

**HEARING TO RECEIVE TESTIMONY ON THE
REPORT OF THE QUADRENNIAL DEFENSE
REVIEW INDEPENDENT PANEL**

TUESDAY, AUGUST 3, 2010

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:34 a.m. in room SD-G50, Dirksen Senate Office Building, Senator Carl Levin (chairman) presiding.

Committee members present: Senators Levin, Lieberman, Reed, Bill Nelson, E. Benjamin Nelson, Webb, McCaskill, Udall, Hagan, Begich, Burris, Bingaman, Kaufman, McCain, Chambliss, Thune, LeMieux, Brown, Burr, and Collins.

Committee staff members present: Richard D. DeBobes, staff director; and Leah C. Brewer, nominations and hearings clerk.

Majority staff members present: Jonathan D. Clark, Counsel; Creighton Greene, professional staff member; Jessica L. Kingston, research assistant; Gerald J. Leeling, counsel; Peter K. Levine, general counsel; Roy F. Phillips, professional staff member; and William K. Sutey, professional staff member.

Minority staff members present: Joseph W. Bowab, Republican staff director; Adam J. Barker, professional staff member; Christian D. Brose, professional staff member; Pablo E. Carillo, minority investigative counsel; John W. Heath Jr., minority investigative counsel; Michael V. Kostiw, professional staff member; David M. Morriss, minority counsel; and Dana W. White, professional staff member.

Staff assistants present: Paul J. Hubbard, Brian F. Sebold, and Breon N. Wells.

Committee members' assistants present: Christopher Griffin, assistant to Senator Lieberman; Carolyn Chuhta, assistant to Senator Reed; Nick Ikeda, assistant to Senator Akaka; Ann Premer, assistant to Senator Ben Nelson; Patrick Hayes, assistant to Senator Bayh; Gordon Peterson, assistant to Senator Webb; Tressa Guenov, assistant to Senator McCaskill; Jennifer Barrett, assistant to Senator Udall; Roger Pena, assistant to Senator Hagan; Jonathan Epstein, assistant to Senator Bingaman; Lenwood Landrum and Sandra Luff, assistants to Senator Sessions; Matthew Rimkunas, assistant to Senator Graham; Jason Van Beek, assistant to Senator Thune; Scott Schrage, assistant to Senator Brown; and Ryan Kaldahl, assistant to Senator Collins.

OPENING STATEMENT OF SENATOR CARL LEVIN, CHAIRMAN

Chairman LEVIN. Good morning, everybody.

The committee meets this morning to receive testimony on the report of the Quadrennial Defense Review Independent Panel.

Our witnesses, the co-chairs of the independent panel, are well-known leaders with long careers in and out of Government, and we are grateful for the willingness of former Secretary of Defense William J. Perry and former National Security Adviser Stephen J. Hadley to serve as co-chairs of this panel.

We are also thankful for the efforts of your 16 other panel members, and all of you have brought a breadth and depth of expertise that is evident throughout the report that is comprehensive, insightful, and even provocative in its many findings and recommendations.

The QDR is a congressionally mandated, comprehensive examination of our National defense strategy, force structure, modernization, budget plans, and other defense plans and programs intended to shape defense priorities, operational planning, and budgets projected as far as 20 years into the future.

In 2007, Congress required that the Secretary of Defense create an independent panel of experts to conduct a review of the department's QDR, an independent review that had not been done since the very first QDR back in 1997. This new independent panel is tasked with providing Congress its assessment of the QDR's stated and implied assumptions, findings, recommendations, vulnerabilities of the underlying strategy and force structure, and providing alternative force structures, including a review of their resource requirements.

Last February, the Defense Department delivered its QDR report. And now this is another explicitly wartime QDR, as was the last report in 2006, that emphasizes the need to succeed in the conflicts in Iraq, Afghanistan, and against Al Qaeda, and ensuring that our strategy and resource priorities support that objective.

The QDR also argues for realignment of investments from programs that it sometimes describes as "relics of the Cold War" toward those that support critical joint missions, including countering anti-access strategies, building the capacity of partner states, and ensuring access to cyberspace. The QDR report also proposes measures to reform institutional procedures, including acquisition, security assistance, and export control processes.

The independent panel acknowledges the QDR is a wartime review that is understandably and appropriately focused on responding to the threats that America now faces. However, they are also critical that, like previous QDRs, it fails to provide long-term planning guidance for the threats the Nation could face in the more distant future.

In taking its own longer, fiscally unconstrained view of America's strategic challenges, the independent panel makes findings and recommendations that raise important questions and provide policy and program options that we will explore in the months and the years ahead.

The panel's report begins with the recognition of the many shortfalls in civilian capacity necessary to meet the modern demands of the current and future security and stability environment. The

panel reiterates the longstanding call for participation of U.S. and international civilians—both Government and nongovernment—in preventing conflict and managing post conflict stability situations.

In some of the panel's most far-reaching and provocative recommendations, they challenge both the administration and Congress to reform our National security institutions and processes. Among other changes, the panel calls for restructuring the U.S. Code to realign and integrate executive department and agency responsibilities and authorities, expanding the deployable capabilities of civilian agencies, and consolidating the budget processes and appropriations of the Departments of Defense and State and the intelligence community. We will want to learn more from our witnesses about these proposals and which of them, in their view, are the most important to address in the near and the long terms.

The panel goes on to warn us about what it calls the "growing gap" between what the military is capable of doing and what they may be called upon to do in the future. To reduce this gap, the panel essentially argues that defense spending should be substantially increased, despite the current economic environment and the department's plans for modest real growth for the foreseeable future.

With respect to force structure, the panel's most significant or one of their most significant recommendations would increase the size of the Navy to 346 ships to promote and protect our strategic interests in the Pacific. We would be interested to know from our witnesses in what way the QDR force is inadequate to this challenge and what specific additional capabilities that the panel believes are necessary for that region and what missions are the priorities.

In the area of personnel, the panel commends the QDR's emphasis on the strategic importance of sustaining the All-Volunteer Force that has performed so magnificently over the last almost 10 years of war. The panel notes, however, that the recent and dramatic cost growth of the All-Volunteer Force is unsustainable for the long term and will likely lead to reductions in force structure and benefits or a compromised volunteer system altogether.

Higher costs per servicemember, as the panel points out, could mean fewer servicemembers, resulting in an increased number of deployments for those in service and greater stress on them and their families. Now that is a vicious budgetary cycle.

Nevertheless, the panel recommends increasing the Navy end strength while maintaining the current strengths of the other services. We would be interested to hear from our witnesses more about their recommendations in this area, which include some kind of a bifurcated compensation and assignment system for career and non-career military members.

Many of the panel's acquisition-related recommendations echo Congress's longstanding concerns and legislation previously enacted by this committee. For example, the panel's call for the increased use of competition and dual sourcing parallels requirements enacted in last year's Weapon Systems Acquisition Reform Act. The same is true of the panel's call for increased emphasis on technologically mature programs that can be delivered in the shortest practical time.

Similarly, the panel's call for shortening the acquisition process for wartime response to urgent needs appears to be consistent with provisions already included in the National Defense Authorization Act, which was reported by our committee earlier this year.

The panel's recommended realignment of acquisition process responsibilities and authorities, however, is less clear. And we look forward to learning more from the witnesses regarding the panel's recommendations for adjustments to the lines of authority established two decades ago in response to the recommendations of the Packard Commission and to the increased role that the combatant commanders are already playing in the acquisition process.

Finally, the independent panel followed our statutory guidance and conducted its review of the QDR and strategic assessments from a fiscally unconstrained perspective. When reading their report, however, one cannot escape questioning the affordability of many of their recommendations, particularly given the current state of our economy and the budget deficit.

The panel recommends that in order to meet the greater costs associated with its recommendations for force structure increases, the department and Congress should restore fiscal responsibility to the budget process that was lost when balanced budget rules were set aside at the beginning of the war. Those rules force decisionmakers to make tradeoffs and identify offsets to cover those increased costs. Does the panel recommend other steps to generate the resources necessary to pay for its many proposals?

Again, we thank our witnesses and the panel—their panel colleagues for this very significant contribution to our ongoing national security debate. There is much here to discuss as we work together to meet the challenges that confront our Nation today and well into the future.

Senator McCain.

STATEMENT OF SENATOR JOHN MCCAIN

Senator MCCAIN. Thank you, Mr. Chairman.

And let me thank our distinguished witnesses, old friends, former Secretary of Defense William Perry and former National Security Adviser Steve Hadley. Thank you for your many years of service to our Nation and your leadership of this panel.

And again, I am grateful for the many years of service to our country that both of our witnesses have provided and also the distinguished members of your panel, which I think are amongst the finest thinkers that we have in America today on national security issues.

As we know, the panel was mandated in the 2009 National Defense Authorization Act to provide a separate, outside assessment of the questions posed by the QDR. The administration's QDR, which was released in February, is, in their own words, "a wartime QDR." It is focused mainly on winning the wars we are in and meeting the associated needs of the force. This priority is understandable and right.

Our men and women in uniform have for nearly a decade now been serving in a force at war. They are defeating America's enemies in the fight against violent Islamic extremism. They are supporting Iraq's emergence as an increasingly stable democratic

state. And if given the necessary time and support, they can reverse the momentum of the insurgency in Afghanistan and prevent that country from ever again becoming a safe haven for international terrorists.

As long as America has troops in combat, they and their mission must be our highest priority. And yet prevailing in the wars of today cannot be our only priority. We will also need to ensure that our force is prepared and resourced to meet a wide array of other challenges over the coming decades, especially amid the tectonic shifts now occurring in the global distribution of power.

In particular, our military must be able to ensure secure access to the global commons, including cyberspace, to shape a balance of power in critical regions that favors our interests and values and those of our allies; to build the capacity of weak partners to secure their countries and operate together with us; and, of course, to defend the homeland.

These are just some of the major challenges that our force will be called on to meet over the next 20 years, which is the period of time for which the QDR is mandated by Congress to propose defense programs. However, as this panel's report correctly observed, the intended long-term focus of the QDR is being lost. Instead, successive administrations have increasingly produced QDR after QDR that is more a reflection of present defense activities than, in the words of the panel's report, "a strategic guide to the future that drives the budget process."

The 2010 QDR mostly continues this trend, and now more than ever we need to regain a long-term strategic focus on our defense priorities. In that regard, the report of the QDR Independent Review Panel makes an important contribution.

We are in the midst of a great national debate about the priorities and spending habits of our Government, driven by the mounting debt that threatens our Nation's future. For the first time in a decade, there is a growing call for real cuts in defense spending and a willingness on both sides of the aisle to consider it.

This panel has now offered a strong counterargument. A bipartisan group of respected national security experts who all agree, as Secretary Perry told the House Armed Services Committee last week, that identifying savings and efficiencies in the defense budget is necessary but not sufficient to meet our Nation's future national security priorities. Ultimately, the panel finds overall defense spending must rise.

As we debate the future of the defense budget at a time of fiscal scarcity, this report will not be the final word, but it offers formidable proposals that Congress must take very seriously—from recommendations for fixing the Defense Department's dysfunctional procurement system to bold ideas for reforming TRICARE so that rising healthcare costs do not devour the defense budget. The report is also an important reminder that we should not allow arbitrary budget numbers, whether capped top-line figures or percentages of GDP, to drive our defense strategy.

Instead, we must frankly identify the strategic challenges facing our Nation over the next 20 years. We must lay out the commitments and capabilities needed to meet these challenges. We must

cut waste, identify efficiencies, and make every possible reform that can save money.

We must terminate expensive or over-budget programs that we can do without. We must put an end to pork barrel earmarking, which wastes billions of dollars every year on programs that our military doesn't request and doesn't need.

Finally, having done all of this, having identified our real needs and gotten the most of our defense dollars that we can, America should be prepared to pay the resulting bill, whatever it is, or accept the resulting risk to our National security and that of our friends and allies for failing to do so. This will require some very hard choices, but the benefit to be gained by sustaining and strengthening America's global leadership is imminently worth it.

I want to thank the witnesses and their fellow members of the independent review panel for emphasizing the importance of strong, confident U.S. leadership in the world and the special role that our armed forces play in securing not only our own interests, but in defending an open international order that benefits all who join it.

This panel's report is an important point of reference in our current debates, and I appreciate the time and care that our witnesses and their fellow panelists put in it.

Thank you, Mr. Chairman.

[The prepared statement of Senator McCain follows:]

Chairman LEVIN. Thank you, Senator McCain.

Secretary Perry, if there are any other members of the independent panel who are here with you and Mr. Hadley, could you introduce them? And then you can begin your testimony.

STATEMENT OF HON. WILLIAM J. PERRY, CO-CHAIR, QUADRENNIAL DEFENSE REVIEW INDEPENDENT PANEL, AND HON. STEPHEN J. HADLEY, CO-CHAIR, QUADRENNIAL DEFENSE REVIEW INDEPENDENT PANEL

Dr. PERRY. John Nagl—

Chairman LEVIN. Yes, if you could talk into the mike, it would be great.

Dr. PERRY. John Nagl is the other member of the panel with us.

Chairman LEVIN. Good. Thank you.

Mr. Nagl, great to have you.

Dr. Perry?

Dr. PERRY. Well, let us start with Mr. Hadley first.

Chairman LEVIN. Well, we—oh, you have—I apologize. Mr. Hadley, you have your own opening? I thought you were—

Mr. HADLEY. Mr. Chairman, we have a joint statement, which, with your permission, we would like submitted into the record. And we thought we would just summarize that statement. I will do the first half.

Chairman LEVIN. Oh, okay. Great.

Mr. HADLEY. Secretary Perry will do the hard work at the last half—

Chairman LEVIN. I had it reversed.

Mr. HADLEY.—if that is acceptable.

Chairman LEVIN. Very good. Mr. Hadley, you shall begin then.

Mr. HADLEY. Thank you, sir.

Chairman Levin and Ranking Member McCain, we thank you for the opportunity to appear before you and other members of this distinguished committee to discuss the final report of the Quadrennial Defense Review Independent Panel.

The Congress and Secretary Gates gave us a remarkable set of panel members who devoted an enormous amount of time and effort to this project. It was a model of decorum and of bipartisan legislative/executive branch cooperation.

Paul Hughes, as executive director of the panel—who is here today—ably led a talented expert staff. And the result is the unanimous report you have before you, entitled “The QDR in Perspective: Meeting America’s National Security Needs in the 21st Century.”

Our report is divided into five parts. The first part conducts a brief survey of foreign policy with special emphasis on the missions the American military has been called upon to perform since the fall of the Berlin Wall. From the strategic habits and actual decisions of American Presidents since 1945, habits and decisions that have shown a remarkable degree of bipartisan consistency, we deduce four enduring national interests, which will continue, in our view, to transcend political differences and animate American policy in the future.

Those enduring national interests include the defense of the American homeland; assured access to the sea, air, space, and cyberspace; the preservation of a favorable balance of power across Eurasia that prevents authoritarian domination of that region; and providing for the global common good through such actions as humanitarian aid, development assistance, and disaster relief.

We also discussed the five greatest potential threats to those interests that are likely to arise over the next generation. These threats include, but are not limited to, radical Islamist extremism and the threat of terrorism; the rise of new global great powers in Asia; continued struggle for power in the Persian Gulf and the greater Middle East; an accelerating global competition for resources; and persistent problems of failed and failing states.

These five global trends have framed a range of choices for the United States. We have a unique opportunity to continue to adapt international institutions to the needs of the 21st century and to develop new institutions to meet those challenges.

We have various tools of smart power—diplomacy, engagement, trade, communications about Americans’ ideals and intentions—and these will increasingly be necessary to protect America’s national interests. But we conclude that the current trends are likely to place an increased demand on American hard power to preserve regional balances because while diplomacy and development have important roles to play, the world’s first-order concerns will continue to be security concerns, in our judgment.

In the next two chapters, we turn to the capabilities of our Government and that our Government must develop and sustain in order to protect our enduring interests. We first discussed the civilian elements of national power, what Secretary Gates has called the tools of soft power.

We make a number of recommendations for the structural and cultural changes in both the executive and legislative branches,

which will be necessary, in our view, if these elements of national power are to play their role in protecting America's enduring interests.

The panel notes with extreme concern that our current Federal Government structures, both executive and legislative, and in particular those related to security, were fashioned in the 1940s. And they work, at best, imperfectly today. The U.S. defense framework adopted after World War II was structured to address the Soviet Union in a bipolar world, and the threats today are much different. A new approach is needed.

We recommend that Congress reconvene its Joint Committee on the Organization of the Congress to examine the current committee structure and consider establishing a single national security appropriations subcommittee and a coordinated authorization process between relevant committees.

Furthermore, the panel recommends that the President and the Congress establish a national commission on building the civil force of the future to develop recommendations and a blueprint for increasing the capability and capacity of our civilian departments and agencies to move promptly overseas and cooperate effectively with military forces in insecure security environments.

Let me turn to my colleague, Bill Perry, to summarize the rest of the report. I want to thank him for his leadership. He is the person who made clear from the very beginning this needed to be a consensus report. And because of his leadership, it is. He is a great national resource, and the country is lucky to have him.

Mr. Secretary?

Dr. PERRY. Thank you very much, Steve.

I must say a major part of our panel's effort was devoted to a consideration of future force structure. For many decades during the Cold War, the primary mission of the Defense Department was to build a force capable of deterring and containing the Soviet Union. The Defense Department recognized other missions, but considered those missions were lesser included cases—that is, they would be automatically covered by the force we had capable of deterring the Soviet Union.

In 1993, the Cold War was over. We needed a new force structure, and we created something called the bottom-up review. That identified the primary missions of the Defense Department to have the force structure capable of fighting and winning two major regional conflicts. And we looked at other cases, but we considered them lesser included cases that would be covered by the force we built for the two MRCs.

Today, the assumptions of the Cold War in the 1990s are no longer valid. A major portion of our military is engaged in two insurgency operations. Not surprisingly then, Secretary Gates has focused this QDR on success in Afghanistan and Iraq. And I must say, had I been the Secretary of Defense, I would have done the same thing.

However, it is also important to plan the forces that we will need 10, 20 years ahead. And a force planning construct is a powerful lever for shaping the Defense Department.

The absence in the QDR of such a construct was a missed opportunity. So our panel decided to offer our own judgments as to what

that should be, based on the assumption of the global trends and the threats that were just described by Mr. Hadley. Those judgments are as follows.

First of all, the recent additions to the ground forces, we believe, will need to be sustained for the foreseeable future.

Second, the Air Force has about the right force structure, except for the need to augment its long-range strike capability.

Third, we need to increase our maritime forces to sustain the ability to transit freely in the Western Pacific. We saw that as the primary driving factor for an increased naval size.

Fourth, the Defense Department needs to be prepared to assist civil departments in the event of a cyber attack on the homeland. It is a homeland security issue, but the Defense Department has the primary resources for dealing with a cyber problem.

We believe that a portion of the National Guard should be dedicated to the homeland security mission—in fact, that generally, we need to revisit the contract with the Guard and the Reserves.

A major capitalization will be required of our forces, not the least of which is because of the wear and tear of the equipment in the wars in Iraq and Afghanistan. Secretary Gates's directive on efficiencies to deal with these costs is a good start but, in our judgment, will not be sufficient. That is, additional top line will be required. What we have described as a need will be expensive, but deferring recapitalization could entail even greater expenses in the long run.

We looked carefully at the personnel issue and believe—started off with the belief that the All-Volunteer Force has been a great success. But the dramatic increases in costs in the last few years cannot be sustained. We believe we must seriously address those costs, and a failure to do so would lead either to a reduction in force or a reduction in benefits or some way of compromise our volunteer force, none of which is desirable.

So we must reconsider longstanding practices—the extended length of expected service, revise benefits to emphasize cash instead of future benefits, look hard at and revise the current longstanding up-and-out personnel policy, and revise the TRICARE benefits.

I must say we understand that these are all big issues and all very politically sensitive issues, but we believe they have to be addressed. We recommended the establishment of a new commission on military personnel comparable to the Gates Commission back in 1970, which established the All-Volunteer Force. And the charter of that commission basically should be to implement the recommendations which we have described in this report.

An important part of the personnel issue is the professional military education. The training and education program in the military today plays a key role in making the U.S. military the best in the world. It is expensive, but it is worth it.

We recommended a full college program for Reserves with summer training and a 5-year service commitment. We recommended expanded graduate programs in military affairs, foreign culture, and language. And we recommended providing key officers with a sabbatical year in industry. All of those are evolutionary changes to professional military education which would be beneficial.

We looked carefully at the acquisition and contracting problems, of which there are many—recommended, first of all, clarify the accountability. In fact, we devoted several pages to discussion of specific recommendations as to how that might be improved.

We looked at the history of programs in the last decade or so which dragged on for 10, 12, 14 years and led to very extensive overruns. We believe that we should set limits of 5 to 7 years for the delivery of defined programs. Five to 7 years, we have a history of programs with that limit that have been successful, and all programs that we know of that have dragged on for 10 to 20 years have been unsuccessful. And we believe that it is no coincidence that the long programs lead to problems.

We recommended requiring dual-source competition for production programs whenever such dual-source competition provides real competition. And we recommended establishing a regular program for urgent needs such as now being done by the Under Secretary of Defense for Acquisition, Technology, and Logistics in Afghanistan.

Finally, we had some comments on planning. We believe that the QDR, as now mandated, is an inappropriate vehicle for dealing with the issues that Congress wants to deal with. It comes too late in the process.

We recommended that you establish an independent strategic review panel in the fall of the presidential election year that would be established by the legislative and executive branch, as was the QDR, that this panel convene in January of the new administration and report 6 months later. This then would be an input to the National Security Council for preparing a national security strategy, and this plus the regular procurement planning and budgeting process would replace the QDR.

I would like to close with a final comment that this report we hand to you is a unanimous report from a bipartisan panel. We—both Mr. Hadley and I, from the very first day of the panel, told our panel members that not only was it a bipartisan panel, but our deliberations should be not bipartisan, but nonpartisan. The national security issues we deal with are too important to be dealt with in a partisan way.

The panel responded positive to this, and therefore, we are able to give you today a bipartisan, unanimous report.

Thank you very much.

[The prepared statement of Dr. Perry and Mr. Hadley follows:]
Chairman LEVIN. Thank you very much, Dr. Perry.

We will have a 7-minute first round.

Dr. Perry, let me start with you. The State Department has traditionally had the lead in decisions on security assistance through programs like foreign military financing. In recent years, the Department of Defense has brought an increasing share of resources to the table in determining the distribution of U.S. security assistance through programs like train and equip programs, the Iraq Security Forces Fund, the Afghan Security Forces Fund.

The panel's report, Secretary Gates, and a number of think tanks in Washington have proposed the idea of establishing an inter-agency-controlled pool of resources in certain areas such as counterterrorism, stabilization, and post conflict. The Department

of Defense, the Department of State, U.S. Agency for International Development have national security interests, and each has a role to play in these critical areas, and to varying degrees, they cooperate in advancing the foreign policy agenda.

Number one, would you recommend pooling of these resources and providing each of these agencies an equal seat at the table in distribution of the nondirected portions of these military security assistance accounts?

Dr. PERRY. In a word, yes. The kind of conflicts we have been fighting in Bosnia, Iraq, and Afghanistan cannot be done successfully by the DOD alone. They are fundamentally interagency problems. Providing the right training for that and the right coordination for that is very difficult, but we really have to face those issues.

The problems—I would make an analogy with the problems of getting joint service operations in an earlier era, which finally led to the Goldwater-Nichols bill and to where we now truly have joint operations. That was difficult as well, but it was accomplished. Something comparable needs to be done in this area.

Chairman LEVIN. Now, is there any recommendations you have as to where you would draw the line between where the State Department would have the lead in providing assistance and where the Defense Department would have that authority?

Dr. PERRY. I don't have a good formula for drawing that line, Senator Levin.

Chairman LEVIN. Okay.

Dr. PERRY. I would say that it is—certainly, a basis for making that judgment should be on the proportion of effort of each of the various departments.

Chairman LEVIN. Now for some of us, the civilian agencies, which are better suited to build capacity in certain nondefense elements of the security sector, have provided a very uneven performance in those areas to date. And we have seen their operations in Iraq and Afghanistan, and they have not been particularly steady or successful. They have been kind of halting, and we have had to kind of push that envelope a lot.

Would you agree with that? And if so, is that not going to be a problem?

Dr. PERRY. I do agree with that, and I think at least two things could be done to correct—to improve that process. One of them would be to adequately fund that mission, that function in the civilian agencies that has been traditionally underfunded in the past and, second, to have the Defense Department and the civilian agencies train together, exercise together for these kind of mission. That has been completely absent in the past.

Chairman LEVIN. Okay. You have made some recommendations relative to Navy capacity, particularly for the Asia-Pacific region, and you have cited potential challenges in Asia as the reason to increase the size of the Navy fleet. What specific capabilities did the panel find to enhance our capability in the Asia-Pacific region?

And given the long lead times inherent in the budgeting and construction associated with major acquisition programs such as shipbuilding, what would you consider the most pressing military needs

in the Asia- Pacific region? And either one of you could answer that.

Dr. PERRY. I would say, generally, the most pressing need are dealing with so-called anti-access missions, that is, various military systems that could deny access of our fleet to the Western Pacific. High on that list would be certainly anti-ship missiles, divining countermeasures for those.

Steve?

Mr. HADLEY. We were not in a position to generate a detailed force structure. A lot has changed in the 21st century, but the circumference of the Earth and the percent covered by water is one thing that hasn't. And what we thought was that required a presence requirement that would require a bigger Navy.

Obviously, much more work needs to be done to make sure that that Navy is structured in a way that is appropriate to the challenges. The one thing we did identify was this anti-access process that needs to be addressed, but exactly what ships with which capabilities is something this committee and the department would have to develop.

Chairman LEVIN. Okay. The panel's acquisition- related recommendations would give responsibility and authority to—greater responsibility and authority to the combatant commands supported by the services for the identification of weapons and equipment requirements or capability gaps. And we have included provisions in recent legislation, including both the Weapon Systems Acquisition Reform Act and the Defense Authorization Act, which the committee reported earlier this year, that would ensure that combatant commanders play an important role in the requirements development process.

However, General Cartwright, who has been a leading advocate for an improved requirements process, has told us that the combatant commands have heavy responsibilities as operational headquarters executing missions around the world and cannot be expected to run the requirements process.

Are you familiar with General Cartwright's recommendations for improving the requirements process? If so, would you agree or disagree with him as to the appropriate role of the combatant commanders?

Dr. PERRY. I have not read—

Chairman LEVIN. The mike is—

Dr. PERRY. I have not read General Cartwright's testimony. So I would prefer to take that question and answer for the record, please, if I may?

Chairman LEVIN. Mr. Hadley, are you familiar with that?

Mr. HADLEY. Yes, we think that—and I think our report suggests that the combatant commander doesn't necessarily run the process, but the combatant commander, supported by the Joint Chiefs, should be looked to for his input on this requirements issue since they are the closest to the—

Chairman LEVIN. And more so than is currently the case?

Mr. HADLEY. Yes, though, Senator, what—Mr. Chairman, what we tried to do was where there were reforms that had been in place—and the activities of this committee is one—we tried to reaffirm those reforms we thought were in the right direction and sug-

gest where we had to go further. And we think some—a number of things in the legislation that came out of this committee are in the right direction, and this was one.

Chairman LEVIN. Okay. Thank you.

Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

And I want to again thank the panel. Could I discuss for a minute with the panel members this latest issue of the leak of 93,000 documents? Obviously, we have already had a private first class charged with leaking of documents.

And the environment that we grew up in was that these classified information was kept on close hold. There was a need-to-know provision that even if you had clearance, you did not have access unless you had need to know.

Now we have a situation where apparently a private first class was able to get access to classified information, and apparently, other people that shouldn't have obviously did, abetted and aided by a willing and compliant media that doesn't seem to care about national security or the lives of the Afghans that have been put at risk. But that is—put that aside.

How do you size up that problem, and what do we need to do? It is obviously due to the age of computers. Dr. Perry or Steve, whoever wants to take a stab at that.

Dr. PERRY. I think there are two fundamental factors leading to this problem. One is the desire to get intelligence down to the battlefield level so that people who are fighting the battles have access to the best intelligence. I completely support that requirement, and I understand why there is the desire to do that. That inevitably leads to much more information being held at lower levels in the military.

Second, it fundamentally has to do with the fact of the digital age that we are now in, as you said. That it is not only possible to transmit huge amounts of data, but it is also possible to store it in very simple and small devices. That is a fundamental problem. I don't think I can give you a solution for how to deal with that.

But I do support both factors which have caused this problem, both getting the information down to the people who can use it in the field and the greater use of the digital systems to handle and process data. That does make us highly vulnerable to these kind of leaks.

Steve?

Mr. HADLEY. One of the problems is anonymity. I think people—many people believe that if something is anonymous, it makes it more reliable because people will then speak the truth if shielded from responsibility. I think just the opposite. Anonymity is a problem because it does not hold people responsible for the results of their actions, and we don't have a good way when people leak to hold them to account.

A lot of leaks occur. A lot of leaks get referred to the Justice Department. Very few leaks get prosecuted so that people are able to escape responsibility for the consequences of their actions, and that is a problem.

Dr. PERRY. I would say one other thing, Senator McCain. When I was the Secretary, we had an example of an egregious leak which

I thought compromised the National security. We prosecuted a case and sent the leaker to prison. And I think more examples of that would be useful in injecting better discipline in the system.

Senator MCCAIN. Well, I thank you both.

The situation as it exists now, obviously, we want to preserve those aspects of technology that you point out, Dr. Perry, but at the same time, it seems to me that cybersecurity has been rocketed up to the top of our priority list here. We have had indications of a need for it in the past, entire computer systems being shut down, et cetera, et cetera. But now this is—at least if there is anything good that comes out of this, it may put emphasis on the absolute requirement for us to address cybersecurity.

Dr. Perry, in the 1990s, as part of your honorable service, you talked to the defense industries and told them that there would have to be consolidations, which I don't disagree with that. But it seems to me, we have ended up—despite our efforts legislatively and other areas, we have ended up in the worst of all worlds. We have a consolidated defense complex, industrial defense complex, and, at the same time, a lack of competition, but yet a lack of sufficient cost controls being in place.

It seems to me that is the fundamental problem here with cost overruns. And on the one hand, you can impose further Government intervention and regulation, or you can encourage competition, which isn't likely to happen. In fact, more and more major industries are getting out of the defense business.

I would really like your thoughts on that because we all know that cost overruns not only are damaging to our ability to defend the Nation, but it is also greatly damaging to our credibility.

Dr. PERRY. We were very conscious of that problem when we prepared this report. The primary recommendation we made on controlling costs had to do with strongly recommending that major programs be limited from the beginning to a 5- to 7-year period, from the time of the beginning of the program to the time of delivering the operational equipment.

We know that can be done. It was done in the F-15. It was done in the F-16. It was done in the F-117, all of which programs came in on cost and on schedule. So I think a discipline on schedule is the first requirement.

The competition we have had in major aerospace programs at the front end of the program has been, I think, sufficient. The issue is also whether you can continue that competition through the production of the equipment. In other words, can you have dual-source production? In our report, we recommended that whenever that truly leads to continuing competition that we should provide for dual source.

Steve?

Mr. HADLEY. If I could add a third consideration? Our panel's conclusion is once the performance requirements for a system get set, they remain in stone. And if the program gets in trouble, you either extend the time, and that usually means you increase the cost. And our recommendation is that performance should be in the trade space. And with the advice of the combatant commanders, you should be willing to trade away performance in order to maintain cost and schedule.

And we need to start using technology not just to drive up performance but, in some cases, to hold performance constant and use technology to drive down cost. That is the only way, in our view, we are going to have both an adequate force structure and a modernized force structure.

Senator MCCAIN. Mr. Chairman, if you will indulge me one other question very quickly. It seems to me that your recommendations for increasing the size or capability of the Navy, especially in the Pacific region, is a recognition of the rise of China and the influence of China in the region. The latest dust-up about the South China Sea is an example.

But yet there are allegations such as Secretary Gates said. It is a dire threat that by 2020 the United States will only have 20 times more advanced stealth fighters than China. Secretary Gates says, "Does the number of warships we have and are building really put America at risk when the U.S. battle fleet is larger than the next 13 navies combined, 11 of which belong to allies and partners?" How do you respond to that?

Dr. PERRY. Secretary Gates is operating within restrained budget. Our requirements, we were not restrained by budget. We were looking just at the requirements and the needs. We did observe that if our recommendations were actually acted upon, they would require an increase in the top line of the Defense Department budget.

But I believe that the—there is a growing importance of the United States being able to maintain free transit in the Western Pacific, and there is a growing difficulty in being able to do that. And the only way I can see of achieving that is by increasing the size and capability of the Navy.

Senator MCCAIN. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator McCain.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman.

Secretary Perry, Mr. Hadley, thanks very much for really an extraordinary piece of work. It is a very important document, which shows a lot of thoughtfulness. All the more important, I think, because you have achieved your goal of having it be nonpartisan and because it is self-evident that you were not special pleading for any service or industry or whatever.

You start out very methodically with the four traditional security interests of the United States. You talk about global trends that represent the most significant threats to our security today. And then you provide answers to how we can best meet those.

Along the lines of no good deed should go unpunished, I have a suggestion for you, which is this. We are heading into a time, self-evidently, of fiscal austerity. And I fear that the defense budget will become a fashionable target for cuts, thereby creating some real peril for our country because my own personal belief is that security is the pre-condition to liberty and prosperity. So if we are not able to provide for the security of the American people, we are going to not be able to guarantee the great values of liberty and prosperity and the pursuit of happiness that our founding documents guarantee.

I want to cite for you the example of the 9/11 Commission, Governor Kean and Congressman Hamilton. After their official work was done, they somehow miraculously reconstituted themselves in the guise—not guise, in the status of a nonprofit corporation. And they continued to issue regular reports and entered the debate about our homeland security.

And I hope that you will—the two of you and your commission members are a very impressive, as Senator McCain said, group of national security thinkers, very diverse—will consider doing that because I think we are going to come to some points in the not-so-distant future where we in Congress really will need an independent outside group to come in and say, hey, what you are about to do here is not good for the National security of the American people or what you are about to do makes sense in a tight budget situation.

I don't particularly invite a response. I fear that if I give you the opportunity, you might be negative. I want you to think about it. So—but anyway, I hope you will think about that.

I note Colonel Nagl is here. He runs the Center for a New American Security. He has proven a remarkable ability to raise money. I don't know how he does it. But I am sure it is all legal. But he might be one to assist in making this vision come true.

I want to say that it was my honor during the '90s to work with former Senator—and it looks like maybe future Senator—Dan Coats on the legislation that actually created the responsibility and authority to do the Quadrennial Defense Review. And in that regard, I want to say that I share your criticism of what has become of the QDR.

A lot of the problems you cite, as you say, are understandable. It is much more focused on the current threats, the wars, and to some extent, unfortunately, on defense of current programs. What we had hoped this would be was, at a minimum, looking 4 years forward, but really—because those, the other things, the defense of the programs, confronting the wars, is what we do, what the Defense Department does in the annual budget submissions, what we do here.

We were trying to get the process to rise above the immediate and look over the horizon. And I think you have made a very good case that it is not doing that now. I think your idea of the independent panel is a good one. I would still not want to give up on something like the QDR because I think we ought to be trying to force people inside the building to look over the horizon, as well as convening an independent panel.

I don't know if you have a response to that. Is it possible to combine your suggestion for this—for making statutory the independent review with some continuation and perhaps sharpening of a QDR?

Dr. PERRY. I would not want to suggest that the recommendation we made is the only way of proceeding on this problem.

Senator LIEBERMAN. Yes.

Dr. PERRY. But if you are trying to keep the QDR and have it look at long-range planning, as well as force, as well as the budgetary issue, it has to be later in the process because for the first

6 months of a Defense Department, the team is usually not fully together.

Senator LIEBERMAN. That is right.

Dr. PERRY. And therefore, you are asking the team to do something that they are not there to do. So it has to be either later in the process or, as we suggested, getting it started ahead of the game. And then there has to be an independent group outside of it.

Senator LIEBERMAN. That is a good suggestion.

Mr. Hadley?

Mr. HADLEY. I think the only way that would work is if you have a front end, as we propose with the independent panel on the National security strategic planning process, that will force and lay out a broader framework and then have that broader framework with a broader time horizon drive the individual planning processes within the department. That is the model we propose.

Whether you formally need a QDDR or QDR—

Senator LIEBERMAN. Right.

Mr. HADLEY.—at the Defense Department or whether you can do that through the normal planning, programming, budgeting, and execution process I leave to you. But I think you won't get there without the broader front-end process that we recommend in our report.

Senator LIEBERMAN. Okay. I would like to continue that conversation. I thank you.

I think that perhaps the most important contribution of the panel will have been to highlight the need for continued, sustained strong defense funding if we are to maintain the forces we need to protect our security. I was particularly struck by your recommendation about the Navy.

We are now at about 285 vessels at sea. The goal for a long time has been a 313-ship fleet, which we are not reaching at all. You have recommended 346 ships. I wanted to ask you in this public session whether you would describe what capabilities you envision growing in this larger fleet and why.

Dr. PERRY. Three points. First of all, just more ships give you more presence, and presence itself is important. Second, improved anti-ship capabilities and, third, improved anti-submarine warfare capabilities.

Senator LIEBERMAN. Mr. Hadley?

Mr. HADLEY. The principal task is to maintain our ability to have access to international waters throughout the world. And people have focused on China and the anti-access threat there. It is also in the Persian Gulf. There are a lot of places.

And that, I think, is the principal mission. And you want a configuration of ships and operational concepts that vindicate that mission. And that entails both, in our view, a larger Navy, but it also involves in some sense doing things differently and more creatively so we can achieve that objective with an operationally sound concept and as modest a cost as we can achieve.

Senator LIEBERMAN. So is it fair to conclude from your recommendation that you would say that the 285-ship Navy that we have now or the 313-ship Navy that is our goal now is not ade-

quate to maintain—to give us the access we need around the world to protect our National security in the decades ahead?

Mr. HADLEY. We think the challenge is going to get greater, and we don't see how you can meet a greater challenge with a diminishing number of ships. Again, bottom-up review seemed a good place to start, and that is what that number is, a starting point, because it was at a time 17 years ago when we thought the world was going to be much more benign than it turned out to be.

Senator LIEBERMAN. Right.

Mr. HADLEY. And we see challenges coming even greater in the future in this area, and that is why we think as a sort of mark on the wall that 340 is probably the right number.

Senator LIEBERMAN. Thank you both.

Thanks, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Lieberman.

Senator Burr.

Senator BURR. Thank you, Mr. Chairman.

Dr. Perry, Mr. Hadley, welcome.

To either one of you, the comprehensive approach also requires international security assistance and cooperation programs. As we have seen in Iraq and to a different degree in Afghanistan, our coalition and NATO partners are often constrained in the near term by public opinion and in the long term by budgetary austerity measures that limit their ability to provide the proper mix and quantity of forces.

With the latitude to participate without strict rules of engagement, it is likely that these nations will continue to spend far less than we do on national security. Given that reality, should we expect many of our NATO partners and allies will not be willing or able to support the types of operations that will be undertaken in the future and that that may be better suited for a more defined, non-kinetic role in support of future operations?

Mr. HADLEY. Those are certainly constraints. I think the point the report tries to make is part of the constraints of building better partners are not just their reluctance or the constraints they are under, but constraints that we have imposed on ourselves.

And so, we talk about in our security systems reforms, building systems in the United States that are able to be shared with allies in the get-go, so that we can have allies working with common systems with us. We talk about identifying communications and others' equipment that can be shared among allies so that it enables them to partner with us in the most effective way.

So the constraints you describe are real. But within those constraints, we have imposed some constraints on ourselves. And the recommendations of the report is how to eliminate the constraints we have imposed on ourselves.

Senator BURR. Great. Steve, if I could, one last question to you. Part of your review is to look at emerging threats, and this is not the first time you have had the responsibility to look at emerging threats.

Do you see chem/bio as a real threat? And is our research and response in this country today sufficient for the threat that you perceive?

Mr. HADLEY. No. There has been a lot recently about the need for greater preparedness, particularly on bio, which is a much more strategic threat than is chem. I think the priorities are nuclear, bio, and chem. And I think the report says that there is more to be done on WMD, and the priority there, I think, is nuclear and then bio. More to do.

Senator BURR. As you know, on many of those threats, there is a fine line between an agent that is a disease threat to us and an agent that is used for the purposes of terrorism. You were in the administration when we stood up BARDA at HHS, and we created the BioShield procurement fund. Those most recently have been under attack to steal the money out of both. Do you see that as a threat to our country's national security?

Mr. HADLEY. It is a threat. It is also, as you point out, short-term thinking because the investments we make in defending against the biological weapon threat also help enable us to deal with disease threats. So it is a case where if we do it right—and there are members on this panel more expert than I—it can be win-win both for defending the country and enabling us to better deal with pandemic and other threats.

Senator BURR. Thank you for that. I thank both of you for the review.

I thank the chairman.

Chairman LEVIN. Thank you very much, Senator Burr.

Senator Ben Nelson.

Senator BEN NELSON. Thank you, Mr. Chairman.

And thank you, gentlemen, for your service.

In your report, you highlight the cooperation between the Air Force and Navy on the AirSea Battle concept as one of the best examples of services developing I think what you called new conceptual approaches to deal with operational challenges we will face.

I am glad you have drawn attention to an effort to break down the barriers or sometimes referred to them as stovepipes between the various branches of service so that they can use their collective and collaborative capabilities more efficiently.

One of the things that has always been important is enhancing overall mission effectiveness and the best use of available resources where the branches of services come together. But one area where there just simply doesn't seem to be that level of cooperation is each branch wants to develop its own fleet of unmanned aircraft.

What can we do, in your opinion? How do you assess the ability to avoid duplication and unnecessary redundancy that very often develops from each wanting to develop its own?

I am in favor of competition from time to time, but not necessarily in this area, where cooperation and collaboration would serve us a lot better. What are your thoughts about that? Dr. Perry first, and then Steve.

Dr. PERRY. I can see the need for each of the services for unmanned aircraft. And further, that each of the services probably have needs for unique aircraft.

In the case of the Army, it would be very short range, basically soldier-launched aircraft. In the Navy, it would be ship-launched aircraft, unmanned aircraft.

But having said that, there is a very broad area of commonality here as well, and I would think it would be very appropriate to have a joint office for unmanned aircraft, which would deal with the requirements for all three services and would tend—and would strive to get standardization even among the different services' unmanned aircraft. I think nothing could be more important to our future than continuing to aggressively develop this capability, but I do very much take your point that there is a greater need for jointness in this field.

Steve?

Senator BEN NELSON. Steve?

Mr. HADLEY. I agree with that. It needs to be done in a coordinated way with an eye on duplication that is unnecessary and emphasizing commonality wherever possible. And I think it is important that this report not get characterized as the, you know, "we need more." The essence of this report is, in some cases, we need more, but that we need to do things in a better, in a smarter way, in a different way, a more effective way with an eye on cost.

Having said all that, where we do think there needs - - where quantity matters, we have tried to make that point as well. But I don't want the rest of it to be lost.

Senator BEN NELSON. Thank you.

Regarding force structure, the report concludes, first and foremost, that it is important to rapidly modernize our force. You also recommend an alternative force structure, increasing the size of our existing force.

We really would like to do everything that we could afford to do, but is it even likely that we might be able to afford an alternative force?

Dr. Perry?

Dr. PERRY. Briefly, my answer would be yes. There are many different ways of assessing affordability. One common way through the years has been as a percentage of the gross domestic product. And as a percentage of gross domestic product, our defense spending is not excessively high. By that criterion, I think the answer is, yes, we could afford more.

Steve?

Mr. HADLEY. The report applauds ongoing efforts to reduce costs, reduce duplication, acquisition reform, suggests additional ways and additional reforms, which we think will produce additional cost savings. We think we need to address the cost increase of the All-Volunteer Force. Our view is we need to do all of those things very vigorously and save as much money as we can.

But what we thought we owed this committee was to say that if those savings do not produce enough savings in order for us to afford the force structure we need, a modernized force and the All-Volunteer Force, then the country has to be prepared to increase the top line. And our expectation is there may need to be some increase in the top line. That is what we thought we owed this committee—that statement.

Senator BEN NELSON. Thank you.

Last week, Dr. Hadley, you told the House Armed Services Committee that the panel needs—your panel thinks we really need to rethink the relationship between the active force, the Guard, and

the Reserve. Of course, you said the question is which role for the Guard and Reserve? How much of it is an Operational Reserve and how much of it is a strategic Reserve?

Well, just last Saturday, we sent an additional 300 Nebraskans to Afghanistan. The Guard and Reserve continue to contribute to the operational Reserve. Can you speak to the significant factors you see affecting the balance between a strategic and an operational Reserve Force? And what is your assessment of our current mix in that regard?

Mr. HADLEY. Obviously, the active force is the most expensive way to deal with the mission. And where the Guard and Reserve can make a contribution, we think it is a smart way to go.

The Guard and Reserve is very stretched, and it needs to be looked at. It is operational Reserve, strategic Reserve, and homeland mission. And we talked, for example, that there needs to be perhaps greater priority for that in terms of the Guard and Reserve. We could not, within our own resources, make a specific recommendation on the right balance, which is why we thought it was important to have the National commission on military personnel and have those folks take a thoughtful look at it.

But we believe that we can and should have a better balance between active, Guard, and Reserve and consider some kind of capacity to mobilize beyond the Guard and Reserve. We have talked on the civilian side of a civilian response corps—firefighters, policemen, and the like—that would be available potentially for missions overseas as required. That may be a concept that we can be using, for example, dealing with issues like cybersecurity and the like.

So our only point here is we need some new thinking. And we have given our own recommendations, the direction of change, and suggested that Congress and the White House establish this national commission to follow it up.

Senator BEN NELSON. And part of the continuing obligation and requirements would be at the home State level in the event of emergencies—nonmilitary emergencies, natural disasters and the like. I would assume that would continue to be part of the ongoing role of the Guard in particular?

Mr. HADLEY. Yes, sir.

Dr. PERRY. I think that—Senator Nelson, I think that is a particularly important part of our recommendation, to focus some part of the National Guard on preparing for the homeland defense mission. They are uniquely able to do that, and some segment of the Guard ought to be focused on that particular mission.

And they train with the local police. They train with the State police. That makes them uniquely able to respond to emergencies.

Senator BEN NELSON. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Nelson.

Senator Chambliss.

Senator CHAMBLISS. Thanks, Mr. Chairman.

And gentlemen, good to see both of you again. Thanks for your continuing service to our country.

The United States has been successful in maintaining air dominance, basically, since the Korean War. And that has allowed us to provide ground support in every theater we have ever been in.

Times have changed. Conditions on the ground have changed relative to the war on terrorism, but obviously, we don't know where the next adversary is going to come from.

Today, we know that both Russia and China are building airplanes that they have publicly said compete or, in their opinion, are superior to the F-22, which is designed to make sure that we maintain air dominance. The F-35 is a great airplane, but it is interesting to note that those countries don't even mention the F-35 in their public statements because its mission is primarily air-to-ground, and from an air dominance standpoint, the F-22 is our lone asset in the sky out there.

And obviously, we have made a decision to discontinue production of that. We now will have somewhere between 120 and 140 F-22s at any one time available to maintain that air dominance in whatever region of the world the next adversary appears.

During the course of your review of the QDR, did your panel have any discussion about this issue? And assuming that you did, what kind of conclusions did you arrive at relative to air dominance?

Mr. HADLEY. We thought that the Air Force we need to look at in terms of air superiority—we talked about the need for more long-range strike. There is, of course, also continuing need for a modernized force for lift.

Our judgment was we do need a fully modernized force and a fully capable force, but we thought—our judgment was that the requirements of the Air Force could be met within the current size of the force. The issue then becomes the right mix, ensuring a fully modernized force within that mix. That was the challenge. And the one thing we emphasized was, A, that modernization be long-range strike.

As a first approximation, that is how we looked at the Air Force—emphasis on the air superiority mission, but believing that it could be accomplished adequately within the currently sized force.

Senator CHAMBLISS. Okay. I think it is interesting that you did conclude that the top line needs to continue to rise. And I know one of your panel members was Senator Jim Talent, and Jim and I have been longtime advocates, and I am sure that he was very forceful in his comments and discussions with the panel about that.

You found that the 2010 QDR lacked a clear force planning construct and that thus, by implication, DOD doesn't really have one. And in the absence of a clear force planning construct, how does DOD determine priorities, goals, and investment decisions across the department?

Dr. Perry?

Dr. PERRY. Our critique of the force planning structure was on the future, the 10- to 20-year planning period. We believe they have a—certainly have a careful consideration of the way to structure the force for the present needs. So the critique was only directed to the 20-year time planning period. That is where we felt that there was a missed opportunity.

Senator CHAMBLISS. In your report, you talk about how the aging of the inventories and equipment used by the services, the decline in the size of the Navy, and the escalating personnel entitlements

is going to lead to a train wreck in the areas of personnel acquisition and force structure. In your view, which of these issues is most pressing, and what are the potential consequences of not addressing these issues and those priorities?

Dr. PERRY. Well, certainly, number one on my list was the fact that we are simply wearing out or destroying our equipment in the ongoing wars in Iraq and Afghanistan. And the need for recapitalization—at a minimum, the need for recapitalization is going to be very extensive and very expensive.

Steve?

Mr. HADLEY. I don't think that we have the luxury, really, of picking among the three. We thought all three were a top priority, that we had to save the All-Volunteer Force, have adequate structure, and do the modernization. And that really was behind the—behind the recommendation.

Senator CHAMBLISS. Lastly, I want to veer off-course for just a minute and take advantage of both of you being here to ask you a question about an issue that is very much front and center with this committee right now, as well as with Foreign Relations. And that is the issue of the START Treaty. I know both of you have made public comments about that.

Tell me, if you will, what concerns—I know both of you have come out in support of the treaty—but what concerns do you have about the treaty? And what would be the implication for the United States if we fail to ratify this treaty in the Senate?

Dr. Perry?

Dr. PERRY. I believe if the United States failed to ratify this treaty, our country would essentially lose any ability for international leadership in this field and international influence in the field. I think this would be a very unhappy consequence.

Senator CHAMBLISS. Well, do you have any concerns about provisions in the treaty?

Dr. PERRY. I do not. I have studied the treaty reasonably carefully, and it is my own judgment that it provides adequately for the national security interests of the United States.

Senator CHAMBLISS. Steve?

Mr. HADLEY. I think there are concerns about some ambiguities on some of the coverage issues, the concerns about whether it indirectly would put some limitations on missile defense or conventional strike. I think there are concerns that we have, the kind of modernization of our nuclear infrastructure, our weapons, and our delivery systems to maintain a credible strategic force going forward.

The good news is, in the appearance I had on this, Republicans and Democrats seem to share these concerns and believe they need to be addressed. And so, my view is, with that bipartisan consensus, let us address these problems in the ratification process. And then we can, on a bipartisan basis, ratify the New START Treaty because the problem has been fixed.

I have not seen much disagreement about the commitment to a modernized force, to not have defenses constrained, and, obviously, to sort out any ambiguity. So I think there is a terrific opportunity in the Senate in the ratification process to address these bipartisan

concerns. And then, having addressed them, I think people can feel very comfortable about ratifying this agreement.

Senator CHAMBLISS. And your thoughts about not ratifying it, the implications of that?

Mr. HADLEY. Well, I don't get there because I think the problems that people have identified need to be fixed in their own right. And having—once they are fixed, then the issue of ratification becomes easy.

So I think they should be fixed, and then the treaty should be ratified. It makes a modest, but useful contribution to the process of dealing with these strategic weapons.

Senator CHAMBLISS. Okay. Thank you very much.

Thanks, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Chambliss.

Senator Udall.

Senator UDALL. Thank you, Mr. Chairman.

Good morning, gentlemen.

I want to thank Senator Chambliss for his important questions about the START Treaty. I think it is a fact that, right now, we have no treaty in place. Is that correct, gentlemen?

Dr. PERRY. That is correct.

Senator UDALL. And I think that is an important reason to move forward. And I appreciate, Mr. Hadley, what you said about building on what START II would provide us. And there are some significant questions that need to be answered. But I, too, hope the Senate will move quickly to ratify the treaty by the end of the year.

Let me turn to the QDR itself. And there was some attention paid in the QDR to energy security and the effects of climate change on the DOD. And the QDR made it clear that these were concerns that the DOD leadership thought were real and needed to be addressed.

Did you, in your efforts, look at energy security and climate? And did you draw any conclusions about whether the Pentagon has enough resources to respond?

Mr. HADLEY. We addressed it in a couple of different ways. One, one of the emerging problems we feel is increased competition for resources and as countries try to get energy security. Second of all, our report noted that energy issues and climate change are liable to exacerbate some of the problems we are going to face over the next 20 years.

And third, we talked about the need to take into account cost of energy, both in fueling platforms, but in terms of also getting energy into—gas, oil, and the like—into combat theaters. And we thought that that should be a consideration in the acquisition process—energy efficiency. But we could not come up with a specific recommendation as to how to take that into account in the acquisition process.

So I think our judgment was it is a priority. The department needs to address it. We did not have any specific recommendations to offer on it at this time.

Dr. PERRY. Senator Udall, I would just offer one additional comment by way of example.

We complain about the high cost of gasoline at the pump of \$3 or \$4 a gallon, depending on where you live in this country. But

the cost of gasoline delivered to a forward operating base can be \$50 or \$500, or \$1,000, not counting the lives that are put at stake by getting the gasoline there. So the need for—the importance of energy considerations in our National security is very clear, I think.

Senator UDALL. Thank you, Dr. Perry.

I am convinced the DOD will lead us toward more energy security and new technologies, if we provide them with the support and the interest. Thank you for taking time in your commission's efforts to consider that important area.

Senator Chambliss and others have talked about, and you have, the rising costs associated with doing right by our men and women in uniform. I think you proposed a commission, a national commission on military personnel, of the quality and stature I think of the Gates Commission back in the 1970s.

Could you talk just a little bit more about the mandate that you propose and the challenges it would address? And how do you think the service chiefs would react to such a commission?

Dr. PERRY. Well, the commission was established by—the Gates Commission was originally established because they considered the problems were so fundamental, they should not be left to each department considering what to do about them. And they made a sweeping recommendation, which led to the All-Volunteer Force, which has been a very important benefit.

It should be—such a commission, if it were established, should consider very basic issues—for example, the longstanding up-and-out practice of the military. We have long—you know, with rising longevity, with the rising—with the trend of rising longevity, with the importance of technical aspects in the military today, it is very clear that we need people who have benefited from the training, who have the technical background, to stay in the service longer than they are now staying.

That is going to take—that seems very simple, but it is going to take a fairly fundamental change to the way our personnel systems are run today.

A related issue is, of course, the rising costs of healthcare, the TRICARE costs. That has to be reconsidered from first principles as well, exceedingly important to the military to have some sort of a benefit. But the benefits, as they are now established, will simply be unaffordable to go on into the future.

So those are the kind of issues that need to be considered. They are very difficult, and they are very, very politically sensitive issues. And therefore, it is going to take something of the nature of the Gates Commission to make those changes.

Senator UDALL. Would you recommend that the Simpson-Bowles Commission, which is undertaking an important study right now—it will hopefully be followed by recommendations on how we drive down our deficits—that they give the chiefs a chance to testify along with Secretary Gates?

Mr. HADLEY. I think that would be useful. But I think our judgment was these issues are so technical, and you want to reform the All-Volunteer Force and the career patterns without breaking them, and reform them—we are in the middle of fighting a war. I mean, this is a delicate business. And that is why we thought you

really needed a commission of distinguished people supported by the right expertise that would really focus exclusively on this problem.

And our sense in the witnesses we heard from is that I believe the military services would see this needs to be done, see the train wreck Government coming, and would generally welcome this recommendation. That is our belief.

Senator UDALL. That is a very powerful image, by the way, a train wreck.

Let me talk on the macrocosmic level. I think it is probably my last question. I think the chairman alluded to this and asked some specific questions as well.

But you actually, as I understand it, recommend that we set aside the QDR process and craft a new way forward. An independent strategic review panel I think is the way in which you characterized it. Would you comment, both of you, about your thinking in that regard and how we would put such a new approach in place?

Dr. PERRY. Well, first of all, the timing of the QDR is wrong in terms of the capability of a newly established Defense Department. Second, the focus on strategic issues instead of budgetary and program issues is needed. And given both of those factors, we felt that it was important to establish—get this process started earlier, and that almost by definition has to be an independent panel outside of the Defense Department.

So the key to our recommendation there was the establishment of this independent strategic review panel, and we felt that it would be best established before the new administration came in place. And so, that the Congress and the executive branch, about the time of the presidential elections, would appoint the panel, and they would have their report ready then—they would be ready to start then in January of the year and have the report ready 6 months later. That would get the timing in sync with the objectives that we called for.

Steve, do you want to add to that?

Mr. HADLEY. That report then would be taken by this national security strategic planning process to give a Government-wide look to set some priorities, and with that guidance, then you could go into the departmental planning processes.

Our judgment was that what this committee was seeking out of the QDR process was right, but a DOD-only process was not going to get you there. And so, what we tried to design was a process that would get you what you were looking for in a way that would actually perform, and that is what we hope we have done.

Senator UDALL. Thank you, gentlemen.

It is uplifting to see the two of you sitting there together, working together. So thank you for being here today, and thanks for your good work.

Chairman LEVIN. Thank you, Senator Udall.

Senator COLLINS.

Senator COLLINS. Thank you, Mr. Chairman.

Let me echo the comments of Senator Udall that it is wonderful that you have come together to produce such an excellent report.

I thank you for that public service, as well as both of you for your previous public service.

Your report very clearly states that to project power and ensure access, we need a larger Navy. Mr. Hadley, you said it very well this morning. You said greater challenges require more ships. That raises the question of why didn't the QDR reach that conclusion, which you document carefully in your report.

The law requires that the QDR directly state the recommendations in a way that are not limited by the President's budget request. Do you believe that the department in the QDR proposed a smaller force structure than your panel proposed for the Navy because the department was, in effect, considering budget requirements, even though the law very clearly states that that is not supposed to be a consideration?

Mr. Hadley?

Mr. HADLEY. I think they tried to walk a line between budget constrained and budget unconstrained. And I think our best judgment was that the QDR was informed by the budget, that in some sense they were developing their budget proposals in parallel with the QDR.

And it is laudable in one sense because they did not want to make policy or force structure recommendations that they could not afford, and you can understand why they would do that. But the effect of it was, I think, that it was not an unconstrained look.

And our judgment is that it is almost inevitable, if you give this to a department, that that is probably the best you are going to get. And therefore, if you really want an unconstrained look, you need a different kind of process, which is what led us to the recommendations that are contained in our report.

Senator COLLINS. The problem is that the law is pretty clear that it is supposed to be unconstrained by budget considerations. I think you are right that the practical reality is that it is not going to be, given that the same people who are involved in the budget analysis and the budget request are also performing the QDR.

But what we really need is an assessment that is unconstrained by the budget requests. That is what you have given us. And it is significant that in the case of the Navy, your recommendation—looking at the threats, looking at the need to project power and ensure access—is a Navy that would be sized at 346 ships. That is considerably above the current level of 282 and higher than the goals set out by the Navy on shipbuilding plans, which I believe is 313.

We do need that kind of analysis. We need to know what we really should be providing in a world that is free from budget constraints. Now, we are not going to be able to ever have that kind of a situation. But if we are going to set priorities and make the best judgments, we do need that analysis.

I want to turn to a second issue. Due to the wars in Iraq and Afghanistan, our focus in recent years has been on determining the appropriate end strength for the Army and the Marine Corps. We have seen our troops under tremendous pressure because of repeated deployments. We have seen the National Guard and the Reserves called up repeatedly as well.

I was interested in your conclusion that the Army and the Marine Corps are sized about right, in your judgment, while the Navy and the Air Force are a bit too small and do need to be increased. Did you reach that conclusion because you are looking at the draw-down of troops in Iraq? Or did that reflect the recent increases that we have authorized in the end strength of the Army and the Marine Corps? What is behind that analysis, which surprised some of us?

Mr. HADLEY. One, we think this issue has been worked pretty hard by the department and the Congress in the context of meeting the needs of these conflicts. And while we think there will be continuing requirements, we don't see an increasing requirement.

So we thought the level was probably about right, and the recommendation we had is that it be sustained for the next 3 or 4 years because the Army and the Marine Corps do have a plan to get dwell times and the like on a more sustainable basis. So what we thought was needed for Army and Marine end strength was stability over the years so that it can then be built into the rotation and return times and all the rest. That was our judgment.

Dr. PERRY. It does reflect, though, the recent increase very much.

Senator COLLINS. Thank you. Thank you both.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Collins.

Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman.

And I want to thank both of the gentlemen here for your excellent work and your testimony today.

In your opening comments, you recommended that the Department of Defense return to a strategy requiring dual-source competition for the production programs in circumstances where we will have real competition. And in most situations, competition works better than sole-source contracting, and that was an underlying reason last year under Senator Levin and Senator McCain's leadership the Senate passed the Weapon Systems Acquisition Reform Act. And hopefully, competition does drive down costs, enhances performance, and yields savings ultimately to the taxpayer.

But as you know, currently the Secretary of Defense continues to recommend sole-sourcing one Joint Strike Fighter into the F-135, and terminating the F-136 Joint Strike Fighter alternate engine will leave only one U.S. company to produce high-performance military engines for this platform. And it is expected to be the largest engine procurement in the history of the Department of Defense.

The development of the F-136 engine is 75 percent complete. And I understand that the Department of Defense has experienced 50 percent cost overruns beyond the original estimates in the Joint Strike Fighter F-135 engine.

Can you describe your views on the Joint Strike Fighter alternate engine and whether the Department of Defense should have dual competition in this sector? And if not, could you please describe your rationale consistent with the panel's overall recommendation on ensuring dual competition?

Dr. PERRY. Senator Hagan, when I was the Secretary and earlier, when I was the Under Secretary for Acquisition, I was confronted with these kind of decisions frequently. I found in each case that

each case was a special case, and I had to dig very, very deeply into it before I came to a judgment.

I have not studied this problem enough to make an informed judgment. And while we support dual sourcing whenever it leads to appropriate competition, I cannot give you a personal judgment on whether that applies to this case.

So, therefore, I am really obliged to defer to the judgment made by the people in the Defense Department who have studied it carefully and trust that they have made the right decision. But I would not presume to offer an independent judgment on that, not having studied it carefully and deeply.

Senator HAGAN. Mr. Hadley?

Mr. HADLEY. I think what our panel could do was establish a set of general principles, which is what we did. But we didn't really have the time and resources to take the two or three leading cases and look at them and to be able to come with a specific judgment or recommendation.

So we did what we could do, which was to establish principle, dual sourcing when it results in real competition. And then this committee, the department are going to have to take those principles, if you agree with them, and apply them case by case.

Senator HAGAN. Thank you.

I also appreciate your comments on reducing the number of years in the contract situation.

Let me ask a question on personnel. All of the military departments are concerned with driving down the cost of manning the All-Volunteer Force. The panel—your panel indicated that the growth in the costs of the All-Volunteer Force cannot be sustained for the long-term. And the panel further indicated that a failure to address the increasing costs of the All-Volunteer Force may result in a reduction in force structure, a reduction in benefits, or a compromised All-Volunteer Force.

And you made several recommendations aimed at modernizing the military personnel system, including compensation reform; adjusting military career progression to allow for the longer and more flexible military careers; rebalance the missions of active, Guard, and Reserve and mobilization forces; reduce overhead and staff duplication; and reform Active, Reserve, and retired military healthcare and retirement benefits to put their financing on a more stabilized basis.

Our military personnel, we know, are highly specialized with specific skill sets that are needed in this persistent, irregular warfare environment. And we obviously cannot compromise the QDR's goal of preserving and enhancing the All-Volunteer Force and to develop our future military leaders.

Would you please elaborate how the All-Volunteer Force may be compromised if we fail to address the increasing personnel costs? And will we see a sharp decrease in retaining personnel that have served in overseas contingency operations and what long-term impact this might have to our military?

Dr. PERRY. You want to start, Steve?

Mr. HADLEY. Even in times of relative prosperity, it has been costly to make sure that the incentive systems was enough to get the people we need to have a fully fleshed-out All-Volunteer Force

that meets our standards. And our concern is that as we return to more prosperous times, the cost of retaining the structure to fill out the All-Volunteer Force will just continue to increase. And at some point the money won't be there, either for the All-Volunteer Force or for adequate force structure for modernization, and that is the train wreck we talk about.

So our judgment is we need to take a smarter approach, maybe not so much a one-size-fits-all approach, tailoring the military personnel system and the compensation to the different groups of people available who have different objectives in serving. And that is the door we tried to open and suggest that this military personnel commission needs to explore.

So the main concerns are we are okay now. But as you look at the projections of the costs, we may not be in the future. Let us address the problem now. That was our recommendation.

Senator HAGAN. And how do you weigh that with the increased number of contractors?

Mr. HADLEY. Well, you know, there—one of the things we recommend is that there be a good look at the contracting issue and that there be an Assistant Secretary-level person appointed to look hard at the whole contracting issue. But there are reasons why we have contractors.

For example, the fact that our civilian departments and agencies have difficulty deploying promptly overseas has resulted in a reliance on contractors, for example, to do functions that couldn't be done in a different way. So one of the thing I think we need to do is to ask the question why is it that we are relying on contractors? Where does it make sense? And where is it because of something else that we should address and maybe solve a problem in a different way without using contractors? And we have suggested in our recommendations that there needs to be more focus on that issue.

Senator HAGAN. Dr. Perry?

Dr. PERRY. I just wanted to make a really, I think, basic point on this issue, which is that we have, without doubt, the best military in the world, maybe the best the world has ever seen. And I think a primary reason for that is because of the superb training and professional military education we have. And those are very expensive, but they are worth it.

The second factor, though, is when you invest all of this in training, to get the benefit of that, you need retention. And retention—and we make—and two comments about that. The first is retention does depend on our benefits because the retention decision, the reenlistment decision is made as much by families as it is by the military personnel themselves. So that is a very important issue.

And we are not getting enough benefit from that when we have people leave the military at 20, 25—when we force people to leave the military at 20 or 25 years. We need to get—so we need to revise our procedures on how people leave the benefit. In particular, we need to fundamentally review the up-and-out system.

Senator HAGAN. Thank you.

Chairman LEVIN. Thank you, Senator Hagan.

Senator LeMieux.

Senator LEMIEUX. Thank you, Mr. Chairman.

Dr. Perry, Mr. Hadley, thank you for being here today. Thank you for this very thoughtful report. Enjoyed reading it.

I want to talk to you about these emerging first powers, the so-called BRIC countries—Brazil, Russia, India and China—and what their role will be, as you see it, going forward. It seems that these nations want to have all the benefits of first-tier powers but don't necessarily want to shoulder the responsibilities.

We don't see Brazil taking a strong role in dealing with Venezuela, for example. We don't see—we don't see China taking a strong role in dealing with North Korea. And it falls upon the United States to burden—you know, have the burden to shoulder in issues such as terrorism and dealing with rogue countries.

And how do you think that relationship can change? What can we do so that we are not the only nation in the world that is responsible for fighting terrorism around the world, for shouldering this immense burden that we shoulder now? And how can we get those countries more engaged?

Mr. HADLEY. I think the four countries you mentioned are very different. Brazil, Russia, China and India—I think they are all different cases. But I think particularly with respect to China and India, which I think we have to recognize that China is going through a period of enormously rapid change. And their government is, I think, struggling to deal with probably the fastest rate of change in the world's most populous country, fastest rate of change we have ever seen.

So the role that China is playing and being asked to play is new. I think it is, in some sense, true for India. India has broken out from being a regional country to be a global country, and it is going to take them time to adjust to that new role.

So it is both a challenge and an opportunity. And I think that some of the language in our report makes that point. We need to be both engaging them, try to work with them to understand their responsibilities and to work with us to solve global problems.

At the same time, we make it clear that there are a set of international rules and that all countries, including India and China, would be better if they played within those rules. And we have to have the capabilities to enforce those rules, if necessary.

So it is not all black or white. It is a challenge and an opportunity, but we need to be engaging those two countries, and we need to be present and active in Asia not just in terms of militarily, but economically, in terms of business, in terms of diplomacy.

There are free trade agreements being signed all the time in Asia, and we are on the sidelines. And I think the number-one point we would make is Asia is where the action is going forward, and we need to be a player, not on the sidelines.

Senator LEMIEUX. Dr. Perry?

Dr. PERRY. The last administration called on China to be a responsible stakeholder. I think that is a pretty good term. And I think pushing that concept, not only with China, but with the other three countries is a very good idea.

I think the point you raise is a very important one. And the best I can—the best approach I can describe to dealing with that is to continue to call these countries to be responsible stakeholders. We need their assistance in dealing with global problems.

Senator LEMIEUX. I want to focus, if I can, specifically, as part of that larger subject, on Latin America. And not a lot of attention in your report to it, but some. And there was one line I liked in your report where you said America has too often been chasing the future rather than working to shape it. And I feel—have that concern about Latin America. I think that we have taken our eye off the ball because of all of the other things we have had to work on around the world.

The hemisphere is obviously very important to us from a trade perspective, but it is also important to us from an emerging democracy perspective, as well as the challenges to democracy that folks like Chavez and Morales and others pose in the region.

Where do you see our relationship with Latin America in the next 10 to 20 years? And do you have concerns about Venezuela and threats that they may pose? I see the growing connections between Caracas and Tehran. The presence of Hezbollah and Hamas in Latin America gives me a lot of cause for concern.

Mr. HADLEY. I think it is a—to be honest, I think with all the things going on, it is a struggle for any administration to pay as much attention to Latin America as we should, particularly with Mexico, which is in a life-and-death struggle with narcotraffickers, which are really posing a threat to the future of the Mexican democracy.

Prior administration made some initiatives to try to be a partner to Mexico. The current administration has continued those.

And second, we need to be working with Brazil, Chile, Colombia, those—Peru—those countries that have not chosen the Chavez way, but are really trying to proceed and develop their countries on the basis of free-market and democratic principles. Those are our natural allies in the hemisphere. We need to be partnering closely with them.

I would like to think that Chavez has peaked, in some sense, in terms of his appeal. Certainly what is happening within Venezuela is an enormous tragedy. It is destroying that country—not only its politics, but also its economy—and that is an example for all to see. But it is a struggle in Latin America.

And I think, as I say, it is a challenge for every administration to pay as much attention as they should and to be standing with those countries that are trying to make the right decisions based on right principles.

Dr. PERRY. I would like to comment on how strongly I agree with your comments on Latin America. Indeed, when I was the Secretary, I visited Mexico, Brazil, Argentina, Chile, Venezuela. I was amazed to learn that I was the first Secretary of Defense to visit Mexico.

I established a meeting of the defense ministers—of all the defense ministers in the hemisphere, which meetings—biannual meetings still continue to this day, and we created the Center for Hemispheric Defense Studies.

In spite of that, I think that there has been a slacking off of interest in that in recent years, and I would very much urge that we return to that interest and strengthen those. We have substantial security interests in Latin America.

Senator LEMIEUX. Well, thank you both.

I want to just—my time is up, but a follow-on comment to what both of you said, Mr. Hadley, what you commented about Mexico. I mean, Mexico occurs to me that it is the situation Colombia was in 10 years ago when they are fighting for their very life.

And we need to have not just diplomatic help for Mexico, but we need to have, like we did with Colombia, a military-to-military strong relationship now so that they can fight back what has really become an existential threat to that government.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you.

Dr. PERRY. I couldn't agree, by the way, more with you on that last point. The importance of working with Mexico, specifically in helping them deal with their problem, and using Colombia as an example of what can and should be done.

Chairman LEVIN. Thank you, Senator LeMieux.

Senator Reed,

Senator REED. Thank you very much, Mr. Chairman.

Thank you, gentlemen, and your colleagues for your important contribution.

Secretary Perry, can you help us think through this tradeoff between quantity and quality, which is going to be one of the issues we will have to address? I think it is identified in the report between the number of platforms versus the high-tech platforms?

Dr. PERRY. We have a unique advantage in the United States in the way we can apply technology to our weapons systems. This has given us a competitive—a strong competitive—in fact, an unfair competitive advantage over any other military. It is manifested in the way we have used stealth in our systems. It is manifested in the way we use smart intelligence and smart weapons. So that is a huge advantage, and we should sustain that advantage.

And there are some areas, though, where quantity is necessary, whatever the quality of your systems. You have to have presence, for example, in the Western Pacific, and that takes a number of ships. That was one of the factors driving our recommendation for increasing the size of the Navy.

But there is no doubt, particularly in the case of air platforms, that quality gives us a huge advantage and allows us to reduce the numbers of our air platforms.

Senator REED. But in practice, it seems, over the last several years at least, that the quality issue wins out. And you know, look at the initial plans for procurement of F-22, hundreds and hundreds of fighter planes which have shrunk dramatically as the price has gone up and, arguably, hopefully, the quality has also been maintained or enhanced.

And as we go forward, I think we are going to be in that similar dilemma, where you want to have a lot of platforms, but after the Defense Department gets through with the design, it is pretty expensive, and it gets more expensive in the contracting phase.

Again, either you, Dr. Perry, or Mr. Hadley, any sort of sense of how we break through that or—

Dr. PERRY. Well, specifically in the case of air platforms, if you look, for example, at the bombing mission, the fact that our bombs are precision bombs now and fall directly on the target means it

takes a small fraction of the total number of bombs and, therefore, fewer bombers. That is one very obvious example.

The fact that our airplanes have stealth and can resist air defense systems means we have fewer attrition—less attrition that way. So, in that area, I think it has allowed for a substantial decrease in quantity.

There are other areas that are like where we need boots on the ground, where we need the presence of naval ships, where we need quantity as well.

Senator REED. Thank you.

Mr. Hadley, your comments?

Mr. HADLEY. We seem to have a sort of iron law of increasing performance, and you wonder whether it is driven by need or just by inertia. And one of the things we say in this report is technology is a tool. We have been using it to drive performance. We need to use technology to reduce costs that would allow us to increase quantity.

And so, I read Bob Gates's comments not about quantity, but quality. If there are places where the quality of our forces far exceed what our adversaries have, then that is an opportunity to use technology to bring down the cost of fielding systems in adequate numbers to affect those things that haven't changed, which is the size of the globe and, for example, the proportion of it covered by water.

That is what we need to be thinking about, to put capability and performance into the trade space and be willing smartly to trade it against cost and schedule and quantity.

Senator REED. Going forward, it seems that we have seen a shift from the Cold War, where there was a competition between two superpowers based upon these issues we have talked about—technology, quantity, innovation, in terms of more and more sophisticated weapons and systems.

But over the last several years, we have seen asymmetric warfare become the predominant. And one of the great and even cruel ironies is that we have produced very sophisticated equipment, which is being defeated and our troops being killed by plastic containers of fertilizer and det cord.

And the irony here as we go forward is as we build these new systems, build these new platforms, build all these things, we ironically might become more susceptible to asymmetric attacks. How do you propose that we think about these things? This is a large question, but it might be an important one.

Dr. Perry?

Dr. PERRY. In the specific example of the use of improvised explosive devices, for example, using insurgent forces to attack our convoys, we need two things. We need—first of all, we need boots on the ground. We do need quantity to deal with that.

But additionally, technology can be directed to dealing with those problems. We have unmanned aircraft, for example. Our drones can be used to provide protective cover over our convoys and is being used for that today I think quite effectively. We also have devices which can detect the presence of buried explosive devices by sophisticated infrared detection means. So the technology and quality does have a role in that.

But fundamentally, in the battle going on and the insurgency battles going on today, we cannot get around the fact that a quantity of troops, indeed boots on the ground, are important.

Senator REED. Mr. Hadley, your comments?

Mr. HADLEY. Senator, part of it is just asking the question you asked. And it is interesting, in our deliberations, we met with a QDR task force that was dealing with the asymmetric threats. And we asked them, "Is the acquisition system giving you what you need?" And the answer was no.

And then we met with the panel that was dealing with the high-end anti-access threats, and we said, "Is the acquisition system giving you what you need?" And the answer was no.

And it made us ask the question, "Well, who is the acquisition service system serving?" And I think it tends to serve that kind of traditional set of requirements for conventional forces that we have looked at and that has driven the situation for the last 20, 30 years.

And the question is whether that is the right allocation of effort. And I think you are right to ask that question, and we somehow have to drive that into the planning process within the department.

Senator REED. Well, gentlemen, again, I not only thank you for this report, but for your service to the Nation. Thank you very much.

Chairman LEVIN. Thank you, Senator Reed.

Senator McCaskill.

Senator McCASKILL. Thank you, Mr. Chairman.

And thank you, gentlemen and the rest of the panel, for your service.

I know that my colleague from North Carolina touched on contracting, but I would like to go little further as it relates to contracting. I was very disappointed at the QDR and how it handled contracting, almost as if this was an acquisitions personnel matter as opposed to the dominant role that contracting has taken in our contingency operations in both Iraq and Afghanistan.

We are approaching—we are north of \$750 billion worth of contracting in these two contingency operations, and I don't think there has been a time for a long time that we have had more active military on the ground and engaged in the contingency operations than we had contractors. Contractors have been more in volume, and contractors have been a huge, huge cost driver of these contingency operations.

I appreciate the fact that the panel at least did more than the QDR did as it related to contracting. And I think that that is helpful. But I want to try to visit with you about this because I worry that we have not—it has not really penetrated yet that we will never again have a contingency operation where our military is really executing logistics support.

It is questionable whether or not we will ever again have a military that is executing some of the important missions that must be undertaken in a conflict like Afghanistan. Best example I can give you is police training, where, clearly, training the army and police is one of the primary missions we have in this contingency operation. But yet I can give you example after example—I could take

all my time citing something far beyond anecdotal examples of failure of contracting in this regard.

So I would like you to take another round at what we can do specifically that will begin to bring some accountability. You know, my favorite story to tell, when I went over on contracting oversight in Iraq and realized that that logistical—that LOGCAP was so out of control that when I asked someone in the room, the civilian personnel that was briefing with the ubiquitous PowerPoint, how they could explain that it went from—I think the figure went from the first year of \$20 billion on a contract, by the way, that was estimated to be \$700 million when it was entered into. It went from an estimate of \$700 million to a cost of \$20 billion in its first year, and it went down to \$17 billion in the second year.

And I thought this poor woman who had been asked to do the presentation, the civilian employee over there, I said to her—well, she clearly forgot what measures they took to get it down from \$20 billion to \$17 billion. And you know the answer she gave me in that briefing in Baghdad? It was a fluke.

So here you are recommending that we spend more and more and more, and we reduced a contract by \$3 billion in one year, and nobody even knew how we did it. That is one example of many, many I can give you because I have focused on this in my time in the Senate. I think that—that is why I put in the NDAA this year that the QDR will be required to address contracting in a more in-depth manner when we go around for this again in 2013.

But I would like both of you to take a moment and talk about this in terms of ways that we can get some urgency within the Department of Defense that this is no longer an afterthought. This is a core competency that, frankly, we are just now beginning to get our arms around.

Mr. HADLEY. You are right. I think the thing that is easy to get lost is that there is a role for contractors, an appropriate role when it makes sense for contractors to do things it doesn't make sense for active-duty forces to be doing.

But it is clear that the use of contractors kind of grew like Topsy without adequate oversight. And we have really tried to address that problem.

And I know it is going to sound very bureaucratic, but we didn't—couldn't find any other way to do it other than to say the Defense Department needs to have an assistant Secretary-level person who is responsible for contracting and can look at the whole way we manage them, the way we train them. How do we hold them to account? How do we make sure they are accountable, for example, when they are involved in the security side, to the consequences of their actions the way our military is?

The whole area needs to be re-thought and managed. And it is, in our view, not being managed now. So our solution was you put somebody in charge and say, "Your job is to try to manage this problem."

But second, we also recognize that, appropriately used, contractors can play an important role in the battlefield. The question is to get it down to that appropriate role and then integrate them into our planning and training so that they are actually doing effec-

tively the role we have asked them to do, not just sort of treat them off to the side.

So that was the philosophy, if you will, of the report. A lot more, obviously, to be done. And one of the questions will be whether this national commission, for example, on military personnel or the National commission on building the civil force for the future ought to have as part of their responsibilities looking at this contractor question as well.

Dr. PERRY. This is a very important issue. The QDR, in my judgment, did not adequately address it. Our panel looked at the issue, saw the problem, but I must say we did not have the resources to do a detailed examination or recommend solutions.

I think the first step in trying to get a handle on this would be what the military calls an after action report on Iraq. We are far enough along in Iraq now that I think a look back at what has happened there in this field in the last number of years could be very useful identifying the issues and problems and recommending solutions.

It could be done by one of these two commissions, as Steve Hadley has said. But it ought to be an explicit charge to that commission to do this. It is very important.

Senator MCCASKILL. I also want to just briefly—I know my time is up, and I appreciate that you all recognize the importance of this. And I urge both of you, because you have a sphere of influence and connections, this is going to have to be something that is going to have to be inserted in the culture because it is not there now.

It is not something that commanders really feel like they have true accountability for. It is like who is the low man on the totem pole? We hand the CORs a clipboard, the Contracting Officer Representative. And typically, this was somebody who wasn't trained or experienced.

They are doing slightly better in Afghanistan. I have got to give credit where credit is due. But I also think it is important that we take a look at what, if any, impact earmarking has on overall cost drivers. There are a lot of good ideas that Senators have about what should be earmarked to either a company in their State or a university in their State, research that must be done on this armor or on this technology, and that this all is about the future and our technological capabilities.

But I am not sure that there has ever been an analysis as to how much of that money that has been spent actually produced something the military wanted or needed. And we are past the point we can afford that anymore.

And so, I certainly would urge you all, as you finished your work, as we look at the next QDR, and then we look at these other commissions that are coming, I think it is time we take a look at whether or not what one Senator thinks is a good idea is something that we can afford in light of the overall stresses—and we all know that our deficit is a national security threat. And that stress is something that I think that needs to be brought to bear.

So, thank you both, and thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator McCaskill.

Senator Thune.

Senator THUNE. Thank you, Mr. Chairman.

And Dr. Perry and Mr. Hadley, thank you very much for your good work.

And please convey to the other members of your panel our appreciation for all that they and you put into this. This is an important review, something that I had advocated in the defense authorization bill. And I think it has borne out that it was a—that it was something that needed to be done.

I think your assessment and recommendations are very useful as we try and do everything we can to make sure that America stays strong not only for the near term and the challenges we face today, but also those that we are going to face in the future.

Your report states on page 58 that the Air Force's need for an increased deep strike capability is a priority matter. And on page 60, the report goes on to say, and I quote, "The panel supports an increased investment in long-range strike systems and their associated sensors."

As part of your recommendation to increase investment in long-range strike systems, do you believe that the Air Force should be modernizing its aging bomber fleet by developing a next-generation bomber?

Dr. PERRY. My answer to that is a short one, which is yes.

Senator THUNE. What do you think about the prospect of services retiring weapon systems before a replacement weapon system is built and made operational?

In other words, before the replacement for, say, the next-generation bomber, the follow-on bomber is operational, some of the existing fleet being taken out of service? Your view on that, the services retiring weapon systems.

Dr. PERRY. Particularly, are you thinking of the B-52s?

Senator THUNE. B-52s, right. B-1s.

Dr. PERRY. I would be reluctant to retire the B-52Hs until the new bomber force is in—has been established.

Senator THUNE. Any comment on that, Mr. Hadley?

Mr. HADLEY. There are obviously cost pressures. But I think the obvious question you have to ask is, if a service is willing to retire something before the next generation comes in, how important is the requirement if they are willing to accept a gap? I mean, it raises questions about the seriousness of the requirement.

Senator THUNE. For the Air Force, the QDR provides for a bomber force structure from 2011 to 2015 to be up to 96 in primary mission bombers, implying that the number could be less than 96. Your independent panel's report suggests that the alternative force structure that you recommend was 180 bombers.

And I guess my question is what assumptions led you to recommend a number of bombers that is well above what the QDR recommends? And when do you believe the Air Force will need those 180 bombers?

Mr. HADLEY. It was part of our recommendation to enhance long-range strike. And implicit in that was—not implicit, explicitly we have it in the report a list of systems we thought that were required. A new bomber was part of them. So it is part of our notion that we need to be able to have long-range strike capability to deal with emerging anti-axis threats, which we think will get worse over the next 20 years.

So, as to when, I think our reaction is, you know, it takes a long time to get these systems fielded. It is time to get on with these necessary modernizations.

Dr. PERRY. To that I would add that our emphasis on long-range strike, among other things, included our concern that we would not have continuing access to forward bases that we now have. That was the reason for the emphasis on the long-range aspect of strike.

Senator THUNE. Why do you think that the QDR recommends the lower number compared to what is recommended in your report? That is probably not a fair question to—

Dr. PERRY. I don't know is the short answer.

Senator THUNE. Okay. Well, let me just put it this way. The 2006 QDR directed that a next-generation bomber be built by the year 2018. The 2010 QDR states that long-range strike capabilities must be expanded, but only directed, that a study be conducted to determine what combination of joint persistent surveillance, electronic warfare, and precision attack capabilities, including both penetrating platforms and stand-off weapons, will best support U.S. power projection operations over the next two to three decades.

And in fact, Secretary Gates stated in a hearing earlier this year that a new bomber would not be developed until the mid to late 2020s.

And so, let me put the question this way. In the 2006 QDR, they said we need to have a bomber fielded, operational by 2018. Now it has been pushed back to the 2020s. Do you believe that the need for the new bomber became less urgent over that 4-year span from the 2006 QDR to the 2010 QDR?

Dr. PERRY. No.

Senator THUNE. I like the way you answer questions.

Let me shift over for one other observation here and a question dealing with UAVs. You write in your report on page 58 that the Air Force end strength may require only a modest increase in order to meet the requirements of the increased use of UAVs.

What do you estimate that modest increase in Air Force end strength should be to accommodate the increased use of UAVs? And do you believe that UAVs are going to become more and more prominent in terms of their—in terms of our force structure in future years?

Dr. PERRY. I definitely believe there will be increased prominence of the UAVs for the indefinite future. I think that was a continuing—they continually demonstrate their increased effectiveness and their increased ability to use our limited manpower very effectively.

Steve?

Mr. HADLEY. We could not put a number on that. And it is not just Air Force personnel, but there are additional intelligence requirements generated to process the information that you get from the UAVs. So there is a—it is a terrific tool. There is a big footprint associated with it. It is much more than the Air Force.

We were not in a position to put numbers on it. So what we thought we needed to do was just to flag that as a consideration as you look forward in terms of planning.

Dr. PERRY. One other comment about the UAVs in terms of their effective use of manpower. Of course, even though they are un-

manned, they do require personnel on the ground to operate and maintain.

And so, they are not—in the use of the UAVs in Afghanistan, for example, a substantial percentage of the personnel are actually based in the United States instead of overseas. So not only the fact that they use less manpower, but the fact that some of the manpower can be based out of theater, which is a great advantage.

Senator THUNE. Mr. Chairman, my time is up. So I thank you again, all. Thank you very much and for your very complete body of work and for the great assistance that it provides us in looking into these important issues. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Thune.

Senator Webb.

Senator WEBB. Thank you, Mr. Chairman.

And gentlemen, I would like to say first that I have been here through most of the hearing today, and I appreciate your frankness. And also, it has been a long, long morning for you. I know it is getting on 2½ hours here. So I appreciate very much your patience in getting through our litany of questions.

I had to leave briefly to go meet with the Commandant of the Marine Corps. But I wanted to come back because I—and make this point because I think it is so vital in terms of the findings that you have brought forth. That is really a valuable service to have had the input of the people on your commission providing us a continuity here of defense experience as we try to project into the future as opposed to, as has been hinted a few times, the more immediate budgetary nature of the QDR itself.

But I would support the idea of having a continuing independent strategic review panel. I think that would be very valuable to how these issues are analyzed up here. We get caught up so much in reacting to events that we need something like that.

And as you know, I have spent many years trying to address the issues of the Navy force structure and how vital it is in terms of our National strategy. And we tend, when we get in these long-term ground engagements, to sort of eat the gingerbread house a little bit. We have to pay for what is in front of us.

But there is going to come a time at some point where the ground commitments in Iraq and Afghanistan are going to end, I hope, and we may be looking at rebalancing the ground forces. And then we are going to turn around, and without the right sort of planning and projection, we may be in a very vulnerable place in terms of our sea power presence around the world.

And I have heard a few questions here today, a few comments about, you know, the size of other navies in the world and why should our Navy be one—a much larger size. And as both of you well know, in the articulation of national strategy, it is—the issue for us is how we communicate our national interests to the rest of the world, not how a navy can fight a navy. It is how a nation can have credibility and link up with its allies.

And so, that particular question is basically irrelevant of a size of a navy versus a size of a navy. It is how we are going—particularly in Asia and the Pacific—how we are going to maintain—help maintain stability in that region. And I have spent a good bit of

time there, as you know. I have spent a good bit of time there this year, in the last 12 months.

And when we look at the increased size and the sophistication of the Chinese navy and the buildup in places like Hainan Island and its increased activity throughout that region and the sovereignty claims in the South China Sea that have gone beyond anything that we have seen in our collective lifetimes, I think, with China stating that the South China Sea areas in terms of sovereignty are a core interest and putting it on the same level as Taiwan has always been, and the reality that only the United States can ensure the right sort of stability in the face of this kind of growth.

We see a lot of nervousness in the region, as I am sure you know. Vietnam has just ordered six submarines from Russia. There is a great deal of concern as to whether we are going to stay and a realization that bilateral arrangements don't work with China when these countries are so much smaller.

So I was very gratified to see the report and with the collective experience of the people on your panel saying we need to grow the size of the Navy. The big question—and, Dr. Perry, I would really like to get your advice on this—is how to get there, how to get there when we want to grow the Navy back up.

When I was commissioned in 1968, we had 930 ships in the United States Navy. They were different types of ships. That is not a, you know, apples-to-apples comparison. We went down to 479 by 1979. We got up to 568 when I was Secretary of the Navy. I have heard several different numbers here, but we are somewhere just north of 280 today.

The goal stated by the Navy is 313. I think you were talking 346. But the key question is—that I have been struggling with up here is that there is a very unusual economic model when we talk about shipbuilding. It is not normal competitive process because of the sophistication and our very low profit margin, quite frankly, for the industry.

So how do we—if you were Secretary of Defense today, how would you be going about this so that we could—and with all the other pressures that we have, that we could increase the force structure?

Dr. PERRY. A couple comments, Senator Webb. First of all, I don't see the relevance in comparing with the size of other navies. The United States has global interests, and those global interests require presence around the world, around the globe.

In particular, we have increasingly important economic interests and security interests in the Western Pacific. And that requires not only a presence in the Western Pacific, but an ability to confidently assure transit there and a competence that our allies can have confidence in. So I do want to underscore the importance of that recommendation. It does require presence, and it requires a larger fleet than we now have to do that with confidence.

As you well know, it takes a long time to build a ship, from the time you conceive it to the time you actually have it operational. And so, it is important to get started. I don't think that the Secretary of Defense can make the tradeoffs with this present budget to do this. And that is why we say there has to be a way of decreas-

ing other costs. And even if you are successful in that, there will have to be a larger top line at the Defense Department than we now have.

So this is something that the Secretary of Defense cannot do by himself. The Secretary of Defense, although he advocates a defense budget, is not the one that finally determines the size of the budget. So it will take a greater top line to do that. And it needs to get started, I think, because it is going to take a while to build it up. But the presence—there is no substitute, in my judgment, to maintaining our security in the Western Pacific, in particular, than having a strong and able maritime presence there.

Senator WEBB. Thank you very much.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Webb.

Senator Nelson.

Senator BILL NELSON. Thank you, Mr. Chairman.

In your report, you discussed the concept called comprehensive approach. And it goes beyond the concept of the whole of Government concept that was emphasized in the Quadrennial Defense Review. So can you explain the comprehensive approach and why you think the whole of Government concept falls short of addressing the National security requirement?

Mr. HADLEY. Yes, sir. We have learned in Iraq and Afghanistan that in those kinds of missions, it is not just the U.S. Government. Yes, you want all elements of national power or all agencies, departments working together in an organized way. But there are other players.

There are other allies that are with us on the ground, both military and—militarily and in terms of civilians. There are in Afghanistan, for example, and in Iraq international organizations that are present. There are nongovernmental organizations, private voluntary organizations that are players.

And it was an effort to say that in those efforts there are players beyond the U.S. Government, and there needs to be a coordinated activity with a common set of objectives, working together as much as possible in an organized way to achieve those objectives. And we thought the best way of showcasing that requirement was whole of Government and then, beyond it, comprehensive approach.

Senator BILL NELSON. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you.

Senator BILL NELSON. Thank you, gentlemen. Thank you for your continuing service to our country.

Chairman LEVIN. And thank you very much, Senator Nelson.

I just had one additional question of you, Secretary Perry. The issue of the START Treaty has come up here this morning, and I want to just ask you a question about the fact that tactical nuclear weapons are not included in the START Treaty. And that has been raised by some as a problem.

Now, as I understand it, this issue is a topic which the Strategic Posture Commission, which you chaired, discussed and concluded that the first treaty should focus on strategic offensive nuclear arms, and then, hopefully, there would be a subsequent treaty addressing the tactical nuclear weapons issue.

Can you give us your thinking as to the argument that there is a flaw in START because it does not include tactical nuclear weapons—if that is a reason for opposing the START Treaty?

Dr. PERRY. The START Treaty did not do everything we want to see done in the field of nuclear weapons, but it is a very important first step. But it is only a first step, and we need to be looking beyond that to follow-on treaties, which would deal, among other things, with tactical nuclear weapons.

So I don't think the fact that it does not do everything we want in the field means that we should—that it is not a very useful and important treaty. I strongly support the START Treaty the way it is now negotiated, but I do look forward to follow-on treaties which deal with these other issues.

Chairman LEVIN. Mr. Hadley, does the fact that the START does not include tactical nuclear weapons, is that a reason not to ratify it?

Mr. HADLEY. No.

Chairman LEVIN. Okay. Looks like Senator Nelson and I are the last ones here. So if you are all set, Bill, we will adjourn, with our thanks again to you and your panelists.

And I hope that you could pass that along when you see them that we are——

Mr. HADLEY. Thank you. We will do that, Mr. Chairman.

Chairman LEVIN.—greatly indebted to them and to you.

[Whereupon, at 12:02 p.m., the committee adjourned.]