

**TESTIMONY OF DEPUTY SECRETARY OF DEFENSE
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PREPARED FOR THE SENATE BUDGET COMMITTEE
2003 DEFENSE BUDGET REQUEST
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Introduction

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

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

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

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

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

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

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

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

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

New Defense Strategy

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

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

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

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

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

Second, to confront a world marked by surprise and substantial uncertainty, we agreed that we needed to shift our planning from the “threat-based” model that has guided our thinking in the past to a “capabilities-based” model for the future. We don’t know who may threaten us or when or where. But, we do have some sense of what they may threaten us with and how. And we also have a sense of what capabilities can provide us important new advantages.

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

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

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

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

The budget requests \$53.9 billion for Research, Development, Test, and Evaluation (RDT&E)—a \$5.5 billion increase over FY 2002. It requests \$71.9 billion for procurement—\$68.7 billion in the procurement title—a \$7.6 billion increase over FY2002—and \$3.2 billion in the Defense Emergency Response Fund. It funds 13 new transformational programs, and accelerates funding for 22 more existing programs.

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

1. Protecting Bases of Operation /Homeland Defense.

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

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

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

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

2. Denying Enemies Sanctuary.

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

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

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

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

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

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

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

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

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

- \$634 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.

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

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

- \$172 million to continue development of the Joint Tactical Radio System, a program to give our services a common multi-purpose radio system so they can communicate with each other by voice and with data;
- \$150 million for the “Link-16” Tactical Data Link, a jam-resistant, high-capacity, secure digital communications system that will link tactical commanders to shooters in the air, on the ground, and at sea—providing near real-time data;
- \$29 million for Horizontal Battlefield Digitization that will help give our forces a common operational picture of the battlefield;

- \$61 million for the Warfighter Information Network (WIN-T), the radio-electronic equivalent of the World Wide Web to provide secure networking capabilities to connect everyone from the boots on the ground to the commanders.
- \$77 million for the “Land Warrior” and soldier modernization program to integrate the small arms carried by our soldiers with high-tech communications, sensors and other equipment to give new lethality to the forces on the ground;
- \$40 million for Deployable Joint Command and Control—a program for new land- and sea-based joint command and control centers that can be easily relocated as tactical situations require.

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

5. Conducting Effective Information Operations.

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

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

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

6. Strengthening Space Operations.

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

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

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

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

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

People/Military Personnel

While we transform for the future, we must take care of our most valuable resource: the men and women who wear our nation’s uniform. Military service by its nature asks our service members to assume certain risks and sacrifices. But, we should not ask those who put themselves in harm’s way to forego competitive pay and quality housing.

The President’s 2003 budget requests \$94.3 billion for military pay and allowances, including \$1.9 billion for an across-the-board 4.1 percent pay raise.

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

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

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

Cost Savings

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

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

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

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

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

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

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

Congress's decision to put off base-closure for two more years means that the Department will have to continue supporting between 20-25% more infrastructure than needed to support the force. The decision to hold up the process another two years will be a costly one for taxpayers. Additionally, because of the post-September 11th force protection requirements, DoD is forced to protect 25% more bases than we need.

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 that the delay in BRAC is already causing.

Trade Offs

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

- We were not able to meet our objective of lowering average age of tactical aircraft. However, we are investing in unmanned aircraft, and in the F-22 and JSF, which require significant upfront investments, but will not come on line for several years.
- While the budget proposes faster growth in Science and Technology (S&T), we were not able to meet our goal of 3% of the budget.
- And we have not been able to fund shipbuilding at replacement rates in 2003—which means we remain on a downward course that, if not unchecked, could reduce the size of the Navy to a clearly unacceptable level in the decades ahead. To sustain the Navy at acceptable levels, the U.S. needs to build eight or nine ships annually. The proposed Future Years Defense Plan budgets for procurement of 5 ships in FY 2004, 7 ships in 2005, 7 ships in 2006 and 10 ships in 2007.

Conclusion

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

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