 2003. Let me just indicate, you can see homeland security gets an increase over the baseline – remember baseline is last year's spending plus inflation, that's roughly what constitutes the baseline – the President's increase above the

baseline for homeland security is \$5 billion; national defense is increased \$36 billion – this will throw some people, because they're familiar with a \$48 billion increase, but part of that is in the baseline; international affairs a \$400 million increase; all other domestic spending a \$23 billion reduction.

Let's go to the next chart. In terms of trying to kind of put in perspective how large our defense expenditure is, I think this chart is useful. It shows that under the President's plan, we will be spending as much as the next 18 nations combined. Mr. Wolfowitz, when he was here, the Deputy Secretary indicated we don't fight budget to budget, we fight adversaries. And he's exactly right, but I do think it's important in terms of assessing and putting in context what this level of expenditure is, so that we understand where we fit in with the rest of the world.

And of course, the increases that are being proposed don't just have an effect in 2003, they have an effect for the next decade. We see the President's budget proposal over the decade is \$656 billion over the baseline. That is an enormous amount of money and we have to ask the tough questions with respect to that dedication of resources.

During this hearing we hope to better understand the President's defense request. In particular, we will focus on the following questions:

1. Does the budget make the right assumptions about the war on terrorism?
2. Does the budget take the right approach to military transformation?
3. Is additional funding becoming the priority at the expense of real reform?

This is a concern which was expressed by the former Vice Chairman of the Joint Chiefs of Staff, Admiral Owens, when the President's budget was released on February 4. He said at that time, a "return to the defense spending heights of the mid-1980s is not necessary to win the war on terrorism or to transform our armed forces. In fact, it could be quite counterproductive. Availability of such large sums of money will reduce incentives to eliminate costly redundancies in our force structure 'tooth,' but particularly in the 'tail' of defense bureaucracy and support organizations. The truth is," continuing to quote Admiral Owens, "that we already have all the money for defense we need, so long as we undertake real reform and spend it better."

Let me just say, I think we also need more money for defense. I don't think it's going to work if we try to use just the existing resources dedicated to defense. I think it's going to take more money. But, Admiral Owens does add very serious questions about if we give this amount of money do we in effect stop the process of reform and eliminating the duplication that we all know exists in the military. I have had top military leaders say to me, look you do have to provide some skepticism here. It is important to the services themselves, because we have very significant duplication, because of the various branches of the military, and if we were any business in America, we would look at those places where we have redundancies and duplication. So much of it is in the administrative area, not in the war fighting capability, but in the so-called 'tail,' the administrative support. And I think we all know that's true.

Mid Hearing Statement:

I've had top uniformed military officers, at very high levels, tell me privately that they are very worried about the amount of money we're spending on national missile defense. And let me say I have long been an advocate of national missile defense. Dr. O'Hanlon, I'm pretty much on your wavelength on national missile defense. I do think it makes sense to invest money, first in those shorter range systems, but also to continue a robust effort on national missile defense. But, I must say the President's proposal leaves me cold, because CBO tells us for limited layered defense we're talking about \$150 billion. Where is the money coming from?

You know, we're already in deep deficit. We're already, under the President's plan, going to be taking \$2.2 trillion out of Social Security and Medicare trust funds over the next decade, right at the time the baby boomers start to retire.

We had testimony here from the Comptroller General of the United States just yesterday that we've got nearly \$7 trillion of unfunded liabilities. I mean this is getting more and more like Enron. Enron got in trouble because they hid their debt. They hid it from investors, they hid it from shareholders. I think they hid it from themselves in some ways. I think these guys – I think some of them knew what was going on – really didn't appreciate the debt bomb they were facing as a company and it led to catastrophic failure. As a country, we aren't facing up to the debt that we are building. You know, Chairman Greenspan came and met with me, and he said I'm very concerned about these so-called contingent liabilities, because they're not contingent at all. The vast majority of them are real liabilities, and we're not facing up to them.

I guess my frustration, the more I know, the more I learn in this position, the more frustrated I become that we are just in dreamworld here in terms of our long-term fiscal condition as a country. And so it makes these decisions all the more critical. I don't see \$150 billion for national missile defense over the next decade, and yet I believe strongly we have to pursue national missile defense, but I think we have to do it at a level that's more affordable.