

**HEARING TO RECEIVE TESTIMONY ON THE  
DEFENSE AUTHORIZATION REQUEST FOR  
FISCAL YEAR 2013 AND THE FUTURE YEARS  
DEFENSE PROGRAM**

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**TUESDAY, FEBRUARY 14, 2012**

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

The committee met, pursuant to notice, at 9:33 a.m. in room SD-G50, Dirksen Senate Office Building, Senator Carl Levin (chairman) presiding.

Committee members present: Senators Levin, Lieberman, Reed, Akaka, Nelson, Webb, McCaskill, Udall, Hagan, Begich, Manchin, Shaheen, Gillibrand, Blumenthal, McCain, Inhofe, Chambliss, Wicker, Brown, Portman, Ayotte, Collins, Graham, Cornyn, and Vitter.

Committee staff members present: Richard D. DeBobes, staff director; Leah C. Brewer, nominations and hearings clerk; and Travis E. Smith, special assistant.

Majority staff members present: Jonathan D. Clark, counsel; Jonathan S. Epstein, counsel; Richard W. Fieldhouse, professional staff member; Jessica L. Kingston, research assistant; Michael J. Kuiken, professional staff member; Gerald J. Leeling, counsel; Peter K. Levine, general counsel; Thomas K. McConnell, professional staff member; William G.P. Monahan, counsel; Michael J. Noblet, professional staff member; Roy F. Phillips, professional staff member; John H. Quirk V, professional staff member; Robie I. Samanta Roy, professional staff member; Russell L. Shaffer, counsel; and William K. Sutey, professional staff member.

Minority staff members present: Adam J. Barker, professional staff member; Pablo E. Carrillo, minority investigative counsel; Paul C. Hutton IV, professional staff member; Daniel A. Lerner, professional staff member; Elizabeth C. Lopez, research assistant; Lucian L. Niemeyer, professional staff member; Christopher J. Paul, professional staff member; Michael J. Sistik, research assistant; and Diana G. Tabler, professional staff member.

Staff assistants present: Jennifer R. Knowles, Mariah K. McNamara, Brian F. Sebold, and Bradley S. Watson.

Committee members' assistants present: Jeff Greene, assistant to Senator Lieberman; Carolyn Chuhta, assistant to Senator Reed; Nick Ikeda, assistant to Senator Akaka; Ann Premer, assistant to Senator Nelson; Gordon Peterson, assistant to Senator Webb; Jason Rauch, assistant to Senator McCaskill; Casey Howard, assistant to

Senator Udall; Lindsay Kavanaugh, assistant to Senator Begich; Mara Boggs, assistant to Senator Manchin; Ethan Saxon, assistant to Senator Blumenthal; Anthony Lazarski, assistant to Senator Inhofe; Lenwood Landrum, assistant to Senator Sessions; Tyler Stephens and Clyde Taylor IV, assistants to Senator Chambliss; Joseph Lai, assistant to Senator Wicker; Charles Prosch, assistant to Senator Brown; Brad Bowman and John Easton, assistants to Senator Ayotte; Ryan Kaldahl, assistant to Senator Collins; Sergio Sarkany, assistant to Senator Graham; Dave Hanke, assistant to Senator Cornyn; and Charles Brittingham, assistant to Senator Vitter.

#### **OPENING STATEMENT OF SENATOR CARL LEVIN, CHAIRMAN**

Chairman LEVIN. Good morning, everybody. The committee this morning welcomes Secretary of Defense Leon Panetta and Chairman of the Joint Chiefs of Staff General Martin Dempsey for our hearing on the Department of Defense's fiscal year 2013 budget request, the associated future years defense program, and the posture of the U.S. Armed Forces. The committee also welcomes Under Secretary of Defense-Comptroller Robert Hale, who has joined the Secretary and the Chairman at the witness table.

Let me start by thanking all of you for your continued service to our Nation and to the soldiers, sailors, airmen, and marines here at home and in harm's way around the globe, and to their families. They are truly deserving of the Nation's affection and support.

Your testimony today marks the beginning of the committee's review of the fiscal year 2013 budget request for the Department of Defense. This year's request includes \$525 billion for the base budget and \$88.4 billion for overseas contingency operations, so-called OCO. The fiscal year 2013 base budget request is \$5 billion less than the fiscal year 2012 enacted level of \$530 billion, and the OCO request is \$27 billion less than last year's enacted level of \$115 billion.

The fiscal year 2013 budget conforms with the Budget Control Act that Congress passed last summer. The Senate approved the Budget Control Act on a bipartisan basis, with 74 Senators voting for it. The Budget Control Act locked in defense and non-defense discretionary spending caps over 10 years. The defense caps reduced projected defense spending by nearly half a trillion dollars over 10 years, and the Department responded with a new strategy and a new program to meet the Nation's security challenges and preserve our military capabilities.

The Budget Control Act also included language requiring the Congress to pass legislation with additional far-reaching deficit reduction. If Congress does not come up with a deficit reduction package by next January, one that locks in another \$1.2 trillion in deficit reduction over 10 years, then automatic spending cuts, called "sequestration," will be imposed on both defense and non-defense programs.

The budget the President sent us yesterday avoids sequestration by meeting the \$1.2 trillion additional defense reduction target, approximately one-half in further cuts in spending and one-half in additional revenues.

The defense budget request for fiscal year 2013 not only conforms to the funding limits of the Congressionally mandated Budget Control Act, it also reflects the results of the Department's comprehensive and inclusive strategic review initiated by President Obama in April last year and the strategic guidance that resulted.

We look forward to the witnesses' explanation of the process that they went through to develop the new strategic guidance, the assessment, their assessment, of this guidance's most important features and potential risks relative to the current and anticipated strategic environment, and how this budget request supports its strategic priorities and manages strategic risk in the near and long terms.

The administration has called for two more base realignment and closure, or BRAC, rounds. In my view, however, before we consider another round of BRAC, the Department ought to take a hard look at whether further reductions in bases can be made overseas, particularly in Europe. While the Department has announced the removal of two of the four combat brigades currently stationed in Europe, even after the brigades are withdrawn there will still be over 70,000 U.S. military personnel deployed in Europe. Finding further reductions and consolidations in our overseas force posture should be our first priority before another BRAC round.

The fiscal year 2013 defense budget request reflects the continuing conflict in Afghanistan, but also reflects the fact that the process of transition has begun and continues apace. Afghan security forces are assuming responsibility for securing the Afghan people in more and more areas throughout Afghanistan. Progress on security is real. A second round of areas to be transitioned to an Afghan security lead will be completed later this year. Then approximately 50 percent of the Afghan population will live in areas where Afghan security forces have the lead for providing security, with coalition forces playing a supporting role.

I have long pressed for Afghan security forces to move increasingly into the combat lead and to assume responsibility for securing more and more Afghan territory and communities as the size and capabilities of the Afghan army and police are built up. The success of our mission in Afghanistan depends on getting the Afghan security forces in the lead, with the support of the Afghan people, thereby putting the lie to the Taliban propaganda that the coalition is an occupying force.

The Afghan Foreign Ministry spokesman recently made clear there was full agreement on transition, saying: "We have always maintained that Afghan security is an Afghan responsibility."

Last June, President Obama said that the 33,000 U.S. surge force would be removed from Afghanistan by the end of this summer. That means that 68,000 U.S. troops would remain in Afghanistan after the drawdown of the surge. He also said that after the reduction of the U.S. surge force U.S. troops will continue to draw down "at a steady pace." Yet the fiscal year 2013 overseas contingency operations budget request now before Congress is based on an assumption that there are no additional reductions in the 68,000 troop level in Afghanistan throughout all of fiscal year 2013.

The question that I hope our witnesses will address this morning is whether they expect further reductions in U.S. troop levels in Af-

ghanistan during fiscal year 2013 below 68,000 and what associated cost savings would result. If that decision has not yet been made by the President, what is the timetable for its being made?

I also hope Secretary Panetta will clarify his surprising statements earlier this month that “Our goal is to complete all of the transition to a training, advisory, and assistance role in 2013,” and that, he said, “Hopefully by mid to the latter part of 2013, we will be able to make a transition from a combat role.”

There are many reports about reconciliation talks with the Taliban. If Taliban statements are true that they will open a political office in Qatar, it would have the potential to be a positive development. I am concerned, however, by reports that in exchange for the opening of this office the administration is considering transferring five Afghan Taliban detainees from the Guantanamo detention facility to Qatar. Such a significant step strikes me as premature and should be considered, in my view, only following positive discussions and not preceding them.

Another concern I have regarding the progress of the reconciliation talks is the reported decision by the government of Afghanistan to open a second channel in the dialogue with the Taliban that would be in Saudi Arabia. It seems to me that this would create the potential for confusion. The United States has said it is committed to an Afghan-led reconciliation process. That is another reason that the discussion process ought to be pursued through a single channel, with both the Afghan government and us fully coordinated and participating together, whether it takes place in one or two venues.

With respect to the realignment of U.S. Marines on Okinawa, Senator McCain, Senator Webb, and I have advocated changes in the current plan in ways that support the strategic goals of the U.S. regional military posture while avoiding excessive and unsustainable costs associated with large and elaborate new bases. The announcement last week that the U.S. and Japan are reconsidering elements of the plan is welcome news, but the steps are not yet adequate.

There are other challenges, of course. There is strong bipartisan determination on this committee and in Congress to do all we can to counter the threat that Iran poses, including stopping Iran from acquiring nuclear weapons. President Obama has focused considerable diplomatic effort towards that goal because, in his words, “America is determined to prevent Iran from getting a nuclear weapon.” “And I will take no options,” he said, “off the table to achieve that goal.” The administration is bringing the world together, as it should, to speak with one voice against Iran’s nuclear ambitions.

Relative to Egypt, the decades-old relationship between the United States and Egypt is under strain. In recent days, General Dempsey traveled to Cairo to engage the supreme council of the armed forces of Egypt on the very troubling decision by the Egyptians to charge 19 Americans and dozens of other individuals for operating programs in support of Egyptian civil society. The committee is eager to learn the findings of General Dempsey’s visit because the decision by the Egyptians, if unresolved, will negatively

affect funding decisions that Congress makes in the coming months.

Relative to Syria, the regime of President Al-Assad is waging war on the people of Syria and, despite the condemnation of the Arab League and almost all nations, China and Russia are preventing the U.N. Security Council from taking any effective action. If the situation is left as it is, there is also a significant threat that surrounding countries could be severely impacted. Our witnesses will, hopefully, discuss options that we have to help end the slaughter, as limited as those options might be.

On cyber security, the defense strategic guidance notes that both state and non-state actors pose the capability and intent to conduct cyber espionage and the capability to conduct cyber attacks on the United States, with possibly severe effects on both our economy and on our security. The Director of National Intelligence in recent Senate testimony placed the cyber security threat in the top tier alongside of terrorism and nuclear proliferation and other proliferation of weapons of mass destruction.

A recent report from the National Counter-Intelligence Executive stated that entities operating from within China and Russia are responsible for the massive theft of U.S. commercial and military technology that could threaten our national security and our economy. We should let China and Russia know in no uncertain terms that cyber economic espionage will have very negative consequences for normal trade relations and other relations.

Finally, in the area of personnel, the Department proposes numerous personnel-related reforms aimed at slowing the increase in personnel and health care costs, which continue to rise at unsustainable rates. These reforms include a significant reduction in military end strength over the next 5 years, other personnel-related reforms, and a commission to review military retirement benefits. I agree with General Dempsey, Admiral Winnefeld, the service chiefs, and the services' senior enlisted advisers, who urged me in a letter dated January 25, 2011, to grandfather the retirement benefits of those currently serving. We owe it to our service members and their families to address any change in their compensation and benefits in a manner that acknowledges the commitment that we made to them when they volunteered to serve in our armed forces.

Secretary Panetta, General Dempsey, and Dr. Hale, we look forward to your testimony, and I now call on Senator McCain.

[The prepared statement of Senator Levin follows:]

[COMMITTEE INSERT]

#### **STATEMENT OF SENATOR JOHN McCAIN**

Senator McCAIN. Thank you, Mr. Chairman, and I join in welcoming Secretary Panetta and Chairman Dempsey to discuss the President's budget request for fiscal year 2013, his proposal to reduce the budget for the Department of Defense by \$487 billion over the next ten years, and the impact of these reductions on future years defense programs for the Department of Defense.

While the other members of this committee and I will continue to scrutinize these proposals, I can say today that I do not fully en-

dorse this budget request. Indeed, I am seriously concerned about how we arrived at this point.

On April 13, 2011, the President of the United States announced his intention to reduce the Department of Defense budget by \$400 billion through 2023. However, his announcement was unsupported by any type of comprehensive strategic review or risk assessment. In fact, then-Secretary Gates testified before Congress that he only learned the night before about this massive proposed cut in our defense spending. Now the President proposes \$487 billion in cuts over 10 years, and we're told that these proposed cuts are not budget-driven, but based on a thorough strategic review of our defense priorities.

Respectfully, this doesn't add up. Unfortunately, this defense budget continues the administration's habit of putting short-term political considerations over our long-term national security interests. In Afghanistan, our military commanders initially asked for a surge of 40,000 troops. The President disregarded their advice, sent 30,000 troops instead, and announced a date when they would begin withdrawing.

Our commanders then recommended maintaining the full surge force throughout this year's fighting season. But the President again disregarded their advice and announced reductions to our force levels that the former Chairman of the Joint Chiefs of Staff Admiral Mullen said were more aggressive and incurred greater risks than he advised.

Finally in Iraq, the President disregarded the advice of his commanders again, dragged out negotiations with the Iraqi government with no intent to maintain a presence of U.S. troops. And now, with the political and security situations unraveling, it is difficult to argue that Iraq today is, to use the President's phrase, "stable and self-reliant."

It seems as though many of the President's most significant decisions about our national defense have been fundamentally disconnected from "conditions on the ground" and the advice of our military commanders, including commanders that the President himself selected. I fear that this defense budget and the broader plan to cut \$487 billion from the Department of Defense over ten years only continues this dangerous and regrettable pattern.

By any objective assessment, the worldwide threats to our Nation, our interests, and our ideals are not diminishing; they are growing. And yet the defense budget before us would reduce the size of our force by more than 125,000 military personnel. It would jeopardize our nuclear modernization plan by making critical cuts to our nuclear weapons infrastructure programs. It would eliminate 20 percent of the Army's brigade combat teams, six Marine Corps battalions, four tactical air squadrons, and seven Air Force combat squadrons, and 130 mobility aircraft.

Perhaps most concerning of all in light of the administration's own identification of Asia-Pacific region as the focus of U.S. defense strategy, this budget would require the Navy to reduce shipbuilding by 28 percent, to retire seven cruisers and two amphibious ships earlier than planned, to delay the next generation ballistic missile submarine, and to postpone the purchases of one *Virginia*-

class attack submarine, two littoral combat ships, and eight high-speed transport vessels.

Furthermore, while this defense strategy and its related budget cuts clearly increase the risks to our national security objectives, there has been no formal risk assessment provided to Congress. How can we and the American people determine whether the additional risks associated with this strategy are acceptable if we do not know the specific nature of those risks as defined by the U.S. military?

These cuts pale in comparison to what the Defense Department would face under sequestration, an outcome that Secretary Panetta has correctly stated would be catastrophic for our national defense. And yet here, too, domestic politics is taking priority over national security, with the President saying he would veto an effort by Congress to eliminate sequestration that does not include raising taxes.

Our message to you, Secretary Panetta, and the President of the United States: If it is catastrophic as you state, then why don't we sit down? Why doesn't the President sit down with us and we work out a way to avoid what you and General Dempsey have described as catastrophic consequences for the national security of this country, rather than sitting in the Oval Office and saying he'll veto any bill that doesn't have tax increases in it?

In short, we have come to a critical turning point when decisions of the utmost importance for our national security must be resolved and the consequences of those decisions, for better or worse, will forever shape our Nation's destiny. Defense spending is not what is sinking this country deeper into an unsustainable national debt. If we act under the assumption that it is, we will create something that is truly unaffordable, the hollowing out of the U.S. military and the decline of U.S. military power.

We can either take the easy route of dramatic cuts to force structure and investments, which diminish our military capabilities and increase risk, or we can balance more modest and strategically directed reductions in defense spending with an aggressive plan to address the broader cultural problems plaguing our defense establishment, the waste and inefficiency with which the Department buys goods and services under the undue influence of a non-competitive military-industrial-congressional complex. I believe we must tackle this cultural problem head on. We must cut congressional earmarks and pork barrel spending on programs that the military does not request and does not need. We must have transparent and auditable financial statements, and we must eliminate the shameless cost overruns that characterize too many of our largest defense programs.

From my review of these programs, this point is clear: The phenomenon of acquisition malpractice, which a senior Pentagon official publicly described just a few days ago, can be found in many more programs than just the Joint Strike Fighter. It pervades the entire major defense acquisition program portfolio, revealing a cultural problem in the acquisition of goods and services that is unsustainable.

Before the Department further risks force structure to achieve budget savings, practices like this must end now. Now is the time to set politics aside for the sake of the one issue that we can all

agree on is non-negotiable to the future health and success of our Nation—our national defense. We need to start with goals, move to strategy, and allow that rigorous process to inform the budget we create.

The administration's approach thus far has been too defined by short-term domestic political considerations. The administration has not led. For the sake of our national security, Congress should.

Thank you, Mr. Chairman. I look forward to the testimony of our witnesses.

Chairman LEVIN. Thank you, Senator McCain.  
Secretary Panetta.

**STATEMENT OF HON. LEON PANETTA, SECRETARY OF DEFENSE; ACCOMPANIED BY ROBERT F. HALE, UNDER SECRETARY OF DEFENSE (COMPTROLLER)**

Secretary PANETTA. Thank you very much, Chairman Levin, Senator McCain, members of the committee. I ask that my statement be made part of the record and I would like to summarize some of the key points.

Chairman LEVIN. It will be made part of the record and, by the way, the balance of my statement that I didn't give will also be made part of the record.

Secretary PANETTA. Mr. Chairman and members of the committee: I appreciate the opportunity to appear before you to discuss the President's budget request for fiscal year 2013. Let me begin, as always, by thanking you for the support that you provide to service members and to our military families. These brave men and women, along with the Department's civilian professionals who support them, have done everything asked of them and more, during more than a decade of war. I want to thank you for the support that you have given them in the past, the present, and hopefully in the future.

The fiscal year 2013 budget request for the Department of Defense was the product of an intensive strategy review that was conducted by the senior military and civilian leaders of the Department, with advice and guidance of the President. The total request represents a \$614 billion investment in national defense that includes \$525.4 billion for the Department's base budget and \$88.5 billion in spending to support our troops in combat.

The reasons for this review are clear. First, the United States is at a strategic turning point after a decade of war and after very substantial growth in defense budgets.

And second, with the Nation confronting a very large debt problem and deficit problem in this country, Congress passed the Budget Control Act of 2011, imposing a reduction in the defense budget of \$487 billion over the next decade. We at the Department decided to step up to the plate, that this crisis provided us an opportunity to establish a new strategy for the force that we would need in the future. That strategy has guided us in making the budget decisions and choices that are contained in the President's budget.

The fact is we are at an important turning point that would have required us to make a strategic shift probably under any circumstances. The U.S. military's mission in Iraq has ended. While we still have a tough fight on our hands in Afghanistan, 2011

marks significant progress in reducing violence and transitioning to an Afghan-led responsibility for security, and we are on track to complete this transition by the end of 2014 in accordance with our Lisbon commitments.

Having just returned from the NATO ministerial, I can assure you that all of the NATO nations are in line with the strategy that we are approaching with regards to Afghanistan. We are in a transition. We are transitioning security to Afghan forces, and our hope is that as we make the final transition in 2014 that they can take the lead on combat operations. We will be there. We'll be in support. We'll be combat-ready to support them through that process. And I want to assure you that NATO is fully in agreement with the strategy that we are moving in in Afghanistan.

Last year, in addition, the NATO effort in Libya also concluded with the fall of Qadafi, and successful counterterrorism efforts have significantly weakened al Qaeda and decimated its leadership.

But despite what we have been able to achieve, unlike past drawdowns, when threats have receded, the United States still faces a very complex array of strategic challenges across the globe. We are still a Nation at war in Afghanistan. We still face threats to our homeland from terrorism. There is a dangerous proliferation of lethal weapons and materials. The behavior of Iran and North Korea continue to threaten global stability. There is continuing turmoil and unrest in the Middle East, from Syria to Egypt to Yemen and beyond. Rising powers in Asia are testing international rules and relationships, and there are growing concerns about cyber intrusions and attacks.

Our challenge, our challenge, is to meet these threats, to protect our Nation and our people, and at the same time meet our responsibility to fiscal discipline. This is not an easy task.

To build the force we need for the future, we developed new strategic guidance that consists of five key elements. First, the military will be smaller and leaner, but we want a military that is agile and flexible and ready and technologically advanced.

Second, we will rebalance our global posture and presence to emphasize Asia Pacific and the Middle East, because those areas represent the threats for the future.

Third, for the rest of the world we need to build innovative partnerships and strengthen key alliances and partnerships from Europe to Latin America to Africa.

Fourth, we will ensure that we have the capability to quickly confront and defeat aggression from any adversary, any time, anywhere.

And fifth, this can't just be about cuts. It also has to be about protecting and prioritizing key investments in technology and new capabilities, as well as our capacity to grow, adapt, and mobilize as needed.

We've developed this new strategic guidance before any final budget decisions were made, in order to ensure that the decisions that are here, the choices we made, reflect the new defense strategy. While shaping the strategy, we didn't want to repeat the mistakes of the past. Our goals are to maintain the strongest military in the world, to not hollow out the force, to take a balanced ap-

proach to budget cuts by putting everything on the table, and to not break faith with our troops and their families.

Throughout this review, we also wanted to make sure that this was an inclusive process. General Dempsey and I worked closely with the leadership of the services and the combatant commanders and consulted regularly with members of Congress. As a result of these efforts, the Department is strongly unified behind the recommendations that we are presenting today.

Consistent with the Budget Control Act, this budget reflects in the next five years a savings of \$259 billion. That's compared to the budget plan that was submitted, obviously, to Congress last year.

We think this is a balanced and complete package that follows the key elements of the strategy and adheres to the guidelines that we established. The savings come from three broad areas. First, efficiencies. We have redoubled our efforts to discipline the use of taxpayer dollars, and that has yielded, we hope, about one-quarter of the targeted savings that we have in this package.

The second area is force structure and procurement reforms and adjustments. We've made strategy-driven changes in both force structure and procurement programs to achieve roughly half of the savings in this package.

And finally, on compensation. We've made modest but important adjustments in personnel costs to achieve some very necessary cost savings in this area. This area represents about one-third of our budget, but here it accounted for little more than 10 percent of the total reduction that we've presented.

Let me walk through each of these areas. First of all, with regards to disciplining defense dollars, if we're going to tighten up the force then I, like Senator McCain, believe very strongly that we have to begin by tightening up the operations of the Department. We've got to reduce excess overhead, eliminate waste, and improve business practices across the Department.

The fiscal year 2012 budget, as you know, proposed more than \$150 billion in efficiencies, and we continue to implement those changes. But we also identified another \$60 billion in additional savings over five years through measures like streamlining support functions, consolidating IT enterprise services, rephasing military construction projects, consolidating inventory, and reducing service support contractors.

As we reduce force structure, we also have a responsibility to provide the most cost-efficient support for the force. For that reason, the President will request the Congress to authorize the base realignment and closure process for 2013 and 2015. As somebody who went through the BRAC process in my own district, I recognize how controversial this process is for members and for constituencies. And yet, it is the only effective way to achieve needed infrastructure savings.

To provide better financial information, we are also increasing our emphasis on audit readiness and accelerating key time lines. In October 2011, I directed the Department to accelerate efforts to achieve fully auditable financial statements. We were mandated to do it by 2017; what I have ordered is that we move that up to 2014.

But efficiencies alone are not enough to achieve the required savings. Budget reductions of this magnitude require that we make

adjustments to force structure and procurement investments. The choices that we made have to fit the five elements of the strategy that we developed for the future military force. First, we knew that coming out of these wars, as I said, the military would be smaller, but our approach to accommodating these reductions has been to take this as an opportunity to fashion an agile and flexible military that we need for the future. That highly networked and capable joint force consists of an adaptable and battle-tested Army that remains our Nation's force for decisive action, capable of defeating any adversary on land, and at the same time being innovative about how it deploys its forces; a Navy that maintains forward presence and is able to penetrate enemy defenses; a Marine Corps that remains a middleweight expeditionary force, with reinvigorated and amphibious capabilities; an Air Force that dominates air and space and provides rapid mobility, global strike, and persistent ISR; and a National Guard and Reserve that continue to be ready and prepared for operations when needed.

To ensure this agile force, we made a conscious choice not to maintain more force structure than we could afford to properly train and equip. If we do it the other way, we guarantee a hollow force. We wanted a force structure that we could effectively train and maintain.

We are implementing force structure reductions consistent with the new strategic guidance for a total savings of \$50 billion over the next five years. The adjustments include, as was pointed out, a resizing of the active Army from 562,000 to 490,000 soldiers by 2017. This will transition down in a responsible way.

We'll gradually resize the active Marine Corps from about 202,000 to 182,000. We'll reduce and streamline the Air Force's airlift fleet. We'll retire some aging C-5As and C-130s. But at the same time, we'll maintain a fleet of 275 strategic airlifters and 318 C-130s, a fleet that will be more than capable of meeting the airlift requirements of the new strategy.

The Navy will protect our highest priority and most flexible ships, but we also will retire seven lower priority Navy cruisers. The reason we're doing that is that these cruisers have not been upgraded with ballistic missile defense capability and would require significant repairs. That's the reason the Navy chose to do that.

Second, the strategic guidance made clear that we must protect our capabilities needed to project power in Asia Pacific and the Middle East. To this end, the budget maintains the current bomber fleet, it maintains the aircraft carrier fleet at a long-term level of 11 ships and 10 air wings, it maintains the big-deck amphibious fleet, and it restores Army and Marine Corps force structure in the Pacific after the drawdown from Iraq and as we draw down in Afghanistan, while continuing to maintain a strong presence in the Middle East. Our goal is to expand our rotational presence in both areas.

The budget also makes selected new investments to ensure we develop new capabilities to project power in key territories and domains. We're going to put \$300 million to fund the next general Air Force bomber. We're putting \$1.8 billion to develop the new Air Force tanker, \$18.2 billion for the procurement of ten new war-

ships, including two Virginia-class submarines, two Aegis-class destroyers, four littoral combat ships, one joint high-speed vessel, and one CVN-21-class aircraft carrier. We're also investing \$100 million to increase cruise missile capacity of future Virginia-class submarines.

Third, the strategy makes clear that, even as Asia Pacific and the Middle East represent the areas of growing strategic priority, the United States will continue to work to strengthen its key alliances, to build partnerships, to develop innovative ways, such as rotational deployments, to sustain our presence elsewhere in the world.

To that end, we make key investments in NATO and other partnership programs. We're putting \$200 million in fiscal year 2013 and nearly \$900 million over the next five years on the NATO Alliance Ground Surveillance System, one that was just approved by the NATO ministerial in this last meeting; \$9.7 billion in fiscal year 2013 and about \$47 billion to develop and deploy missile defense capabilities that protect the U.S. homeland and strengthen regional missile defenses as well.

The new strategy envisions a series of organizational changes to boost efforts to partner with other militaries. We're allocating a U.S.-based brigade to the NATO response force and will rotate U.S.-based units to Europe on a regular basis for training and exercises, increasing the opportunities as well for special operations forces to advise and assist our partners in other regions.

Fourthly, the U.S. must have the capability to fight more than one conflict at a time. But we are in the 21st century and we have to use 21st century capabilities. That's the reason this budget invests in space, in cyber space, in long-range precision strike, and in the continued growth of special operations forces, to ensure that we can still confront and defeat multiple adversaries even with the force structure reductions that I've outlined earlier.

It also sustains the nuclear triad of bombers, missiles, and submarines to continue to ensure that we have a safe, reliable, and effective nuclear deterrent. Even with some adjustments to force structure, the budget sustains a military that I believe is the strongest in the world: an Army of more than one million active and Reserve soldiers with 18 divisions, approximately 65 brigade combat teams, and 21 combat aviation brigades; a naval force of 285 ships, the same size force that we have today, that will remain the most powerful and flexible naval force on Earth; a Marine Corps with 31 infantry battalions, 10 artillery battalions, and 20 tactical air squadrons; and an Air Force that will continue to ensure air dominance, with 54 combat-coded fighter squadrons and the current bomber fleet.

Lastly, we can't just, as I said, cut. We have to invest. We have to leap ahead of our adversaries by investments in the latest technologies. That's why this budget provides \$11.9 billion for science and technology. It includes \$2.1 billion for basic research. It provides \$10.4 billion to sustain the continued growth in special operations forces. It provides \$3.8 billion for unmanned air systems and it invests \$3.4 billion in cyber activities.

At the same time, the strategic guidance recognizes the need to prioritize and distinguish urgent modernization needs from those

that can be delayed, particularly in light of schedule and cost problems. Therefore, the budget has identified \$75 billion in savings over five years resulting from cancelled or restructured programs. Some examples: \$15.1 billion in savings from restructuring the Joint Strike Fighter, by delaying aircraft purchases so that we can allow more time for development and testing; \$1.3 billion in savings from delaying development of the Army's ground combat vehicle due to contracting difficulties; \$4.3 billion in savings from delaying the next generation of ballistic missile submarines by two years for affordability and management reasons.

In addition, we terminate selected programs: the Block 30 version of Global Hawk, which has grown in cost to the point that it is simply no longer cost-effective; the weather satellite program, because we can depend on existing satellites, resulting in a savings of \$2.3 billion.

All of this requires that we have to have and maintain the ability to mobilize and to regrow the force if we have to. That means we need to maintain a capable and ready National Guard and Reserve. One of the things we are doing is that the Army is going to retain more mid-grade officers and NCOs so they'll be there with the experience and structure we need if we have to move quickly to regrow the force. The Reserve component has demonstrated its readiness and importance over the past ten years of war and we must ensure that it remains available, trained, and equipped to serve in an operational capacity when necessary.

Another key part of preserving our ability to quickly adapt and mobilize is maintaining a strong and flexible industrial base. I'm committed to make sure that our budget recognizes that industry is our partner in the defense acquisition enterprise. We have to maintain a base if we're going to be able to mobilize and be prepared in the future.

Finally, with regards to our most important element of our strategy and our decisionmaking process, our people. This budget recognizes that they, far more than any weapons system or technology, are the great strength of the United States military. One of the guiding principles in our decisionmaking process was that we must try to keep faith with our troops and their families. For that reason, we've determined to protect family assistance programs, to sustain these important investments in this budget that serve our troops and their families, and continue to make efforts to ensure that these programs are responsive to their needs.

Yet, in order to build the force needed to defend the country under existing budget constraints, the growth in costs of military pay and benefits must be put on a sustainable course. This is an area of the budget that has grown by nearly 90 percent since 2001, about 30 percent above inflation, while end strength has only grown by 3 percent. So this budget contains a road map to try to address those costs in military pay and health care and retirement in ways that we believe are fair, transparent, and consistent with our fundamental commitments to our people.

On military pay, there are no pay cuts. We've created sufficient room to allow full pay raises in 2013 and 2014. However, we will provide more limited pay raises beginning in 2015, giving troops

and their families fair notice and lead time before changes take effect.

The budget devotes about 48, almost \$50 billion to health care costs. It's a big part of our budget, an amount that has more than doubled over the last decade. In order to continue to control the growth of these costs, we're recommending increases in health care fees, in copays and deductibles that are to be phased in from four to five years. None of these fee proposals would apply to active duty service members and there will be no increases in health care premiums for families of active duty service members under this proposal.

We also feel that it's important to address the military retirement costs as well. What we urge is the establishment of a commission with authority to conduct a comprehensive review of military retirement. But we have made clear, the President and the Department, that the retirement benefits of those who currently serve should be protected by grandfathering their benefits.

Members of the committee, putting this together, this kind of balanced package, has been difficult, and at the same time it has been an opportunity to try to think about what force do we need now and what force do we need in the future. I believe we, the service chiefs, the combatant commanders, have developed a complete package to try to address our threats for the future and to try to ensure that we achieve our strategic aims.

As a result, the fiscal year 2013 request is balanced, it keeps America safe, and we think it sustains U.S. leadership abroad. Please take a look at each of the individual parts of this plan. I encourage you to review this entire budget. This has to be a partnership. But I ask you also to bear in mind the strategic tradeoffs that are inherent in any particular budget decision. This is a zero sum game. There is no free money here. The need to balance competing strategic objectives is taking place in a resource-constrained environment. We'll need your support and partnership to implement this vision of the future military.

I know these are tough issues. This is the beginning, it's not the end of this process. But make no mistake, the savings that we are proposing are significant and broad-based and will impact on all 50 States. But this is what Congress mandated on a bipartisan basis, that we reduce the defense budget by almost half a trillion dollars. We need your partnership to do this in a manner that preserves the strongest military in the world. This will be a test for all of us of whether reducing the deficit is about talk or about action.

Let me be clear. Let me be clear. You can't take a half a trillion dollars out of the defense budget and not incur additional risks. We believe they are acceptable risks, but there are risks. We're going to have a smaller force. We'll depend on the speed of mobilization. We've got to depend on ingenuity in terms of new technologies for the future. And very frankly, when you go through this there is no margin for error.

This is why Congress must do everything possible to make sure that we avoid sequestration. We are more than prepared to work with the Congress to try to develop an approach that will de-trigger sequestration. This approach would subject the Department to another \$500 billion in additional cuts that would be required to take

place in a meat axe approach. We are convinced that it would result in hollowing out the force and inflicting severe damage to our national defense.

So the leadership of this Department, both military and civilian, is unified behind the strategy we've presented, behind this budget, and behind the need to avoid sequestration.

I look forward to working closely with you in the months ahead. This is going to be a tough challenge, but it's what the American people expect of its elected leaders, to be fiscally responsible in developing the force for the future, the force that can defend the country, the force that supports our men and women in uniform, and a force that is and always will be the strongest military in the world.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Panetta follows:]

Chairman LEVIN. Thank you, Secretary Panetta.

General Dempsey.

**STATEMENT OF GEN MARTIN E. DEMPSEY, USA, CHAIRMAN,  
JOINT CHIEFS OF STAFF**

General DEMPSEY. Thank you, Chairman Levin, Senator McCain, distinguished members of the committee. Thank you, as always, for this opportunity to discuss the President's defense budget proposal for fiscal year 2013. This budget represents a responsible investment in our Nation's security. At its core, it is an investment in people, the sons and daughters of America who serve this Nation in our military. Allow me to open with a few words about them and what they have accomplished.

The last 10 years of war have been among the most challenging in our Nation's military history. Through it all, the joint force has persevered and it has prevailed. Our families have stood with us deployment after deployment after deployment and so have you. Together we have fulfilled our solemn vow to protect and defend America, her citizens, and her interests.

As I sit with you today, our service men and women remain globally engaged. They are deterring aggression, developing partners, delivering aid, and defeating our enemies. They stand ready, strong, and swift in every domain, every day.

I had the privilege to be with a few of them while traveling to Afghanistan and Egypt this past week. As always, I witnessed extraordinary courage and skill—in the young soldiers just off patrol in the deep snows of the Hindu Kush, in the men and women of the NATO training mission managing the development of the Afghan National Security Forces, and the brave and vigilant Marine security detachment in our embassy in Cairo, and in the superb junior airmen who flew us to the right place at the right time.

They exemplify a professional military with a reliable record of performance. In just the past year, for example, we further crippled Al-Qaeda. We helped protect the Libyan people from near-certain slaughter, while affirming NATO's important role beyond the borders of Europe. We brought to a close more than 20 years of military operations in and over Iraq and, like we did in Iraq, we are steadily transitioning responsibility for security onto Afghan should-

ders. We also helped Japan recover from a perfect storm of tragedy and destruction.

And of course, these were just the most visible accomplishments. Behind the scenes and beneath the surface, we defended against cyber threats, sustained our nuclear deterrent posture, and worked with allies and partners to build capacity and to prevent conflict across the globe. We continue to provide this Nation with a wide range of options for dealing with the security challenges that confront us.

An increasingly competitive and uncertain security environment demands that we be alert, responsive, adaptive, and dominant. This budget helps us do that. It's informed by a real strategy that makes real choices. It maintains our military's decisive edge and our global leadership. Moreover, it ensures we keep faith with the true source of our military strength, and that is our people.

With this in mind, allow me to add a few additional comments to those of the Secretary. First, this budget should be considered holistically. I caution against viewing its programs in isolation because it represents a comprehensive and carefully devised set of decisions. It achieves balance among force structure, modernization, pay, and benefits. Changes that are not informed by this context risk upending the balance and compromising the force.

Second, this budget represents a way point, not an end point, in the development of the joint force we will need for 2020 and beyond. It puts us on a path to restore versatility at an affordable cost. Specialized capabilities, once on the margins, become more central, even while we retain conventional overmatch. It builds a global and networked joint force that is ably led and always ready.

Third, this budget honors commitments made to our military families. It does keep faith with them. There are no freezes or reductions in pay. There's no lessening in the quality of health care received by our active duty service members and medically wounded veterans.

That said, we cannot ignore the increasing costs of pay and benefits. To manage costs, we need pragmatic reform. All of this can be done in a way that preserves our ability to recruit and retain Americans' talented youth.

Finally, all strategies and the budgets to resource them carry risk. This one is no different. In my judgment, the risk lies not in what we can do, but in how much we can do and how often we can do it. This budget helps buy down that risk by investing in our people and in the joint capabilities they most need.

To close, thank you. Thank you for keeping our military strong. Thank you for taking care of our military family, for supporting those who served and who have served and who will serve. I know you share my pride in them. I look forward to your questions.

[The prepared statement of General Dempsey follows:]

Chairman LEVIN. Thank you so much, General.

Mr. Hale?

Mr. HALE. No.

Chairman LEVIN. Okay, let's have a seven-minute round. I doubt that we'll get to a second round, but if there is any time after our first round, because I expect a good turnout, we will try a very short second round.

General Dempsey, let me start with you. Do you and each of the joint chiefs of staff, first of all, fully support the new strategic guidance?

General DEMPSEY. Yes, Senator, we do.

Chairman LEVIN. Do you and each of the joint chiefs of staff fully support the President's fiscal year 2013 budget request?

General DEMPSEY. Yes, Senator, we do.

Chairman LEVIN. Now, can you tell us why?

General DEMPSEY. Because we addressed it in the order in which you just presented it. Faced with the reality of a new fiscal environment, we take a look—we took a look at our strategy and we made what we thought were important adjustments to it, not just based on the new fiscal reality, but also based on the lessons of ten years of war and where we thought the security environment would take us in the out years.

As you know, I'm an advocate of looking beyond this particular budget submission, out to 2020, and we did that, with not only the service chiefs, but also with the combatant commanders. Then, having decided on what adjustments to make to our strategy, we built a budget to support it.

So for that reason we support it.

Chairman LEVIN. General, you made reference to the risks that are increased when there are budget reductions. Would you expand on that, as you did in your prepared testimony, as to whether those risks are acceptable and why?

General DEMPSEY. Well, as I said, Senator, every strategy incurs risks because there's never—at least I've never in my 38 years experienced any strategy that was completely unconstrained. So I think it's important to note that there's always risk in every strategy and in every budget to support it.

There's two kinds of risk we deal with. One is risk to our missions: Can we accomplish the tasks given to us by the national command authority for freedom of access, to defeat our enemies, to deter aggression? Then the other is risk to force, which gets at a phrase that would be familiar to you in terms of OPTEMPO: How much can we ask of the All-Volunteer Force in terms of its deployments and redeployments and redeployments?

In both cases, we assess the risk to mission and the risk to force. And we have found that there are portions of our capabilities that are more stressed. Again, that's not anything new to us. What we've been doing now for the past month and will continue to do is to look for ways to mitigate those risks.

But we're very confident, because we've worked this collaboratively, that we can mitigate risks by adapting lessons from the last ten years of war, new emerging capabilities. I've mentioned two notable ones to you in the past, special operating forces and cyber. The integration of all those and the interdependence of the joint force is what allows us to mitigate the risk to our op plans and to do so at a sustainable rate.

But there are risks, because there is always uncertainty in the future.

Chairman LEVIN. Now to both of you: The overseas contingency operations, or OCO, funding level of \$88.4 billion is based on the assumption that there will be 68,000 U.S. troops in Afghanistan for

all of fiscal year 2013. Again, you reiterate that, Secretary Panetta, in your opening statement. Now, that assumes that there will be no further drawdown of U.S. forces from Afghanistan during the 12 months after the 33,000 U.S. surge forces are withdrawn by the summer of this year. That's what the budget assumes.

But last June, when the President announced the plans for the drawdown of the U.S. surge forces, he also said that after reduction of those surge forces, "Our troops will continue to come home at a steady pace, as Afghan security forces move into the lead."

First, General Dempsey, are we on track to complete the withdrawal of the 33,000 U.S. surge force you this summer?

General DEMPSEY. Yes, sir, we are. If I could just elaborate a bit, General Allen's already reduced the force by 10,000. I don't yet have his plan for the reduction of the additional 23, but in a visit with him last week he assured me that he would have that plan to us by about the 1st of April.

Chairman LEVIN. Do you continue to support the President's decision to withdraw the U.S. surge force by the end of the summer?

General DEMPSEY. I do and will continue to do so, unless General Allen comes back in to me and tells me we're incurring too much risk. But my own personal observation at this point is yes.

Chairman LEVIN. Secretary Panetta, how do you square the fiscal year 2013 OCO funding assumption that the troop level of 68,000 will remain in Afghanistan through fiscal year 2013 with the President's statement that U.S. troops will continue to draw down after this summer "at a steady pace as Afghan security forces assume the lead for security"?

Secretary PANETTA. Mr. Chairman, as the President stated, we'll continue that process. But at this point no decisions have been made as to how that will take place, because we're focusing, obviously, on the drawdown of the surge. The number that we have there is, frankly, a target number in order to support the OCO funding that we would need for the future.

Chairman LEVIN. Will the decision be made as to when reductions will be made from the 68,000 level—and that level, again, is going to be reached by the end of this summer. When will that decision be made on further reductions after the 68,000 level is achieved?

Secretary PANETTA. I think the target right now is obviously to focus on the reduction of the surge. As General Dempsey pointed out, we haven't received the plan from General Allen as to how we'll complete the reduction of 23,000. Once we've done that and we've learned the lessons from that, I think then we would apply it to deciding the next steps with regards to further reductions.

Chairman LEVIN. And that will be done by the end of the summer as currently contemplated.

Secretary PANETTA. Right.

Chairman LEVIN. So when would the next decision be made on reductions beyond the surge reductions?

Secretary PANETTA. I suspect we'll begin that discussion process in the latter part of this year.

Chairman LEVIN. Begin it or make a decision by the end of the year?

Secretary PANETTA. I assume we'll begin it, and if we're fortunate we'll be able to make that decision. But the first thing is to discuss the lessons that we've learned and what we should apply and what level of force are we going to need for 2013.

Chairman LEVIN. Do you assume there will be further reductions beyond the 68,000 during fiscal year 2013?

Secretary PANETTA. Well, again, no decisions have been made—

Chairman LEVIN. You assume that there will be. If all of the forces are going to be—

Secretary PANETTA. I assume that, in line with what the President said, we'll continue to make transitions downward.

Chairman LEVIN. And would there be savings then from any additional reductions below 68,000?

Secretary PANETTA. Will there be savings? Of course. Whatever we decide to do, it will achieve some savings.

Chairman LEVIN. Senator McCain.

Senator MCCAIN. I thank the witnesses again.

General Dempsey, were you asked by the administration to perform a risk assessment to our national security interests as a result of these cuts?

General DEMPSEY. I have been asked and it's also codified in the National Defense Authorization Act that I perform a Chairman's risk assessment annually.

Senator MCCAIN. And is that forthcoming?

General DEMPSEY. I have completed it. The Department has it. And as you know, they are also—they are required to submit with it a risk mitigation strategy.

Senator MCCAIN. So we have not received your risk assessment yet?

General DEMPSEY. You have not, sir.

Senator MCCAIN. I want to return just for a second. Secretary Panetta, you again talk about the cataclysmic effects of sequestration. We are in total agreement. I hope in your meetings with the President that you will urge him to sit down with us and see if there are ways that we can avoid the effects of this.

Have you made any plans yet to comply with the effects of sequestration in 2013?

General DEMPSEY. No, we haven't.

Senator MCCAIN. In your view, Secretary Panetta, is Iraq a stable and self-reliant nation?

Secretary PANETTA. Iraq is a nation that has the capability to govern and secure itself. Does it continue to face risks in that process? Does it continue to face challenges in that process? It certainly does.

Senator MCCAIN. Do we still have U.S. military forces operating in Iraq?

Secretary PANETTA. We have a small number that are assigned there, approximately, I believe the number we're looking at is about 600 military and civilians that are assigned to the security operation there.

Senator MCCAIN. General Dempsey, would you—I know you just returned from Egypt. All Americans are concerned about the events there concerning Americans who have had to move to the U.S. embassy in order to preserve their safety and security. We realize the

absolute criticality of our relationship with Egypt and the role that Egypt plays in the Middle East. What advice, what recommendation, do you have as to how the United States should be, our government, should be handling this very, very tough situation?

General DEMPSEY. Senator, I had planned this trip to Egypt before the nongovernmental organization crisis, and it is a crisis, occurred. So when I met with Field Marshal Tentawi, General Annan, and General Mwafi, the key leaders with whom we interact and have interacted, as you know, for decades, I explained to them that I was coming there to talk to them about our mil-to-mil relationship, about Syria, about Lebanon, about the Sinai, but that I couldn't do that because we had this issue that was an impediment to that. And I spent about a day and a half in conversation with them, encouraging them in the strongest possible terms to resolve this so that our mil-to-mil relationship could continue.

But I'd like to—

Senator MCCAIN. And the result of those conversations?

General DEMPSEY. I am convinced that potentially they were underestimating the impact of this on our relationship. When I left there, there was no doubt that they understand they understood the seriousness of it.

But I'd like to add, Senator, I know of the amendment that's being proposed to break our military relationship and cut off all aid, and I think my personal military judgment is that would be a mistake.

Senator MCCAIN. I want to assure you that we are discussing that and ways to certainly avoid that action at this time. But I hope you explain to the rulers, who are the military and leftovers from the Mubarak regime, that this situation is really not acceptable to the American people. Our relationship with Egypt is vital, but the fact is that the welfare of our citizens are even more vital.

General DEMPSEY. We completely agree, sir, and I did make that clear.

Senator MCCAIN. General, would you think it's a good idea to trade five high-ranking Taliban as a, quote, "confidence-building measure" to move the negotiations with the Taliban forward?

General DEMPSEY. I don't—I have some issues with the reconciliation, but generally speaking I'm in support of reconciliation. But I am concerned about our ability to maintain vigilance and control of those individuals. So I am supportive of reconciliation.

Senator MCCAIN. I don't know of any living person who isn't.

General DEMPSEY. Well, I join that group.

Senator MCCAIN. Does that mean that—does that mean that you at this particular moment in time would support the trade or the release to Qatar, understanding that under very loose security conditions, would be advisable at this time?

General DEMPSEY. As you know, sir, the Secretary has some certification requirements by law, and I'm supportive of the Secretary of Defense's approach to that and supportive of his effort to ensure we have those certifications.

Senator MCCAIN. Well, again I ask, with respect, for your opinion as to whether you think it's a good idea or not at this time?

General DEMPSEY. Yes, I do.

Senator MCCAIN. And you agree that it's a good idea, Secretary Panetta?

Secretary PANETTA. Well, absolutely no decisions have been made along this line. I can tell you this, that, based on the law that's passed by the Congress, I have to certify that anybody who leaves Guantanamo cannot wind up going back to the enemy, and I've got to be convinced that those kinds of protections are in place before I certify that anything like that happens.

Senator MCCAIN. Even though it—go ahead; I'm sorry.

Secretary PANETTA. Pardon me?

Senator MCCAIN. Finish. I'm sorry.

Secretary PANETTA. I am—I have made very clear that unless I am convinced that in this kind of situation those steps are taken to ensure that these individuals do not wind up going back to the battlefield, I'm not going to certify that kind of transfer.

Senator MCCAIN. Even though approximately a quarter of those who have been released in the past have gone back into the fight.

How do you—what is the progress of our negotiations with the Afghan government, President Karzai, on a long-term security agreement, which we failed to reach in Iraq? What are the prospects of that and what are you expecting, and can you give us a time frame?

Secretary PANETTA. We are continuing to work with President Karzai and our counterparts in Afghanistan to try to develop and agree on a strategic agreement. As you know, there are two areas that we still have difficulties with, one of which involves the transfer of detention facilities. The other involves night-time raids. We continue to try to see if we can work out some kind of compromise on those issues.

As far as the basic agreement, I think most of that elements, frankly, are in place. So I'm confident that, hopefully within the next few weeks, we'll be able to reach some kind of agreement.

Senator MCCAIN. I thank you. I thank the witnesses. I would just add a comment. General, when the enemy thinks you're leaving, it's very unlikely in my study of history that they're ready to make an agreement, and they certainly have that impression throughout that part of the world.

I thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator McCain.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman.

Mr. Secretary, General Dempsey, Mr. Hale, good morning and thank you for your service and your testimony.

As I look at the budget that's been submitted and I hear your testimony today, it seems to me that in this budget the U.S. military and our national security are being asked to pay the price for the fiscal responsibility of our government over the last decade. The budget that you've submitted to us certainly in its bottom line is one that you were mandated to submit by the Budget Control Act that Congress adopted and the President signed last summer. But I must say as one member of this committee, one member of the U.S. Senate, that as I look at what you have had to do to meet the bottom line requirements of the Budget Control Act, it is in my opinion—it represents in my opinion unacceptable risk to our na-

tional security, without proportionate changes in the threats that we face around the world.

This budget for the coming fiscal year would represent an 8 percent reduction in spending beneath what was planned in the 5-year defense plan for the coming year, a 9 percent reduction for the 5 years. It, as we've discussed, would require the reduction of our Army and Marines by 125,000 personnel. It would call for the termination or delay of several in my opinion critical defense equipment systems.

It's hard for me to conclude that there's any reason you would make such a recommendation other than the fact that you're required by law to do it. In other words, what drives this presentation is the budgetary pressure, as I said, the accumulated weight of the fiscal irresponsibility of our government over the last decade, and the specific requirement of the Budget Control Act, not the threat environment in the world.

As, Mr. Secretary, you said, and I agree, this morning: "The United States still faces a complex array of security challenges across the globe. We're still a Nation at war in Afghanistan. We still face threats from terrorism. There's dangerous proliferation of lethal weapons and materials. The behavior of Iran and North Korea threaten global stability. There's continuing turmoil and unrest in the Middle East. Rising powers in Asia are testing international relationships and there are growing concerns about cyber intrusions and attacks." End of quote from you, Mr. Secretary, this morning.

I agree with all that, and I think in that context my conclusion, I state again, is that there's always risk, but that the risk involved in this budget is unacceptable. Therefore, I believe that we have to have the political courage both in facing the budget for fiscal year 2013 and the threat of sequestration to work together across party lines and with the President and the administration to reduce the impact of these proposed cuts. And we've got to do it responsibly.

We've either got to find savings elsewhere or we've got to have the political guts to raise revenues to pay for an adequate defense, to in my opinion fulfill our constitutional responsibility to provide for the common defense.

You have complied with the Budget Control Act in making this budget recommendation to us, but in my opinion if we accept it we're not fulfilling our responsibility under the Constitution to provide for the common defense. So I hope we can work together to essentially alter what we required you to do in the Budget Control Act and to do it in a fiscally responsible way.

There is risk here and I appreciate, General Dempsey, that in response to Senator McCain's question, you said that you'd be preparing a risk assessment, a Chairman's risk assessment, for us. The defense strategic guidance that the Department did, issued in January, really is the equivalent of a follow-on to a quadrennial defense review. In the quadrennial defense review, of course, we require a Chairman's risk assessment.

I hope, Mr. Chairman, Senator McCain, that we don't act on this request and that the Appropriations Committees don't act on a budget request for the Department of Defense, before we get your risk assessment, because I think it's that important.

But for now, since, Secretary, you said quite directly, with the directness that we've come to expect of you, that there is risk here, inevitably. You can't cut this much money out of the defense budget without risk. So I wanted to ask you and General Dempsey in advance of the formal report, what are the two or three top risks that you are concerned about that this budget places on our military and on our national strategic?

Secretary PANETTA. Senator, first of all, I'm abiding by the law, the law that was passed by Congress that required the reductions that we've proposed. And I think, just to your comment, we have tried to step up to the plate and do our duty here. I think in weighing how you address this issue, you've also got to take into consideration the national security threat that comes from the huge deficits and the huge debt that we're running. We're running a debt now that's comparable to our GDP. At some point, the Congress and the President have to address that larger issue. What I'm doing here is basically doing my part, as dictated by the Congress.

With regards to the threats, as I said, you can't take a half a trillion dollars out of the defense budget and not incur some risks. The main concerns that I see are that we are going to have a smaller force, and when you have a smaller force the ability to move that force where you have to is not going to be as easy as it would be with a larger force, the ability to move quickly, to be agile, to be able to deploy them. I think we can do it under the plan we've presented, but it clearly is an additional risk.

The risk of mobilizing if we face a serious crisis and we have the need to mobilize, our ability to mobilize quickly, to pull the force together, as we had to do, frankly, after 9-11, our ability to be able to do that and respond quickly and be able to deploy that force involves some risks. I think we've designed the way to do that by keeping a strong Guard and a strong Reserve, but nevertheless that's an additional risk.

The risk of—we depend an awful lot on technology here. I think technology is very important, but our ability to develop that technology, to make sure that it works, to make sure that we have that leap-ahead capability, is something that involves some risks.

Lastly, as I said, when you shave the budget by a half a trillion dollars it leaves very little margin of error.

Senator LIEBERMAN. Right.

Secretary PANETTA. And that I think is probably the biggest risk of all.

General DEMPSEY. If I have time, Senator, I'd like to respond, because I will preview my risk assessment for you. I did not assess unacceptable risk in my assessment, and I don't believe this budget incurs unacceptable risk. I will tell you that I am prepared to say that sequestration would pose unacceptable risk, and here's why, it's important to note.

It's pretty clear. There's physics involved. In this budget we have decided to off-ramp a certain number of service men and women, and we've about maxed out our ability to do that with the proper dignity and respect to the force. So 10, 15,000 a year is about as many as you can ask to leave and still have enough influence on how they do that.

That's kind of maxed out right now. It's pretty clear to me that we're going to have some challenges with infrastructure and changes to it, whether this committee and others agree with our recommendation for BRAC. So if we fix those two variables in sequestration, I can't get rid of soldiers, sailors—not get rid of, but I can't ask soldiers, sailors, airmen, and marines to leave quicker than they're going to leave, and I can't touch infrastructure—sequestration leaves me three places to go to find the additional money: operations, maintenance, and training. That's the definition of a hollow force.

Senator LIEBERMAN. Well, I thank you both for your answers. They're helpful to me. With all respect, I consider this budget to represent unacceptable risk to our national strategic, and I hope members of this committee across party lines will work together to reduce that risk in a fiscally responsible way.

Thanks, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Lieberman.

Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

Let me just I guess get on the record, Secretary Panetta, that there will be some of us at this table, and I'd be one of them, that would be opposing another BRAC round, really for two reasons: one, that you—I think we've reduced our force, our capability, to an unacceptable level, and to bring our infrastructure down to meet what I consider to be as a member of this committee an unacceptable level I think is something I would not want to do.

Then the second thing is, the problem we're facing right now is really an immediate problem. Everything is on fire. We're trying to put out the biggest fires. I'm going from memory now, but as I recall, all these BRAC rounds—and I've been here since the very first one—you lose money in the first five years. So it's not going to really gain anything in terms of that. So there's going to be opposition up here.

Secretary Panetta, I saw you on Sixty Minutes and I didn't envy you when you had to answer the question, to stop and think about how many, how many combat operations there are, and you started counting on your fingers. So it is something that we've been talking about here. It is something very serious.

But when you talk about the budget, I just want to get in here, so that—now that we have the President's new budget, we keep hearing about inheriting deficits and all of this. During the eight years of Bush, and these are OMB's figures, it was right at \$2 trillion. This President in his budget that he's proposed is \$5.3 trillion in just four years. So obviously you're talking about just a huge amount of money.

I saw in this morning's Washington Post they're talking about everything is growing in government, except—there it is—the military. And I agree with the statements of the two previous speakers, that this is supposed to be our number one concern up here, defending our country.

So anyway, I just would like to not press the thing. It's already been talked about enough on risk. But I only ask the question: When you actually meet with the Chairman and you come up with your risk assessment, when did you say that would be?

Secretary PANETTA. I anticipate it will be over here by the end of the month.

Senator INHOFE. Okay.

One of the commands that doesn't get a lot of attention is AFRICOM, and we remember that was divided into three commands. I think everyone in this room knows that we have done the right thing. However, I kind of look at it as the forgotten command. It doesn't seem to get the attention.

One of the things about AFRICOM is it gets its resources from the U.S. special forces that are in Europe, and right now, excepting the fact that as the pressure gets on in the Middle East, a lot of the terrorism, the potential terrorism, is going down through Djibouti and the Horn of Africa and spreading out there, so one of the great things that's happening with AFRICOM is the special forces are training the Africans.

The number breaks down to about one special force guy or gal is going to be responsible for 100 forces. I've seen this down there. I know it's happening. So the question I'd ask you, do you think there are impacts by moving out of the EUCOM some of the special forces insofar as Africa is concerned?

Secretary PANETTA. First, I agree with you on the benefits of having an Africa Command focused on those issues in that continent, on that continent. Actually, we source our requirements into Africa and elsewhere through a global force management process. So it tends to be that European SOF have a particular habitual relationship, but there could be special operating forces and, for that matter, general purpose forces employed in Africa.

We move the force around where it's needed. So I don't think the issue you described there with EUCOM will have any effect on Africa.

Senator INHOFE. I'm glad to hear that. I appreciate that.

This is an issue that no one's talked about yet and I don't know why I've been so close to it, but one of the—a good friend of mine Chris Horton was killed over there. In fact, I was supposed to be meeting with him in Afghanistan a month later, and of course he was killed. His wife, Jane Horton, has worked for me and we've become very sensitive to the redacted investigation reports to families.

I've talked to General Odierno about this. We've made progress in this. But I'm hoping that you will help us continue with that, because we have some of them—in the case of one of them, it went all the way from May of 2010 until just about a week ago. I'd like to have some special attention given to that issue. The families of Specialist Vacari and Second Lieutenant Ewy were killed in July 2011 and I think they should have their reports. So we're making progress, but I'm hoping that that's something that, with all these problems we're dealing with, that you'll be aware of and want to be of some help in.

General DEMPSEY. Could I just respond briefly, Senator?

Senator INHOFE. Yes.

General DEMPSEY. I'm very aware of that, and in fact, as you recall, I was at Specialist Horton's funeral with you. I just want to make two points. One is, this is the first conflict in which we've done a collateral investigation on every death, the first time in the

history of warfare. And we've learned the hard way, it's very resource intensive and it's important to get it right.

The time line on which these investigations are provided to families has been gradually improving and is the same, it's important to note, for Active, Guard, and Reserve. So it's not that the active families get the investigation done faster than the Guard and Reserve. It's just a very challenging task, one which we're addressing.

Senator INHOFE. Yes, I understand that. We went back and checked between the active and the regular component and that's right.

My question actually is meant to be a compliment, because we're making great progress on that.

General DEMPSEY. Well, then I withdraw my comments. [Laughter.]

Senator INHOFE. In looking at the reset, we're going to be looking at a real problem after having gone through this for 12 years, and it's going to be—my concern is that it comes from the right sources, that it's not going to come from the base budget. Is it your intention to have this come from the OCO when this time is before us? Do you think it will have a deteriorating effect on the base budget, on the reset, the cost of reset?

General DEMPSEY. That's exactly why the OCO bill tends to be as high as it is, because we're not just looking at the cost of current operating forces. It's the recapitalization challenge we face beyond that. Is that a fair statement, Bob?

Mr. HALE. Yes.

Senator INHOFE. The last thing, because my time has expired, but I want to—I had occasion to go down to Fort Worth and see the progress, what's happening right now with the F-35. There have been a lot of delays and I would just hope that we have a commitment from the two of you to progress on that program, because that's a very needed platform that we will be pursuing.

Secretary PANETTA. Senator, we need a fifth generation fighter. The F-35 represents that fifth generation fighter. We're committed to it. We just want to make sure it's done right.

Senator INHOFE. Thank you.

Chairman LEVIN. Thank you, Senator Inhofe.

Senator Reed.

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

Thank you, Mr. Secretary, General Dempsey, Mr. Hale. We've talked a lot, and I think appropriately so, about the risks to the national security of the United States. But those risks are mitigated, not simply by what's done in the Department of Defense budget; it's also mitigated by what's done in the State Department budget, the Homeland Security budget, TSA, the FBI, a whole host of agencies that contribute directly and indirectly to the national security of the United States.

We've talked about the sequester, but to simply sort of shift those costs in a potential sequester without additional revenue, strictly do it by cutting more, will invariably catch the FBI, Homeland Security, TSA, contracting, and other functions that might not be in the purview of the Department of Defense, but significantly contribute to the risk that we run as a Nation. Is that an accurate perception, Mr. Secretary?

Secretary PANETTA. Oh, absolutely. I think—I think, Senator, national security is dependent on all of the things you just cited, but frankly it's dependent on more. You know, we're talking about sequester on defense, but sequester also takes place on the domestic side of the budget. Very frankly, our national security is dependent not just on the national defense side of that ledger; it's dependent on the quality of life that we provide for our citizens. So all of that could be impacted through sequester.

Senator REED. One other aspect of this whole debate, as has been pointed out, has been, particularly with respect to those platforms that you've decided are not affordable at this juncture. But I would presume—and, General Dempsey, you might comment—that one of your calculations is not just the number of platforms, but the capability of platforms. As you've made—particularly when it comes to both aviation platforms and ships, that you and your colleagues have made careful calculations about increased capabilities with those remaining ships versus what you'd have to do with the—and airplanes; is that accurate?

General DEMPSEY. It is accurate, Senator. We mapped the budget decisions to the strategies. Fundamentally, are we going to deliver the strategy we've described, given the decisions we're about to make?

As we've talked for years, we are moving toward platforms that are both more capable, but also multi-role. So for example, the A-10, which is an exclusively—and by the way, the uniform I wear, I'm a huge advocate of the A-10, the Warthog, because it provides close air support. But we're at a point where we think it's prudent to force ourselves into a more multi-role capability in that regard.

So we did, we mapped the decisions to the strategy.

Senator REED. Thank you very much.

One of the other aspects that's been brought up, and I think it goes to my initial question about the broader scope of national security, is that proactive engagement. I think one of the lessons of the last few years, proactive engagement is very helpful to us. Had we been more engaged in some countries, we might have mitigated the dangers we faced in the last decade.

When you talk about your meeting in Egypt, when you talk about your multiple meetings in Pakistan, when you talk about—a lot of that is, one might argue, just as critical to national security, but is not measured in terms of brigades or lift, airlift, etcetera. It goes also to the issue of special forces, not so much in their counterterrorism mission, but in their training and their collaboration mission.

Can you comment on, General Dempsey, on how this budget will encourage proactive engagement at every level?

General DEMPSEY. We've accepted as a core competency of all the services building partner capacity. So when you have a chance to have Ray Odierno in here, for example, he'll talk about his desire to meet our strategy by taking general purpose forces who have been completely consumed in Afghanistan and who will be less consumed now and applying them in that role, a regionally aligned brigade, for example. So AFRICOM has a U.S. Army brigade in the R4Gen readiness cycle that can deploy in any number of ways, as headquarters, or it can send teams, it can reorganize itself, to go

and engage nations in the particular combatant where it might be needed.

So I think this budget does that and it is one of the ways that we are mitigating risk, as you suggest.

Senator REED. Mr. Secretary, you suggested and I think you said that one of the fastest growing areas of cost in your budget is personnel costs, particularly health care costs. You're looking at a very tight budget this year. I think even if we're able to settle some of our political fights up here, the idea of the defense growing at the rate it grew over the last decade is not within anyone's purview.

At some point, if you don't take effective steps with respect to personnel costs, it becomes so big, in my view, that it eats into what is the great risk General Dempsey sees in sequestration: it all comes out of operations, maintenance, and training, and suddenly you have a force that is there, but it's not capable.

Do you have a notion of sort of how much time we have left before this, these uncontrolled, unless we take steps, these costs eat up all of the operations and maintenance?

Secretary PANETTA. Well, as I mentioned, this is an area of the budget that's grown by 90 percent, and it consumes now close to half of the defense budget. Right, Bob?

Mr. HALE. About a third.

Chairman LEVIN. About a third, about a third of the defense budget is in the compensation area. The problem is at that rate of growth that's going on, it's moving more and more into these other key areas of the defense budget and crowding them out. So if compensation is not touched, if we don't control the costs of growth in the compensation area, what it means is that we're going to have to take it out of force structure, we're going to have to take it out of training, we're going to have to take it out of other systems, and it's going to mean that ultimately we won't have a balanced approach to dealing with the defense savings that we need to deal with.

So even in talking with members, in talking with the generals, in talking with the chiefs, they acknowledge that, as tough as this is—and it is tough, because it affects, obviously, troops and their families and retirees—but if we don't begin the process of developing some kind of cost control in the out years and limiting the growth that's taking place, then we're going to pay a very high price within the next few years.

Senator REED. Is that your conclusion, General Dempsey?

General DEMPSEY. Senator, it is. You know, we talk a lot about keeping faith and oftentimes that's equated to how many dollars we're putting in a soldier's, sailor's, airman or marine's pocket. But it's a lot more than that. Keeping faith is making sure they're the best trained, best equipped, force on the planet. To do that, we've got to balance the budget against all of the various levers we have to pull.

Senator REED. Thank you, gentlemen.

Chairman LEVIN. Thank you, Senator Reed.

Senator WICKER.

Senator WICKER. Thank you very much, Mr. Chairman, and I want to thank both of our witnesses for their service.

Secretary Panetta, I want to ask you about the David Ignatius article from February 2. Let me just read the way it begins: "Defense Secretary Leon Panetta has a lot on his mind these days, from cutting the defense budget to managing the drawdown of U.S. forces in Afghanistan. But his biggest worry is the growing possibility that Israel will attack Iran over the next few months. Panetta believes there is a strong likelihood that Israel will strike Iran in April, May, or June, before Iran enters what Israelis describe as a 'zone of immunity' to commence building a nuclear bomb."

Mr. Secretary, did Mr. Ignatius accurately characterize your view and would you like to comment on that?

Secretary PANETTA. No, I usually don't comment on columnists' ideas about what I'm thinking. It's usually, it's a dangerous game to get into.

But let me just express my thoughts, that Iran is of great concern. We have common cause with Israel, we have common cause with the international community with regards to the concerns about Iran. We have made very clear that they are not to develop a nuclear weapon. We have made very clear that they are not to close the Straits of Hormuz. We've also made very clear that they are not to export terrorism and try to undermine other governments.

Those are areas that concern us, and it concerns the international community. As a result of that, the international community has taken strong steps on sanctions, on economic and diplomatic areas to bring pressure on Iran and to isolate them. I guess my preference, my view, is that we ought to keep the international community together in applying that kind of pressure.

Senator WICKER. Do you believe there's a strong likelihood that Israel will strike Iran in April, May, or June?

Secretary PANETTA. I think, as the President has suggested, I think we do not think that Israel has made that decision.

Senator WICKER. Were you mischaracterized? Did you have a conversation with Mr. Ignatius?

Secretary PANETTA. As I said, the comments that are included in a column about what I'm thinking or what I'm possibly worried about is up to the columnist.

Senator WICKER. But did he interview you and—

Secretary PANETTA. We talked, but we talked about a lot of things, frankly.

Senator WICKER. Okay. Were you trying to send some sort of signal to the international community, either to Iran or Israel?

Secretary PANETTA. No.

Senator WICKER. So you do not have a position as to whether it is likely that Israel will make such an attack this spring?

Secretary PANETTA. I do not.

Senator WICKER. All right. Well, thank you for clearing that up. I will say that there were no quotation marks in that column, but it did sound a whole lot like a quote.

As I understand it in the budget, in compliance with the Budget Control Act, Mr. Secretary, there's half a trillion dollars worth of cuts. If we had the sequestration, that would be another half a trillion. Now, what was your conversation with the administration,

with OMB, within the DOD, about submitting a budget that doesn't comply with the statute, because sequestration is the law of the land right now as I understand it?

Did you consider submitting a budget that outlined the catastrophic results if sequestration does go into effect? And then what is your strategy to, as you say, de-trigger, to work with this Congress to de-trigger sequestration, which is the law of the land, you will acknowledge?

Secretary PANETTA. It is. Obviously, our approach was to deal with what the Budget Control Act had provided in terms of targeted savings in the defense budget. We frankly developed the strategy that we presented to based on really trying to lay out a strategy about where our force structure needed to be between now and 2020 and do it in a responsible way to protect our military force and to be able to respond to the threats that are out there.

Sequestration has this, frankly, mindless formula that's already built into it, that basically cuts across the board. I mean, it's not as if we can take sequestration and make sense out of the damn thing. The fact is it's going to happen the way it's supposed to happen, through this kind of mindless formula that's there.

So our approach, frankly, was to not pay any attention to it. If it's going to take place in January of 2013—and I hope that's not the case—then it will take place under its mindless procedure. But I don't think we ought to kind of try to bring some kind of common sense to what is a crazy process.

Senator WICKER. Well, let me underscore what Senator Lieberman said, that this budget makes us worry about risks. I understand what General Dempsey said, that he believes that there are risks, but they're not unacceptable. But the sequestration would prove unacceptable, and I hope there's a strategy to get that through.

Thank you, Mr. Secretary, for mentioning the industrial base. We're at 8.3 percent unemployment right now. Undoubtedly the President is going to send a spending bill to the Congress which he believes and the administration believes will create more jobs. It makes no sense to me, at a time when there's an effort to create more jobs with other spending, to cut defense spending, which gives us the twofold of protecting the country and protecting the industrial base, which is a whole lot of Americans out there working to provide us with the infrastructure we need.

It is a fact, is it not, that this budget will have an adverse effect on our industrial base? Is that not right, Mr. Secretary?

Secretary PANETTA. Well, we've taken—we've taken a lot of steps to try to protect against that happening because, as I've said, we absolutely have to protect our industrial base and those industries that support the defense budget. We can't afford to lose any more. So for that reason we've designed an approach that will keep them in business with regards to the systems that we're trying to develop for the future.

Senator WICKER. Albeit with fewer industrial manufacturing jobs.

Secretary PANETTA. Well, there will be—I understand that, and that does have some impact.

Senator WICKER. Thank you very much.

Chairman LEVIN. Thank you, Senator Wicker.

I've asked Senator Akaka if he would yield one minute of his time to me and he's graciously said he would, because I want to clarify this issue of the budget and sequestration. As I read the budget which was submitted to us, there is additional \$3 trillion in deficit reduction above the trillion that has already been taken, which would, if this budget were adopted as submitted, would avoid sequestration totally.

Now, half of the additional \$3 trillion is in revenue increases, including, as the President's budget says, tax reform, including the expiration of tax cuts for single taxpayers making over \$200,000, married couples making over \$250,000, by adoption of the Buffett rule. And then the budget document says that the President is offering a detailed set of specific tax loophole closures and measures to broaden the tax base that, together with the expiration of the high income tax cuts, would be more than sufficient to hit the \$1.5 trillion target, which means if this budget were adopted and the revenue were included—and the revenue represents about half of the additional deficit reduction—you avoid sequestration.

Is that your understanding?

Secretary PANETTA. Yes, my understanding is that in the President's budget there is a plan, obviously, to provide for the kind of additional deficit reduction that the country needs. But obviously, if it were adopted it would de-trigger sequestration.

Chairman LEVIN. Okay, because that's not been stated here this morning, but I think it's very, very important. I tried to say it in my opening statement, but I don't know that I said it clearly enough. The budget that was submitted to us says it very clearly. That's the strategy. Whether Congress adopts it or not is a different issue, but sequestration can be avoided and hopefully will be, and the President has submitted his way to avoid it in his budget document.

Senator WICKER. Mr. Chairman, I thank you for clarifying that, and I do look forward to the President's budget being brought to the Senate floor for an up or down vote.

Chairman LEVIN. Thank you. And I think the Republican alternative will also be brought to the Senate floor, if there is one. We look forward to seeing an alternative budget as well.

So much for that. Back to Senator Akaka.

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

Well, aloha to Secretary Panetta and General Dempsey, and thank you so much for your leadership and all you do for our country. Mr. Secretary, my aloha to Sylvia, too. I notice that the PGA Tour was just at Pebble Beach. Had you chosen a different path than you're on now, you could have been at home in Carmel playing in the Pro-Am with your friends. But no, your dedication to continue serving our country puts you before us today. That says a lot, a lot about you and who you are. I've known you, as we know, since we served together in the House.

In all seriousness, I really appreciate your dedication and your hard work, Secretary. I add my appreciation to the brave men and women of the armed forces who lead and their families for their service and sacrifice.

Secretary Panetta, it is impossible to overstate the importance of our military engagement in Asia Pacific region. It's obvious that there are many challenges in this area, given the new focus on this vital region. If you look at continuing developments in the Pacific, our conventional adversaries are advancing and it is critical we maintain our superiority in the region.

Given the many demands on the defense budget, as you mentioned, and the unique mission and environment we have in the region, my question to you is, how does DOD's fiscal year 2013 budget impact our military readiness in the Pacific region?

Secretary PANETTA. That's obviously a primary concern for us, because we do believe that it is important to maintain a strong presence in the Pacific. For that reason, we maintain the 11 carriers in the Navy in order to ensure that we have sufficient forward presence. There's nothing like a carrier to be able to allow for quick deployment in that area, and that will give us a great capacity to be able to show our force structure in the Pacific.

In addition to that, we're going to maintain, obviously, a military presence. We already have one in Korea, but we're going to maintain an additional rotational presence with our Marines throughout that area. We've just developed an agreement with Australia to do a rotational presence there. We're working with the Philippines on hopefully a similar arrangement there as well.

In addition to that, obviously, we have our air bases and the forward deployed air assets that will give us the capability to cover that area as well. So we feel very good about the force structure that we have in this budget and our ability to maintain a real presence in the Pacific.

Senator AKAKA. Thank you.

General Dempsey, the U.S. has been attempting to engage China with military-to-military exercises and other cooperative opportunities, including humanitarian and disaster relief operations, and you've done well. General, how do you foresee these efforts at engagement proceeding as the U.S. focuses resources in the Pacific?

General DEMPSEY. Well, I think the strategy is actually quite sound. By the way, it's important to note we never left the Pacific, so the idea of rebalancing ourselves globally is just that, it's rebalancing. It's not a light switch on or off or a pivot. That word got out—got ahead of me a bit.

So we're rebalancing our strategy and we're doing that based on the trends, demographic trends, economic trends, and military trends. In so doing, we do have the opportunity to increase our engagement with the People's Republic of China, because there are many things with which we have a common interest. As you know, they've been working with us in the Gulf of Aden on counter-piracy for some time.

We've had military-to-military engagement. It hasn't been as consistent as we'd like it. We have a chance, I think, now in the coming months to reemphasize it. I think our strategy—that will assist us in implementing our strategy. So this is an opportunity for us, Senator, and we intend to take it.

Senator AKAKA. Thank you.

Mr. Secretary, I am a true believer in our special forces. Having visited the SEALs conducting training operations, I have seen first-

hand the talent and dedication of our special forces personnel. Special forces units are likely to do more in the future. I want to make sure that as an end result, as end strength numbers are reduced, that the career fields—they could be fields in communications and logistics as well—which support and help the special forces complete their missions are not reduced to a point which could limit the overall readiness of special forces units.

General, can you share any thoughts also on this?

General DEMPSEY. I can, sir. To your point, one of the lessons of the last ten years or certainly among the lessons of the last ten years is that the special operating forces have demonstrated their versatility and their capabilities, not just in the counterterrorism realm, but also in the building partner capacity, security force assistance.

One of the things we've been talking about with the service chiefs is finding a new paradigm where we will partner differently with special operating forces to give us greater capability, the synergy. The sum is greater than the individual parts. And we're working on that. The Army, for example, is working on habitual relationships of the enablers you're talking about—lift, medical, communications.

So I can assure you there will be no degradation to our special operations community. But I also want to assure you we cannot put all of our eggs in that basket because, as I've said in previous testimony, special operating forces are just that, they're special. And if we go too far in that direction, then the conventional force becomes the special and the special operating forces no longer have that capability. So we've just got to find the right balance, and we're working on it.

Secretary PANETTA. Senator, there's no question that special forces have—through their agility and their ability to deploy quickly, I think represent a very important force for the future. They've been very effective, as we know, in terms of terrorism. But as the General has pointed out, they've also been very effective at developing partnerships with other countries, working with them, doing exercises, providing advice. They've got a great capability there.

So I think the kind of force we're looking at, obviously, as the General has pointed out, is to maintain a strong Army that can confront a land enemy and be able to defeat that enemy in a land war, but at the same time develop the kind of rotational capability, using special forces, using the Marines, using elements of the Army as well, to be able to have a presence elsewhere in the world. That would give us the best of all things.

Senator AKAKA. Thank you very much.

Chairman LEVIN. Thank you, Senator.

Secretary PANETTA. By the way, Senator, I should point out that we are increasing our special operations. I think the numbers, we're going to increase them by 3,000. We're putting about \$10.4 billion more along those lines.

Chairman LEVIN. Thank you, Senator Akaka.

Senator Brown.

Senator BROWN. Thank you, Mr. Chairman.

Mr. Chairman, since you brought up the budget, certainly I'm looking forward to voting again on the President's budget. You

know, it's been over a thousand days, as you know, since the Senate's put out a budget. I and the American people would like that to be different and have that come up at some point.

That being said, I have, with seven minutes, a lot of other questions. I'm going to submit some for the record. But, Mr. Secretary, one of them will be discussing the Global Hawk Block 30 program. I'm going to be asking about the cost comparisons between the U-2 and the Global Hawk, have they been reviewed, particularly as it relates to sustainment? And can the U-2 alone provide the intelligence, surveillance, and reconnaissance necessary in order to meet the operational requirements? That will be one of them.

In addition, I live in an innovative State, as you know, Massachusetts, and we have an innovative base, Hanscom, in dealing with the cyber security threat. It's something if—and I agree with the chairman—before we talk about any BRAC closures, I would hope that we would continue to work on the cyber security emphasis on areas and bases like Hanscom, because I think that is the next real area where we need to focus on, as referenced in your earlier testimony.

Taking it a step further, the Air Force has proposed restructuring its civilian work force to the tune of about 16,000 civilian contracted employees. I would ask that you keep in mind these restructuring efforts as it affects the small businesses, as Senator Wicker and others have referenced and you referenced in your comments. It affects, obviously, Hanscom, Westover, and other bases throughout the country. I know Senator Ayotte and I are deeply concerned about that.

One of the things I had—one of the observations I made as I served in Afghanistan this summer was, obviously, the drawdown—I have felt that we, if we do it thoughtfully and methodically, can transfer authority and control over the Afghans, but if we do it too quickly we're going to be in deep trouble and we'll lose all those benefits that we had.

One of the things that I referenced and acknowledged through speaking and meeting with all the generals and with General Allen is the fact that we have so many audits going on right now, with—I mean, without referencing any particular directorate, one general had 75 audits going on at once. So I said to him: Well, how can you actually expect to do the drawdown, as General Allen's doing, and then continue to do your mission, keep our soldiers safe and secure, and then complete the audits? He says: We can't; something's got to give.

So, General Dempsey and Mr. Secretary, I would ask you to seriously look at that. If we're going to be doing this drawdown, we absolutely need to address these audit issues, many of them—there's so much duplication right now, and it's just, I think, some agencies justifying their existence. So I'm hoping you can comment on that issue.

Secretary PANETTA. Well, I won't comment on them justifying their own existence, because they'll audit me if I do that and I don't want to go there.

Senator BROWN. I hear you.

Secretary PANETTA. But I share your concern, sir. I've been on the receiving end of it, and there is clearly a need to be auditable—

Senator BROWN. Yes.

Secretary PANETTA.—because the Nation is investing incredible resources. But it has gotten a bit out of control, and my J-8 and the Under Secretary for Policy are both working to squeeze those audits to only—to make sure they're not redundant, because some of them are redundant. They're absolutely duplicates. One agency—if you read them, which I have, you'll see they're the same exact thing. There's got to be a central location or a central effort to do that, because the troops can't do their jobs and work 24-7 on audits and then go expect to perform the mission, which is obviously very serious.

That being said, in Iraq, with obviously us being out of there, is it accurate that we now have over 100,000 civilian contractors there doing the job that ultimately our soldiers did? And in fact, if that is so, is the cost two to three times more than what we were paying our soldiers? And if that is the case, where is that money coming from?

General DEMPSEY. Thanks, sir.

I don't have the exact numbers. At one time towards the end of the calendar year, I was tracking those numbers on a daily basis.

Senator BROWN. Well, it's substantial.

General DEMPSEY. Oh, it is substantial, sir.

Senator BROWN. And we're paying two to three times more. And we're paying two to three times more than we were paying the average soldier.

General DEMPSEY. You know, there is—in some functions we are paying more. Security force or security details are more expensive, but other places, logistics, transportation, we're not paying as much as you would normally pay a soldier.

But we have that information, if you place that question—

Senator BROWN. Yes, I'd like to do that and get that for the record, because I'd like to know where that money is coming from and how that's being worked into the budget.

[The information referred to follows:]

[COMMITTEE INSERT]

Senator BROWN. In terms of the reverse, General Dempsey, in terms of the understanding of the term "reversibility," it's a general concept designed to ensure the total force stays prepared for unexpected contingencies as the active component inevitably gets stronger. How does that—how does the Guard and Reserve work in? I know you referenced it briefly, but I would think, obviously being in the Guard, that you would get more valuable dollars, more bang for the buck, so to speak?

Is there an effort, a real sincere effort, to in fact push a lot of the training responsibilities, mobilization, etcetera, to the Guard and Reserves?

General DEMPSEY. Each service, sir, is—this effort, the new strategy and the budget to support it, has caused each service to relook at how they balance across components, Active, Guard, and Reserve. I'll give you an example why that's an important conversation. Senator McCain in his opening comment cited that we were reducing 20 percent of the brigade combat teams in the Army. That's true for the Active component brigades, but if you look at the totality of brigade combat teams, which after this change will

be 68, then the 8 is really an 11 percent degradation or decline in brigade combat teams.

So your point is an important one. We have to look at what this total force and the joint force provide, not strictly what we're doing to any one of them, and we are doing that.

Senator BROWN. I would ask you to pay particular attention to the Air Guard and take a look at moving some missions into the Guard portfolio, because you do get a better bang for the buck, I would argue.

The other big elephant in the room, aside from sequestration, is the fact that we have approximately one million service members expected to join the veterans ranks in the next five years, and unemployment among young veterans is very high, and it's high also in the Guard and Reserves. Is there a 5-year plan to meet the expected demand, and how are we working with the VA to address these important issues?

Secretary PANETTA. Senator, you've raised a very important point, because as we go through these additional drawdowns we absolutely have to make sure that a support system is out there as our men and women come back from service. We are working with the Veterans Department in a number of areas, number one to try to provide a jobs pool so that these veterans will have the opportunity to get jobs in the private sector.

Second, we're working with the Veterans Administration to try to improve the seamless approach, so that when it comes to health care and benefits that people can move without long delays, without a lot of bureaucracy, from coverage under the defense budget to coverage under the veterans budget.

In addition to that, we're providing a lot of counseling and support systems by all of the services to make sure that these families are supported once they come out so that they can readjust. If they want to go into education, the education benefits are provided. If they want to get a job, jobs are provided. If they want to go into small business, we provide the small business loans to assist them.

So there is a pretty solid package. We've got to continue to work at it and make sure that it's working and that it's meeting the need. But we are very concerned that we have that support system for these troops when they get out.

Senator BROWN. I'd be eager to offer my assistance on those very real issues. It's something that we've been working on in Massachusetts for a very, very long time and have some real knowledge about that issue.

Mr. Chairman, I'm presuming we'll have an opportunity to add questions for the record and there will be a time allotted to do so, the response?

Chairman LEVIN. We will—yes, there will be questions that are asked for the record, and we'll ask our witnesses to promptly respond.

Senator BROWN. Thank you.

Chairman LEVIN. Thank you, Senator Brown.

Right after Senator Nelson's turn, we're going to take a 5-minute break. Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman.

Thank you, gentlemen, for your service. Currently progress is being made toward the new STRATCOM headquarters at Offutt in Nebraska, a new command and control complex for USS Strategic Command. Now, as you know, the entire project has been authorized, but because of the nature of this project the Defense Department will have to request phased-in or incremental funding as we move along over a multi-year construction project.

Much has been said about cyber today. Mr. Secretary and General Dempsey, could you explain the basis for, the need for a new headquarters dealing with almost every aspect of our military, defense and offense? Mr. Secretary?

Secretary PANETTA. Senator, we think it's extremely important because STRATCOM is obviously extremely important to defending the homeland. And in order to defend the homeland, you've got to develop the capabilities that we're facing right now, and cyber obviously is one of those areas. Our ability to develop the latest technology, the latest abilities in order to not only defend ourselves, but understand what that threat is about, is extremely important. We've got to be able to develop the kind of communications systems that are the state of the art, so that they can deal with quick communications.

As you know, in that area any time we face a threat there is an immediate response that has to take place and has to take place quickly and effectively. And frankly, we need good systems in order to make sure that happens. So for all those reasons, it's important to our future that we develop that kind of capability there.

Senator NELSON. Well, it's safe to say that what the internal components are within the structure would be equally important as the structure itself. In other words, it's going to be a high tech complex to be able to deal with the modern challenges we have.

General Dempsey?

General DEMPSEY. Well, without talking about the structure itself, I will tell you that the service chiefs, combatant commanders, and I have begun a series of strategic seminars to look at ways to better integrate, to learn lessons, and to ensure that we can deliver our strategy with the force that this budget will provide.

We know we can. We're looking at now how do we mitigate change. One of the emerging insights I'll share with you is that any regional conflict in the future—and we're looking out in this budget to 2017. So in 2017 any regional conflict will impact in the continental United States, in the homeland, without a doubt. That is to say, the homeland is no longer sanctuary in 2017.

Therefore, commands like CyberCom and STRATCOM become more important in that environment.

Senator NELSON. Thank you.

I have a lot of concerns about our presence in Iraq. We've had questions raised about the number of contract employees there, contractors. I also understand that the State Department is now in a lead role trying to decide what the mission is in Iraq. We have the largest embassy in the world and it's growing, physically growing, but we don't have established a mission.

I know that part of this will be the State Department, but I assume that the Department of Defense also has a vital role in establishing that mission.

Secretary Panetta, might you fill us in on what progress is being made to establish a mission? It seems like we've got the cart before the horse here, but perhaps you can help us.

Secretary PANETTA. I think, frankly, I think DOD has a pretty good plan there that we're implementing. We've got about eight sites that we're located in. We're working with foreign military sales that are being provided to the Iraqis. We're providing training. We're providing support. It's both DOD and contract individuals that are working in those sites. It's pretty limited, but it's very helpful to the Iraqis in terms of their ability to develop security for the future.

In addition, we're open to continuing to discuss with them additional opportunities, particularly with regards to other operations, going after Al-Qaeda, etcetera, that we think are important to continue as well.

So I think we feel pretty good about the mission that we're performing right now there.

General DEMPSEY. Yes, absolutely, sir. We've built the Office of Security Cooperation-Iraq based on the capabilities that the Iraqi government wanted us to support them, how they wanted to be supported, notably with the program of record for foreign military sales and then institution-building. We've got our resources mapped to those functions, and I'm very confident that we've got the Office of Security Cooperation sized about right for now.

If they were to choose to expand our relationship in any way, we could do so.

Senator NELSON. Well, there seems to be room within that structure to expand, because of the size of the structure. I don't mean to minimize the necessity of having the presence in Iraq, but it seems like the structure is going to be more than adequate to take care of whatever our needs. And when I emphasize "more than adequate," it's consistent with the inspector general's criticisms or observations about the size of the structure and continuing to expand without a stated mission. I hope we can get where we feel like we can state what that mission ultimately is.

I'd like to turn to Iran for just a minute. It seems like every time we check any of the news today Iran is involved in it—questions about Iran engaging in terrorist activities in two locations around the world in the last day or so, the plot to take out the Saudi ambassador to the United States, Mr. Jubeir, Al-Jubeir. I wonder—you said, Secretary Panetta, on Sixty Minutes, it's a red line for us and it's a red line obviously for the Israelis if they have the ability to deliver a nuclear weapon with a missile. What are your opinions about that, if you might be able to enlighten us a bit more?

Secretary PANETTA. Well, as I said, we have a number of concerns here that we worry about with regards to Iran. Those are concerns that we share, not just with the Israelis, but with the entire international community. As the President himself has stated, we will not tolerate an Iran that develops a nuclear weapon, and yet they continue, obviously, to try to improve their nuclear enrichment capabilities. That's something that concerns us a great deal.

They continue to threaten the possibility of closing the Straits of Hormuz, and we have made very clear that that is a red line for us, that that Strait is extremely important to free commerce and to shipping and to the shipping lanes, and would have a huge economic impact if that were to happen. That too is unacceptable and not tolerable for the United States.

We're concerned about Iran and the spread of terrorism, the fact that they seek to undermine legitimate governments around the world. That too concerns us. We think that the approach of the international community to apply sanctions, to apply diplomatic pressure, is having an impact. It has isolated Iran. It's made very clear to them that they have to change their behavior. I think that we need to keep that pressure on. That's an important effort. I think the international community is unified in that effort, and I guess my hope would be that we could all stick together in ensuring that we continue to isolate Iran and make very clear to them that they should choose to join the international community, the rules and the laws and the regulations of the international community, and become part of that family. If they choose otherwise, then that would be—that would have serious implications.

Senator NELSON. Well, our concern is more than just about their nuclear capacity, although that is a very important part. But are the actions that they're taking beyond being pesky in terms of what they are intending to do?

Secretary PANETTA. It's far beyond being pesky. It's deliberately supplying equipment and arms to others to engage in terrorist activity, and that too concerns us very much.

Senator NELSON. Thank you.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Nelson.

We'll take a 5-minute break, strictly enforced.

[Recess from 11:46 a.m. to 11:56 a.m.]

Chairman LEVIN. We'll come back to order.

Senator Portman has yielded to Senator Graham, and then we'll put Senator Portman back in his order when he returns. Senator Graham.

Senator GRAHAM. If we could earmark, I would help Ohio. So I just want to let Rob know I appreciate this very much. I've got to run.

Secretary Panetta, do you believe it's a viable strategy for the United States to try to contain a nuclear-armed Iran?

Secretary PANETTA. Yes, indeed.

Senator GRAHAM. I mean, the idea of containment. Shouldn't we prevent them from getting a nuclear capability, not contain them?

Secretary PANETTA. It's not just contain, but it's obviously doing everything we can to prevent them from developing—

Senator GRAHAM. Right. I guess my question more correctly asked is, should we—if they get a nuclear weapon, do you think the idea of containment is a way to go? Should we prevent them versus containing them?

Secretary PANETTA. No, I think we have to prevent them.

Senator GRAHAM. Because if they got a nuclear weapon the damage is done. Other nations follow suit. Terrorists are more likely to get the material. So the Secretary of Defense's view is that the idea

of containing a nuclear-armed Iran is not the way to go; the idea is to prevent them from doing it. Hopefully, we can do it through sanctions and diplomatic engagement. I hope we can.

Okay, China. General Dempsey, there is a lot of media reports that the Chinese routinely, the People's Liberation Army, routinely engages in cyber attacks of our business and national security infrastructure. Do you believe that is a reality of the 21st century?

General DEMPSEY. I believe someone in China is hacking into our systems and stealing technology and intellectual property, which at this point is a crime. I can't attribute it directly to the PLA.

Senator GRAHAM. Well, let's say if we could find that the People's Liberation Army was involved in hacking into our defense infrastructure. Would you consider that a hostile act by the Chinese?

General DEMPSEY. I would consider it to be a crime. I think there are other measures that could be taken in cyber that would rise to the level of a hostile act.

Senator GRAHAM. What would they be?

General DEMPSEY. Attacking our critical infrastructure.

Senator GRAHAM. And that could be a hostile act?

General DEMPSEY. I think so.

Senator GRAHAM. Allowing us to respond in kind?

General DEMPSEY. Well, in my view that's right, yes, sir.

Senator GRAHAM. So I'm going to have lunch with the vice president of China in about 20 minutes. So what do you want me to tell him?

General DEMPSEY. Happy Valentine's Day. [Laughter.]

Senator GRAHAM. All right, okay. I'll do that.

Now—

Chairman LEVIN. By the way, Senator Graham, on my opening statement—Senator Graham, in my opening statement I made it very clear that the cyber espionage going on from China has got to stop and it's mighty serious stuff. So you can pass along, if you would, that comment as well.

Senator GRAHAM. All right. Would you consider it a hostile act?

Chairman LEVIN. I sure would.

Senator GRAHAM. Okay, I would, too.

Chairman LEVIN. But happy Valentine's Day.

Senator GRAHAM. It ought to be an interesting lunch.

Secretary Panetta, 2014 the game plan is to transition to Afghan security force control; they're in the lead, is that correct?

Secretary PANETTA. That's correct.

Senator GRAHAM. And we'll have a training mission, we'll be providing intelligence gathering, providing capabilities they are not quite yet capable of doing, like airlift; is that correct?

Secretary PANETTA. That's correct.

Senator GRAHAM. Do you support the concept of a follow-on force past 2014 that's part of a strategic partnership agreement, that would have a military footprint post-2014 that would allow American air power to remain in Afghanistan along with special forces units, at the Afghans' request? Do you think that is in our national security interest to consider such a follow-on force?

Secretary PANETTA. Well, I believe, as the President has stated, that we have to have an enduring presence in Afghanistan. We need to, obviously, discuss what those missions are, but I think

clearly CT operations is one of those missions. Training and advising is one of those missions. Enablers, providing the right enablers, is one of those positions. And obviously providing air support is one of those as well.

Senator GRAHAM. So you would agree with the concept that post-2014 if we had a configuration of American forces with adequate air power to assist the Afghan security forces, plus a special forces component, the Taliban days are over in terms of military conquest?

Secretary PANETTA. That ought to be the goal.

Senator GRAHAM. I think that ought to be the goal and I think you could do this with 15 or 20,000 troops, with several air bases spread throughout the country. To a war-weary public: We have air bases everywhere. If we leave Afghanistan and the issue is in doubt about the future of the Taliban, we will regret it. If we leave Afghanistan in a way to create a certainty about the Taliban's future, I think we can hold our heads up high.

Do you think Iran is watching what we're doing in Afghanistan?

Secretary PANETTA. I would think without question.

Senator GRAHAM. Iraq. General Dempsey, what is your biggest concern and your best hope about Iraq?

General DEMPSEY. I'll start with the best hope, and that is that they appear to be committed to resolving the contentious issues among them politically, not through violence, with the exception of a few of the violent extremist organizations which remain there.

My biggest concern is that they could potentially come to a decision that they no longer need our help. They might look elsewhere. That's why our Office of Security Cooperation there remains a very vital part of our strategy.

Senator GRAHAM. Do you see the security situation in Iraq getting worse or better?

General DEMPSEY. I see it as being in a sort of a form of stasis right now. I think it is what it is for the foreseeable future, with of course the potential for it, based on some political decisions they might make, with increasing tension, for example in the Arab-Kurd region.

Senator GRAHAM. When it comes to the military budget, I don't see the Department of Defense as a job creator for America. That's one of the benefits, but I don't think we should view the Department of Defense as a way to just create jobs to deal with unemployment. I think we should have a robust defense capability to defend our values. So in the light, I do believe it's appropriate to reduce defense spending, and I do believe it's appropriate to consider another round of BRAC, as hard as that is for my colleagues. So just count me in in the process of having to make hard decisions, even in the defense area.

When it comes to TRICARE premiums, is it sustainable—is the mandatory spending part of the budget sustainable without reform?

Secretary PANETTA. No.

Senator GRAHAM. So the question for the country is, if I don't get courtmartialed in the next couple of years and get to be a retired colonel and receive my TRICARE benefits when I'm 60, it is okay

to ask a guy like me to pay more. They haven't been adjusted since the 1990s, is that correct?

Secretary PANETTA. That's correct.

Senator GRAHAM. And General Dempsey, you're willing to pay more?

General DEMPSEY. I am, sir.

Senator GRAHAM. I guess the point is that we're so far in debt, no one group is off the table. And it's hard to ask those who've done the most to secure our freedom to give more, but I'm willing to do it. To the retired community, I'm willing to grandfather the current system, but I'm also willing to look outside the box, because if we don't do something in terms of health care growth and entitlement, retiree benefits, you're going to compete the retired force with operational needs, and that's just not where we want to go.

So thank you both. I don't know if \$487 billion is the right number, but I'll work with you to get a number that is robust.

One last question. Do you see a scenario in the next decade where 100,000 American troops could be involved over a sustained period of time? And if you do, how would reducing the Army and the Marines by 125,000 affect those operations?

General DEMPSEY. First of all, I don't know the answer to that, sir. But I think we wouldn't want to shape a future where we completely ignored the possibility.

The force we're building on the '13-'17 budget is capable, we assess, of stability ops, long-term stability ops or prolonged conflict, up to a force of about 50,000. The other 50,000 would have to come out of the Guard and Reserve.

Chairman LEVIN. Thank you, Senator Graham. You have my proxy at lunch, by the way.

Senator Webb.

Senator WEBB. Thank you, Mr. Chairman.

Mr. Secretary, General, first let me just say that, as somebody who spent five years in the Pentagon, one of them as a serving Marine and the other as a defense executive, I appreciate all of the work that's gone into this presentation. We're going to have our disagreements, but, having sat on the Defense Resources Board for four years, I know how much effort has gone into what you brought over here.

You know, there are already reports—I was back in my office—on the discussion to slash the Army and the Marine Corps. I think for the record we ought to point out that what we're looking at here is historically consistent with the end point of sustained ground operations. In fact, if my numbers are correct, if you go back to the pre-September 11 military and look at 2017, which you're projecting in your testimony, Secretary Panetta, the Army is going to be about 9,000 higher than it was pre-September 11 and the Marine Corps is going to be again about 9,000 higher than pre-September 11.

So I look forward to working with you on a lot of different issues, and some on which we may have disagreement. But again, I have great respect for all of the energy that's gone into this, preparation of this budget.

I want to talk about basing in the Pacific. Chairman Levin mentioned this in his opening comments. Chairman Levin, Senator

McCain and I have spent a great deal of effort on this. I agree, General Dempsey, with what you said. I don't see a pivot here. I think we've always been there, we've always needed to be there. I've been speaking for many years about the need for us to reconfigure our presence in a way, not that downsizes or not that confronts or attempts to contain China, as some people are saying, but just as a way to strengthen our alliances and our presence out there.

There's a strong strategic dynamic in the region. There's also a very important and potentially volatile political dynamic in Japan if we don't get this right and if we don't get it right soon. This has been going on for more than 15 years. We can't kick the can down the—I'm not asking for your comment on this, but this is more along the lines of getting your bank statement. There are a couple things that are due to us and they're very important in our consideration. One is the reporting requirement that is scheduled to come out of the independent study that was mandated by the NDAA. There's a 90-day period for which the bill was signed, which I think was December 31st, for the study to come to the Secretary of Defense and then the Secretary of Defense would have up to 90 days, not necessarily mandated, to report to us on this independent evaluation of the basing structure.

It's very important. It's going to happen at the same time that there are environmental statements and other issues taking place on Okinawa about the basing system there. I'm very interested in getting this study and seeing if we can't move forward in a very timely way to resolve this.

The other one is the Marine Corps laydown. I have spoken with the assistant Commandant about the numbers that they're using. I support this transition in concept. I've had many conversations with the Marine Corps and with others about this earlier. But we do need to see it. We need to see the laydown. It's again a part of the defense authorization bill.

The question that I actually have in this short period of time relates to the evolving situation in Syria. General, I would like to ask if you might characterize for us the, for lack of a better term, the on-the-ground opposition that now exists to the Syrian regime? What proportion of this is domestic, what proportion is foreign? What are your observations?

General DEMPSEY. My observations, Senator, are that it is a much different situation than we collectively saw in Libya. I think that's an important point to make, because we don't have as clear an understanding of the nature of the opposition. We're working in the intelligence community to develop it. But as you know, there are some significant differences vis a vis Syria. There is a chemical and biological warfare threat. There's a very significant integrated air defense system, a very credible military.

We're watching the trend lines on their military to see if they are still under the control of the regime. There's also huge regional implications, big players and actors who have vested interests there. So this is one where we have to not only understand what's happening on the ground, but also look at the regional context in which we're dealing.

Of course, we will, when asked, provide options to the national command authority. But this is a very different challenge.

Senator WEBB. Well, first let me reiterate that I had serious concerns about the Libyan operation and the nature in which the President exercised unilateral authority. But on the Syrian situation, do you have any—again, do you have any indication about the makeup of the on-ground opposition to the regime, how much of it is domestic and how much of it is in fact not?

General DEMPSEY. As I sit here today, the Free Syrian Army, which is generally speaking the centerpiece of the opposition, is for the most part domestic, although we also know that other regional actors are providing support for it. That complicates the situation.

Senator WEBB. There were reports over the weekend that Al-Qaeda has been involved as a part of the opposition. Do you have any confirmation of that?

General DEMPSEY. No confirmation. I saw the same report.

Senator WEBB. But have you discounted it?

General DEMPSEY. No, not at all. If you think about what's actually—and I know you have. But Syria is an issue of a Sunni majority rebelling against an oppressive Alawite Shia regime. All of the players—this is what I mentioned a moment ago. All the players in the region it seems have a stake in this. So those who would like to foment a Sunni-Shia standoff—and you know who they are—are all weighing in in Syria. It is the last remaining piece in the puzzle of what you and I probably months ago would have described as the Arab Spring, but this is a very important moment in the region and all the players are weighing in.

Senator WEBB. Thank you, General. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Webb.

Senator PORTMAN.

Senator PORTMAN. Thank you, Mr. Chairman.

Secretary and General Dempsey, thank you for being here this morning.

I told Secretary Panetta that I was going back and forth between the Budget Committee and this committee. It's been interesting because I'm really seeing two different points of view and really world views. I commend both of you today and your comments about the need for us to deal with the unsustainable growth on the entitlement or mandatory side of the spending. In response to your question from Senator Graham, is the mandatory spending for the military sustainable, you gave a simple answer, no.

I will tell you, to be honest, having just engaged in the Budget Committee about the President's budget, which was submitted yesterday, it not only adds another 11, \$12 trillion to our debt, taking it up to over \$25 trillion, but it really takes the pass on any of the tough decisions that have to be made on the biggest part of the budget and the fastest growing part of the budget, and that's the entitlements side.

It actually grows, under their own numbers, from about 64 percent of our total budget now—this would be Medicare, Medicaid, Social Security, interest on the debt. That grows from 64 percent now, so the largest part of our budget, to 78 percent during the ten-

year window of the President's budget. And yet there is no mention of Social Security, no reforms.

And on Medicare, the only reform I can see on the beneficiary side happens after the next term of whoever's president, and that's on some slight means testing changes.

So my concern is exactly what you have outlined today, and I quote you from your overview document, where you said: "Our growing national debt, if not addressed, will imperil our prosperity, hurt our credibility and influence around the world, and ultimately put our national security at risk."

General Dempsey, you talked about that during your nomination hearing last year, and I again appreciate the approach you have taken. I'm very concerned that if we continue down the path that has been outlined we will all be here many more hearings like this one, talking not about how to improve our national security, but instead talking about how budgets have been crowded out by unsustainable practices elsewhere in our government and we simply can't afford the force we know we need.

So, with that, if I could focus on two things in terms of the defense budget, because I do think there is room, despite my concern about the bigger budget crowding out defense, there is room within defense to find savings. Two areas I want to touch on quickly if I could are personnel and the area of procurement.

On the personnel side, I appreciate the fact that you both again have focused on compensation, health care benefits. You've proposed a retirement review. These are all tough issues. I think we all agree that our men and women in uniform are our single greatest asset and we need to be very cautious on the personnel side.

On the other hand, we need to be sure that we are not crowding out, even within the defense budget, the need for us to be sure that we have adequate resources for operations and maintenance.

So I would ask you this. When you look at what you have proposed, in essence you've taken out one issue to a commission on the retirement issue, again a very delicate issue, and you've got some suggestions on changing compensation in the military health system here, although I would suggest more would have to be done to meet your own criteria you've laid out.

My question to you is, is there a more holistic approach here, in that this does relate to retention and obviously our ability to attract the great professional force that we have now?

General DEMPSEY. We thought about bundling these issues together into, as you described it, a holistic look at pay, compensation, health care, and retirement. The chiefs and I were of the opinion that we wanted to address the issue we saw before us that we knew had to be changed, and that was pay, compensation, and health care, but take the time to study the impact of retirement change, because one of the things we're concerned about is, although it's counterintuitive, you know that about 70 percent of the force retires—not retires, but separates before retirement, but 100 percent of the force, when asked, even at the 5-year mark of their career, will say to you: Don't screw around with my retirement or I may not stick around, even though they know that the chances of them actually retiring is only about 30 percent.

So there's a psychological factor with retirement benefits here that we don't fully understand yet. We want to take some time to understand what the impact of retirement reform would be on both recruitment and retention. That's why I really—we all felt, the chiefs and I, felt that we should separate these.

Senator PORTMAN. Secretary Panetta, any thoughts with regard to this, given your background on the budget issues?

Secretary PANETTA. I think it's important, as you know as a former OMB Director, as I was, that we have to approach this budget based on the fact that there's no holy ground here. You've got to look at everything and you've got to question everything. We approached it on that basis.

We talked about allowances, we talked about pay, we talked about pay raises, we talked about all the health care areas. We looked at a number of those areas. We felt we've got to take a step to make sure that compensation is part of the answer to what we have to achieve here in savings. For that reason, we selected the areas that we looked at.

I think it's important that all of this has to relate to what it means to the soldier, the uniformed guy or woman who is there on the battlefield. How do we make sure that we provide the benefits that are necessary to attract the very best? And frankly, we have the very best operating on behalf of the United States today. How do we do that, how do we maintain that benefit base that's important, but at the same time understand that we've got to control these costs in the out years?

That was the dilemma, kind of, that we had to confront. We think we approached it in the right way. Is there more that can be done? Probably.

Senator PORTMAN. Well, I know that members of the committee know this, but maybe for some watching, this is an increasing part of your budget, just as it is for the Federal budget, as I mentioned, if you look at your percent of spending on TRICARE, for instance, as a percent of your overall budget.

So as one member of the committee—and I think I speak for a lot of other colleagues, including at least one I heard speak earlier—we look forward to working with you on that and trying to be supportive.

On procurement, we don't have time to go into it because my time is up. But just again to focus on competition, the need for us maybe to spend a little more up front to be sure we have a competitive process because it'll save so much over time. I look forward to maybe a follow-up question in writing in that regard.

Thank you, Mr. Chairman, and thank you, gentlemen.

Chairman LEVIN. Thank you, Senator Portman.

Senator McCaskill.

Senator MCCASKILL. Thank you, Mr. Chairman.

And thank you all for your service to our country. As some of you know, I have spent a lot of time working on contracting issues as a member of this committee and other committees. I don't need to tell you what a huge piece of your budget contracting represents. The Project on Government Oversight released a report last year that is the first in-depth analysis that's been done in a while about

the cost of personal services contracts as compared to the costs of a Federal employee.

That study showed that we are paying contractors 1.83 times more than the government pays Federal employees, and that's including taking into account the benefits package that goes along with the costs of, the personnel costs of hiring a Federal employee.

I think there's been an awful lot of talk around the Senate about freezing Federal employees' salaries and cutting the number of Federal employees, but there's been very little real difficult work of trying to hold down the cost of personal services contracts.

Secretary Panetta, with the reductions of DOD personnel contained in this budget, what are you doing to ensure that reducing—because what's happened over the years is, while we've tried to hold the line on Federal employees, contracting has just ballooned. And nowhere—you are by far number one in that. Number two is the Department of Homeland Security. So I'd like you to address that if you could, either you or Mr. Hale.

Secretary PANETTA. Senator, you've provided tremendous leadership on this issue, and it is of great concern to me personally because it is an area that has expanded dramatically. Almost everywhere I go in my new capacity, I see contract employees, obviously providing a lot of services. Some of them I think are very important and they perform a very important role. Some of them I question whether or not we could perform the same role and be able to do it at a smaller price.

We did look at this area as part of our efficiency approach to trying to see if we could gain some savings, and I'd like to ask our Comptroller to speak to that.

Mr. HALE. Well, just briefly, I think you know, Senator McCaskill, we had an initiative a couple years ago to in-source jobs where it was cost-effective. We are still looking at where it's cost-effective. I think with these budget cutbacks we're looking at what the right mix is. Probably both contractors and civil servants are going to come down over the next few years in our budget.

We've got to try to find the right mix. I don't claim we have an easy formula, but I think we are looking at it in that context, which is the right one: What's the most cost-effective way that we can get the work done?

Senator MCCASKILL. Well, we're going to have a hearing on this in the Subcommittee on Contracting Oversight, and what I will be looking forward to seeing is what kind of strict analysis is the Department of Defense embracing to get a handle on contract employees versus full-time Federal employees? Because it surprised me when I got here that not only do we not know how many contractors there were in Iraq, we didn't know how many contractors there were sitting in government buildings within five miles of where we're sitting right now. That is a huge problem, that the contractors just became task orders, as opposed to kind of keeping a handle on how this monster got out of hand.

We also are going to have some legislation coming from the War-time Contracting Commission that finished its work. I will look forward to direct input from you about the legislation that we will be hopefully filing this week, and we will be working with this com-

mittee to try to get some of its provisions included in the defense auth.

You know, as I look at Afghanistan, \$16 billion GDP, \$2 billion of that is not from us. That is a huge impact on that country. As some of you are aware, I've also been looking at the way that the CERP funds have been used over there in terms of infrastructure and how for the first time in the budget there was actually an infrastructure fund embedded in the budget coming from the military to do the things that traditionally State had always done. That is, large infrastructure. It was like CERP on steroids, is essentially what the infrastructure fund was.

I'm going to quote what the CAAT said. The Counterinsurgency Advisory and Assistance Team, which provided a report directly to General Allen, found that the CERP was not achieving counterinsurgency goals. And I'm going to quote this report: "Current incentives promote spending CERP funds without sufficient accountability. There is no system for determining what projects are likely to advance COIN effects and no apparent desire to objectively evaluate whether COIN objectives were achieved. Commanders at various ends of the spectrum are judged by the amount of funds committed, obligated, or spent over actual measures of effectiveness. This situation is not only wasteful, but allows for corruption, insurgent resource capture, and delegitimization of the Afghan state. We retain primary responsibility for project success or failure while the host government and population are spectators."

I know that CERP has been something that has been held near and dear, and now the Afghanistan Reconstruction Fund is an outgrowth of that because we've gotten beyond fixing window fronts to large highway construction projects, without the kind of rigorous analysis in terms of sustainability. As we drop off the cliff in Afghanistan in terms of what we're giving this country of GDP, aren't we creating a scenario that a lot of this money is going to go into the category that it went into in Iraq, and that is a lot of wasted taxpayer dollars on Afghanistan infrastructure?

Secretary PANETTA. Senator, I'll have a general comment on the actual use of those funds, but let me say this. I share the concern that you've indicated. As we do draw down and as we turn over these responsibilities to the Afghans, one of the issues that we've got to think long and hard about is the sustainability of these efforts.

For example, in the Afghan force that takes over and provides the principal security for the country, what is the level that we need? Is it sustainable? Can this country provide the support system that it has to? What kind of economic base is that country going to have for the future? And the issues that you've raised all relate to that question. What are we looking at in terms of the future of this country and can it sustain itself?

That's going to be something we're going to have to give a lot of consideration to. Not only the United States, but obviously all of our NATO allies have to take a hard look at what we do to try to sustain this country in the future if we're going to be successful there.

General DEMPSEY. I'll just add, Senator, that the way we—I first of all hope we don't drop off a cliff. One of the things we've been

discussing is the glide slope in every sense. It's our glide slope, it's the ANSF glide slope. It's our funding glide slope.

If we do drop it off a cliff, it will have the result you just predicted. That's the reason that I would suggest we can't fall off a cliff in Afghanistan. We've got to transition this thing responsibly.

As for whether they have the capacity to deal with all of this, that has been—I've done this in several countries around the world, to include Iraq most recently, and that is always the most difficult part of these missions, is building the capacity, the capability and then the capacity, to—it's really institution-building. It's pretty easy to build infantry battalions. It's pretty easy to partner with them and embed with them. But the institution that sits above it all has to be developed.

I would suggest to you that we've made some pretty significant progress in that regard since about '08, and it is part of our strategy going forward. But I share your concerns. I'm not sure that I share the understanding of all of the results of that study you just cited, because depending on when it was done and who did it and where they did it, it could have a very different outcome other places. I'd suggest to you that we owe you some information on that going forward.

Senator McCASKILL. Well, I certainly hope—you know, I got to tell you, I think that some of the stuff that we've built in Afghanistan, we can go ahead and build the stuff, we can hire the people to build it, our know-how can provide the leadership to build it, but I don't think—and I think it's been like wishful thinking that the institutional capacity of this country will catch up. I mean, we've got a power generation facility in Afghanistan that's sitting there as an expensive extra power generator because they can't even use it, and it was hundreds of millions of dollars in American taxpayer money.

That kind of stuff, we just can't afford to do that. I've got an modernization to move some of this money back to the United States for infrastructure, and I think it's important that we do that because of the needs of this country, and the real problem that a lot of this money for security purposes is ending up in the bad guys' hands, and we know that. There's been way too many instances that we've found it.

So I appreciate that. The more information you can give me about what kind of rigor you're bringing to the sustainability equation, because I can't find that rigor and I've looked for it.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator McCaskill.

Senator Ayotte.

Senator AYOTTE. Thank you, Mr. Chairman.

General Dempsey, Secretary Panetta, Mr. Hale: Thank you for your leadership during very challenging times for the Department of Defense.

I appreciate very much that we need to find savings in defense in a way that does not undermine our national security, no question. But please count me out when it comes to BRAC, and here's why. I want to echo concerns that Secretary Panetta himself, having gone through this process, raised before the House committee in October, where, Secretary, you said:

"I went through BRAC. I know that all the dollars that people looked for, you know, huge savings in BRAC, and yet they didn't take into consideration the cleanup, they didn't take into consideration all the work that had to be done. They didn't take into consideration all the needs that had to be addressed. And in many cases it wound up costing more. In fact, the recent GAO report found that it cost us for the 2005 BRAC round 67 percent more than we estimated, and in fact we're not going to see any savings from the 2005 round until 2018, 13 or 14 years down the line. So I have serious questions whether we save any money from a BRAC process. And particularly at a time when we're still making decisions about our global posture and our force, end strength of our forces, I don't think it's the right time for a BRAC process where we may not save a dime, frankly. That's what really concerns me at the end of the day."

But I want to ask you, Secretary Panetta, about our reengagement rate at Guantanamo. Director Clapper testified, I believe it was last year or in the spring, that our reengagement rate of those who had been released from Guantanamo Bay was 27 percent. Do you know what the number is now, and has that percentage of 27 percent getting back into the fight gone up?

Secretary PANETTA. I'm not—I think 27 percent was over the long period stretching back into the last administration, where most of the individuals were transferred. I believe under the ones that have been transferred under this administration that it's less. I can't remember the exact percentage.

Senator AYOTTE. But overall it's been—whatever administration released it, Director Clapper said the overall reengagement rate is 27 percent; is that correct?

Secretary PANETTA. That's true, and I think that number is correct. I'll get back to you on what the specifics.

[The information referred to follows:]

[COMMITTEE INSERT]

Senator AYOTTE. That would be great. I just want to know if the overall reengagement rate, regardless of who released them, has increased at all.

The reason I asked is, in follow-up to Senator McCain's question earlier about what we've heard could be the administration's potential release of five Gitmo prisoners in exchange to the Taliban, I just wanted to raise concerns about it on a couple of fronts. Number one, as I see it, according to the Wall Street Journal and the Washington Post, of these five people—let's be clear. If these reports, public reports, are accurate, we're talking about individuals who, senior-most Taliban commander in northern Afghanistan, someone who is an alleged war criminal in his role for the massacre of Shiite Afghans. Two of them are potentially involved in killing of a CIA operative, an American CIA operative. The remaining three, one helped smuggle—is alleged to have helped smuggle weapons in to attack U.S. troops, is loyal to the Haqqani network. Another is directly associated with Osama bin Laden and Mullah Omar. And then the final may belong to Al-Qaeda and his release has been called highly problematic.

All five of these individuals were characterized by the administration in 2010, if these reports are accurate about who these indi-

viduals are, all five of them were deemed by this administration in 2010 “too dangerous to transfer, but not feasible for prosecution.”

I guess my question—I know that you have to certify, Secretary Panetta. Two years later, is there something changed about these individuals that we’re unaware of? And my follow-up would be, as I understand the administration’s plan this is in exchange for goodwill from the Taliban. If we are going to release five, if these reports are the case, these public reports of who these individuals are, dangerous individuals who could get back and reengage with our troops, and who aren’t just soldiers, they appear to be leaders among the Taliban and Haqqani networks, that if we were to release them in exchange for a measure of goodwill, it seems to me that, why aren’t we getting a ceasefire if we’re going to put out people that are so dangerous?

So two questions to you: Has something changed from 2010 of the assessment of these five individuals in terms of being too dangerous to release? And second, do you think this is a good deal if we’re only going to get a goodwill gesture from the Taliban?

Secretary PANETTA. Let me reemphasize that absolutely no decisions have been made with regards to reconciliation. There have been some discussions, but the conditions for reconciliation have been made very clear, that the Taliban has to lay down their arms, they have to renounce Al-Qaeda, they have to recognize the constitution in Afghanistan. As far as I know, none of those conditions have been met at this point, and obviously would be part of the discussions.

As to whether or not as part of whatever these discussions involve that there were a transfer as part of that, under my obligations as Secretary I have to certify that these individuals will not return to the battlefield, and I’ve got to be convinced that steps are taken to ensure that that does not happen. Until I am assured that that’s the case, I’m not going to certify.

Senator AYOTTE. Well, I appreciate that, Mr. Secretary, and I would hope—these are very dangerous individuals if they are as they’ve been reported by the Washington Post and Wall Street Journal, and in particular to transfer them for a so-called goodwill gesture—I appreciate your list of conditions of a ceasefire, laying down of arms, and I obviously am very concerned to transfer these individuals at all, given how dangerous they have been in the past.

And frankly, we haven’t always been right about this, as you know. We’ve been 27 percent wrong, whatever administration we’re in. In fact, Mullah Zakir was assessed as a medium risk—these guys are all high risk—a medium risk, and he was released, and he’s now leading the Taliban forces fighting the U.S. Marines in the Helmand Province.

So we do our best in these situations, but as a prior prosecutor the best predictor of future behavior is usually prior behavior, and these guys aren’t good. So I appreciate your looking at this certification very carefully.

And thank you all for being here today.

Chairman LEVIN. Thank you, Senator Ayotte.

Senator Udall.

Senator UDALL. Thank you, Mr. Chairman.

Good morning, gentlemen. I'm sure you can imagine you'd rather spend Valentine's Day with any group other than the Armed Services Committee. So thanks for being here.

It's apparent that the fiscal challenges that DOD face are those that we face across the Federal budget. We've had a respite given, the end of the war in Iraq. But unfortunately, more broadly—and I'm not speaking to DOD, but I'm speaking more broadly—we've mismanaged our finances across the board, and we've put ourselves in a pretty tough, I would say even unacceptable, financial position.

If you look at our history, we've leveraged our economic and military strength to accomplish our goals, and we can't effectively project our power abroad if we're weak at home. Then we've also undercut our domestic and strategic goals by managing our finances so poorly.

You both know in spades that we've got to carefully strike a balance between fiscal responsibility and strategic capability. We can't hollow out the force, we can't eat our seed corn. We've got to get this right.

Fortunately, I think we have a lot of history to guide us, and we've got to make sure that we incorporate the lessons learned from our successes and both our failures. As a mountain climber, I always learned more when I was on the mountains I didn't climb as the ones I was successfully summitting.

But, General, in that spirit I wanted to turn to the summary that I've heard that the DOD has affirmed its commitment to Department-wide research and development programs and the continued development of alternative energy technologies. DOD's always been an innovator and military research has created a number of products that we now consider essential to everyday civilian life.

At the same time, there are concerns that there are operational needs that need to be addressed now. Can you discuss the thinking behind this focus on the future and how that decision affects current operations and those that might be just over the horizon?

General DEMPSEY. On the issue of energy, operational energy, I can. What we—

Senator UDALL. Certainly on energy, but then even more broadly, too—medical advances. I know you've got a long list.

General DEMPSEY. We do, sir. In terms of looking out to Joint Force 2020, that's exactly why we want to project ourselves out and then look back and find our way forward. This budget is the first step in that.

But I will use operational energy as an example. We lose soldiers, Marines, notably airmen and soldiers, on the roads of Afghanistan going from FOB to FOB, on resupply missions and so forth. So to the extent we can create autonomous or semi-autonomous in terms of energy consumption, power and energy, organizations, net zero in terms of their consumption of power and energy, we'll actually save lives and become a lot more agile because we won't be as tied to some kind of traditional linear line of communications.

So we're all in. As you know, the Army has five installations where we—one of them is Fort Carson, Colorado, by the way—where we're trying to receive a net zero energy situation. But that's kind of the garrison environment.

Operationally, we're trying to do the same thing with our tactical units. The Marines—I mean, every service, frankly, is working on this diligently and I think this budget reflects that.

Senator UDALL. There have been some compelling stories about what the Marines are doing in theater, on the front lines at the FOBs. As your predecessor put it well, saving energy saves lives. So I commend you for what you're doing. I look forward to working with you in this important area as we move forward.

Mr. Secretary, if I could turn to you. The Congress, as I think you're aware, worked with the Department to establish an Operationally Responsive Space Office within the Air Force to rapidly field small responsive satellites that are tactical in nature and tasked by the combat commanders in the field. That's in comparison to the large national systems that take somewhere six to eight years and literally billions of dollars to field.

As I understand it, in the fiscal year 2013 the Department is proposing to abolish the Operationally Responsive Space Office, zero its budget from \$111 million last year, and integrate whatever capability is left into the Space and Missile System Center. Can you explain the Department's thinking here, when the first satellite they launched was judged by CENTCOM to be successful? ORS-1 started sending images back to them in the fall of 2011, almost three years to the day after the program was started.

One additional question. Is there a possibility that this decision puts the cart before the horse? I assume the budget was probably put together before CENTCOM started using the system. Can you explain the reasoning here?

Secretary PANETTA. Senator, let me have Bob Hale talk to that.

Senator UDALL. Great.

Mr. HALE. Senator, what we've done, as you said, is terminate the program office, but not the commitment to operationally responsive space initiatives. It'll be put into Space Command, where it can be looked at in the broader context. We think that's the right decision, as opposed to focusing on one particular approach, but to look more broadly at this initiative. There are a lot of ways to do it. We need to find a cost effective way. So I think that's our approach.

Senator UDALL. I look forward to working with you to make sure we continue to get this right. We talked about smaller, agile forces on the front lines and this is in a way a form of doing that, but in space.

Let me turn to Iraq and Afghanistan. We've ended our mission in Iraq. We're drawing down our surge forces in Afghanistan. We've proposed reducing end strength in all four service branches, substantially reducing the number of aircraft, ships, and Army BCTs, brigade combat teams. After all that and more, when adjusted for inflation the DOD budget for 2017 will still be at almost exactly the same level as it was in 1986. That's the height of the Reagan-era buildup against the Soviets.

Can you talk about the major reasons why we're spending the same amount of money for a smaller force?

Secretary PANETTA. Well, Senator, what we have here is that \$487 billion was in the planned DOD budget over the next ten years, and that included, obviously, a lot of what we've had to re-

duce in terms of the budget looking forward. So overall, make no mistake about it, even though the defense budget shows a slight increase between now and 2017, the bottom line when you add what we had proposed in our budget plus the amount that would be involved in terms of the war costs, we're going to be going down pretty dramatically, by about 20 percent, which is comparable to what we've seen in past drawdowns.

So this budget bites. But at the same time, by virtue of what we've done we've made it much tighter. Obviously we've had to take down the force structure. We've had to make cuts in ships and planes and in other areas, space, as you said. But the bottom line is we think we have a sustainable budget that will take us to the kind of force we're going to need in order to meet the threats that are out there in the world.

Senator UDALL. Thank you, Mr. Secretary. Thank you, General Dempsey, for your service.

Chairman LEVIN. Thank you, Senator Udall.

Senator Collins.

Senator COLLINS. Thank you, Mr. Chairman.

I'm sure at this point in the hearing, Secretary Panetta, that you're contemplating what Danny Akaka said to you and wondering about your career choice. But we do appreciate your service and indeed the service of all of you.

General Dempsey, I want to bring up with you an issue that really troubles me. Since May of 2007 Afghan security forces have killed 70 American and allied troops and wounded many more, over 100 more, in 45 separate attacks. One of those killed was a Maine soldier, Private First Class Buddy McLain.

I'm so disturbed by the frequency of these attacks. It raises questions about our vetting process. It raises concerns among our troops when here they're risking their lives to train and assist these Afghan troops, only to have some of them turn on them and kill them.

It's my understanding that a Central Command red team report concluded that there was a crisis of distrust that permeated both the Afghan national security troops that we're training and our own troops as well. So here they're being sent out on joint missions, they're training side by side, but they don't trust each other.

Unless steps are taken to stop these attacks on our troops by the Afghan security personnel, that level of trust that is so necessary for a successful strategy is going to be extraordinarily difficult to achieve. After all, these are the very security forces that we're depending on to take over from us so that we can come back home.

So I would ask you, what is being done to address this very serious and destructive problem?

General DEMPSEY. Thanks, Senator. Yes, I'm well aware of this issue. In fact, I just recently briefed the President on it, who shares your concern. As you say, it's actually 47 instances. About 11 of them were related to infiltration or self-radicalization. The remainder were issues of personal. I mean, it's stress, it's tribal. It's not related to Taliban influence or ideological issues. That's an important point. It doesn't make it any better, but it makes it more understandable.

The other thing I want to mention is, it's not just what we call—well, it's not just them attacking us. They're attacking each other, and probably at a rate of about three times. So we are interested in this. We've got an eight-step vetting process that includes—I don't have the entire thing memorized, but it includes things like letters from tribal elders, biometrics, training, indoctrination, and then the embedding of counterintelligence agents, both U.S. and coalition, but also Afghans themselves.

Recently, because of this recent issue with the French you may recall, President Karzai and the Ministry of Interior, Bismillah Khan, agreed to embed some counterintelligence agents in throughout the Afghan National Army in order to try to get after this.

So we're seized with it. It is tragic and we are taking steps to improve it. We are not going to get it to zero. It's the nature of this kind of conflict.

Senator COLLINS. You know, it's one thing to tell a family that's lost a loved one that they did so in support of the Afghan people to help them have a secure country and to make our national security better. But it's so different to try to console a family that has lost a son or daughter as a result of Afghan security force members killing them. And I just think it's a terrible problem, and the seeming frequency of it is really disturbing.

I realize we're never going to get to zero, but there are too many incidents.

Secretary PANETTA. Senator, if I could, I share your concern deeply. I just returned from the NATO ministerial, where obviously the French were very concerned, having lost some of their troops to this situation. What we did at the NATO ministerial was to task General Allen to report back on the steps that are being taken. Before this, he had actually taken some of the steps that General Dempsey recommended. And they are moving aggressively to try to do a better review of those that are going into the Afghan army, better checks, better background checks, in order to ensure that these incidents are cut back.

I would say that, even though no killings this way are in any way justifiable, that it still remains not something that is something that's endemic. It is sporadic, but nevertheless we've got to address it and make sure it doesn't happen.

Senator COLLINS. Thank you. I would ask that your offices keep me informed as you do try to improve the process.

Secretary Panetta, I share a lot of the concerns that my colleagues have expressed about some of the cuts in the budget, particularly those that affect shipbuilding and the size of our fleet. It seems inconsistent to say that we're going to focus on the Asia Pacific area and yet not seek to get to what for years has been the absolute minimum goal of 313 ships.

I am pleased, however, that the budget request indicates that the Department intends to seek a multi-year procurement plan for the DDG-51 destroyers between now and 2017. First of all, do you support that plan, and do you see that as helping to produce the kinds of efficiencies that will lead to a lower cost per unit?

Secretary PANETTA. Absolutely. I think that's extremely important. Two things are important. We want to maintain—we've got 285 ships now. We want to be at 285 ships in 2017. In the next

five years, our hope is to gradually move up to 300 ships by 2020. So we're clearly intent on having a Navy that is fully capable to project that forward presence that we're interested in.

Second, I think we've got to do it in order to protect our economic base. We have got to have a strong industrial base here that supports the Defense Department, and for that reason my instructions are to do everything possible, not only to obviously get better competition and better savings, but to make sure that we keep our industrial base busy serving our needs.

Senator COLLINS. That is so important, because once that industrial base is gone you never get it back. And once those trained workers go into other fields, you've lost them forever, and that would greatly weaken our capabilities. I agree.

Thank you for that response.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Collins.

Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman.

General Dempsey, Secretary Panetta, and Mr. Hale, thank you for your service, and it is good afternoon now. Thank you for your leadership, particularly during this time.

IED proliferation is a key concern of mine and it certainly has been for quite a while. I support anything that we can do to counter IEDs and obviously protect our troops, and I also support anything we can do to improve the detection rates and interdict the flow of caches and ammonium nitrate.

Reportedly, last year in Afghanistan IEDs caused over half of U.S. military deaths, and IEDs will continue to pose an enduring threat to our military men and women. I believe we need an enduring capability to counter this threat. However, we've got to ensure that our countermeasures effectively deal with the types of IEDs that we face now and in the future, along with the environments that they'll likely be utilized in, and our efforts must be geared toward countering IEDs in any locale.

My figures show that we've spent approximately \$17 billion on various counter-IED initiatives and equipment, not counting the \$45 billion spent on mine-resistant vehicles. I see these, our young soldiers, all the time with loss of limbs. We host wounded warrior luncheons in my office. I see them at the airports. I really want to do everything possible we can to counterdict the IEDs.

But at the same time, we're spending billions of dollars to fight a technology that currently is costing the enemy tens of dollars. So I'm wondering, how do we figure out how to alter this investment ratio? And what investments will the Department make in developing effective IED countermeasures in order to protect our troops and at the same time avoid restricting their freedom of movement?

General DEMPSEY. Well, Senator, the IED challenge is the enemy's asymmetric tool. I think you're correct in stating that it has been the biggest killer on the battlefield and is likely to remain so. That'll be true, I think, by the way, wherever we're deployed. I think we are so capable that they will find ways to attack us, and typically now that's through IEDs.

The next challenge, by the way, will be precision rockets and missiles. But we'll get to that one.

To your point about IEDs, the way we're trying to address the cost ratio is by expanding—and we have been doing this—is by expanding the aperture. So it's not just about trying to find technological means to defeat the device. Defeating the device is important—under-armor improvement kits, MRAAPs, as you say, mine detection, deep penetration radars, or ground-penetrating radars. But it's also training to identify signatures, and I'll explain that briefly in a second, and then also attacking the network.

So you have to do all three. You have to identify signatures, and that is to say the components, the chemicals, and then find ways to identify those components and attack the supply chain. And then it's attacking the network. That includes the financiers and includes those who emplace. Then finally, it's defeating the device.

We've gotten actually quite good at it, but again this is the enemy's principal munition that he uses against us and it does continue to incur casualties. So we've just got to stay with it. I don't have any better answer than that.

Senator HAGAN. What is the—

Secretary PANETTA. If I could, Senator, follow up a little bit on that.

Senator HAGAN. Okay, yes, please.

Secretary PANETTA. You know, probably one of the best things that was developed was the MRAAP, and it has saved a lot of lives and it was done on an expedited basis. So it's a good example, frankly, of trying to produce something needed by our fighting men and women on a fast basis. And we're continuing to, obviously, do that kind of research, to try to develop the best ways to try to protect our young men and women.

I agree with you, anybody who's seen the results of an IED has to shudder at the devastating wounds that result from that.

The other piece of this, though, relates to the supply network for these IEDs. In some ways that relates to the safe haven in Pakistan that continues to supply a lot of this. That is an area that we believe we've urged the Pakistanis to address it. We think that whole issue needs to be addressed if we're going to be effective at trying to cut back on these.

Senator HAGAN. That was actually my next question, and I know we've discussed this before: What is the Department doing to put pressure on Pakistan's network of the distribution of ammonium nitrate?

Secretary PANETTA. We have made very clear to them where these threats emanate from. We've identified locations. We've directed them to specific sites. We've urged them to take steps. In some cases they have. In some cases they wind up there too late. But we're continuing to impress upon them that they have got to be part of the answer to dealing with this issue.

Senator HAGAN. I think that would help tremendously, and hopefully lowering the number of the IEDs that are placed.

Secretary Panetta, I also wanted to thank you for lifting the Marine Corps variant of the Joint Strike Fighter off probation. The decision I believe is essential for the Marines to operate and to move seamlessly from the sea ashore and in the air. It's also key to preserving the strategic value of our amphibious capabilities. Airlift capable of short takeoff and vertical landing, a great example is

when the F-15 fighter pilot crashed in Libya and these airplanes were able to, I believe within about 90 minutes, take off from a large-deck amphibious ship, rescue the pilot, and have him back on board. So obviously there is a critical need.

I also understand that the original Joint Strike Fighter procurement was currently planned at 2,443 aircraft, and in light of the new defense strategy and budget the Joint Strike Fighter program perhaps is looking at being restructured, which may include fewer aircraft spread out over a longer time frame. According to Deputy Secretary of Defense Ashton Carter, the Department will slow its approach to full rate production of aircraft.

Do we have a projected time line to complete the necessary testing and implementation of developmental changes in order to start buying the aircraft in higher quantities, and how is the Department conveying this to the defense industrial base, which Senator Collins was just talking about?

Secretary PANETTA. We think it's extremely important to get these fifth generation fighters out there as soon as we can. Obviously, it's taken time. There's been a lot of testing. They've had to readjust. The STOVL is the best example of that. There were five areas that were identified that put it on probation. They dealt with all five areas. It's tested well. Now we're basically into software testing right now, and one of the reasons we wanted to slow it is to make sure that we knew what the problems were and we could get ahead of it, rather than go ahead producing these things and costing even more if we're catching up with some of the problems.

So we think we've set the right time frame. I think our hope is that by, what, 2017 we'll begin to produce these planes?

Mr. HALE. Well, we're buying them now, as you know, some tests. But they will be operational aircraft as well. We've just slowed the ramp, so we don't buy so many and then have to fix them later, which is very expensive. So we're buying them now. We'll buy 29 aircraft in fiscal year 2013, and I can't—I don't have in my head the number in '17, but it will be substantially higher than that. We've just slowed down the ramp.

Senator HAGAN. My time for questions is over, but I did want to emphasize that I think it's critically important that the Department continue to invest in science and technology programs and the research and development initiatives. These are the seeds that we need to plant and nurture in order to ensure that our military remains the best and most technologically advanced in the world, especially when dealing with the emerging threats. I just don't think we can emphasize enough the need for research and development.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Hagan.

Senator Cornyn.

Senator CORNYN. Thank you, Mr. Chairman.

Gentlemen, thank you for being here. You have my respect and admiration.

You also have a very difficult job, which we've talked a little about. But let me just start with a quote from the Director of National Intelligence, James Clapper, who two weeks ago said: "Never has there been in my almost 49-year career in intelligence a more

complex and interdependent array of challenges than we face today. Capabilities, technologies, know-how, communications, and environmental forces aren't confined by borders and can trigger transnational disruptions with astonishing speed, as we have seen."

I doubt you would disagree with his comments. I don't know anybody who would.

But this—the challenge I think we're all struggling with—and Senator Lieberman, among others, has expressed this—is our heartfelt desire to have the mission determine the budget and not the budget the mission. And you are, of course, constrained by law that the Congress passes, that the President signs, and so we realize that this is our responsibility, and your responsibility is to try to minimize risks and to maximize our national security, given the money appropriated by Congress.

And I appreciate, General Dempsey, you talking about looking beyond the budget window to long-term risk. But let me talk about a near-term risk and something that's already been alluded to here. That is, we've made statements, Secretary Panetta, you and others, that there are certain red lines with regard to Iran—blockading the Straits of Hormuz, building a nuclear weapon. This is important to us, it's important to the region, but it's an existential threat to Israel, our ally. And I don't believe they're going to wait on anyone else in determining what determines their right to continue to exist and their people's security.

So if Iran is hit by Israel, which of course Iran's already been killing Americans in Afghanistan and Iraq in a low-grade war against the United States and other NATO allies, what sort of retaliation would you anticipate against not only Israel, but other countries in the region and American personnel in the Middle East?

Secretary PANETTA. The General suggests that we ought to look at a closed session to really address all the implications of what that may or may not mean. Obviously, we're very concerned about it. We're looking at all of the implications and consequences that could result. But it really involves intelligence and we should do that in closed session.

Senator CORNYN. Well, I respect your judgment on that, Secretary Panetta and General Dempsey, and I look forward to further briefing on that.

But it strikes me that, at a time when we are already—I know we're not calling it this. We're not saying we're cashing the peace dividend, but we are certainly making disproportionate cuts to the Department of Defense and our national security expenditures, when my view is that this is the number one responsibility the Federal Government has—a lot of other things that we do, we could put off or do without. But this is it; this is the most important thing that the Federal Government does. And there are very real, not long-term but near-term, potentialities that could embroil not only the United States, but the Middle East and our allies, in a full-fledged war that would have dire economic consequences to our country and obviously to our allies. More than economic, matter of life and death and existence.

Secretary PANETTA. Senator, without getting into the particulars, let me just assure you that we have very strong capabilities in place to deal with any circumstances that could develop in that region. We feel fully prepared for whatever might take place.

Senator CORNYN. I'm sure that would entail—I'm confident you've done everything that you know how to do to prepare and our military and Defense Department has. It will not be without cost. It will not be without casualties. It will not be without serious consequences, is my only point.

So it troubles me, at a time when our national security apparatus is asked to do more with less, in a world that's getting more dangerous, not less dangerous, that we have a budget that unfortunately I think engages in—I guess the most charitable words I can use is “phantom savings”—phantom savings. Some might call it budgetary gimmicks and the like.

For example, the so-called trillion dollars in savings from a draw-down in operations in Afghanistan and Iraq that are not currently planned, which have been funded on borrowed—by borrowed money in the past ten years, and which really represent—well, here's one headline in the National Journal. It says: “Pentagon budget revives war spending voodoo.” Like I said, I think “phantom savings” is the most charitable thing I've seen.

But it just strikes me as extraordinarily dangerous at a time when the risk is deadly serious to have a budget proposal which makes a trillion dollars in savings on expenditures that we never anticipated spending in the first place. At the same time, I will grant you, we don't know what the risks will be in the future.

Let me close on this item. It's a little more concrete. It appears from my reading of the budget that there is a decrease of about 50 percent in the budget for training and equipping of Afghan security forces from 2012 to 2013. I'd like first, I guess, a confirmation that my reading is correct; and number two—Mr. Hale is nodding that it's correct, so I will just ask you, if in fact our withdrawal from Afghanistan is conditioned on the ability of the Afghans to defend themselves and maintain stability there, how is a cutting of the budget by 50 percent from 2012 to 2013 consistent with that?

General DEMPSEY. I'll take that one, Senator. The Afghan National Security Forces Fund was front-loaded when we had to develop a lot of their infrastructure. We front-loaded the purchase of a lot of their equipment. What you're seeing in this budget is that most of the capital investments, in our terms, have been made in the previous years.

So the reduction is a reflection that we have what we need, and most of the fund now is for replenishment and training and operations. But the simple answer to your question is we front-loaded the investments, the capital investments.

Senator CORNYN. If the chairman will permit me, in terms of size of the force and capability, do you see that getting larger or maintaining the status quo?

General DEMPSEY. We are committed to building the Afghan security forces out to 352,000, 195,000 of which is the army. That will be completed here within the next 90 to 120 days. We have not yet decided how long we'll keep it at that size, but that's a question

we're looking at as we determine how to get from here to '14 and deliver the Lisbon objectives.

Senator CORNYN. Thank you very much.

Secretary PANETTA. I might just add, Senator, to follow up on that, one of the things that was important in 2011 was that not only—not only were we able to reduce the level of violence and weaken the Taliban, but one of the important things that took place is that the Afghan army really stepped up and started taking over real responsibility in terms of security.

In the areas that we've transitioned so far—and we're in the second tranche of those, those transitions—the Afghan army is doing a very good job at taking over security. We just have to make sure we continue to train them, we continue to make them capable to be able to take that responsibility.

General DEMPSEY. Chairman, could I respond, though, to—

Chairman LEVIN. If you can do it quickly.

General DEMPSEY. I will, very quickly.

Chairman LEVIN. Very quickly.

General DEMPSEY. That National Journal article, I don't ascribe to its conclusions because I've been so involved in the process. Some of the changes we made will have a—definitely will have an effect on our base budget. Some of those effects will be mitigated in the near term by OCO. That's what he's talking about, that we've kind of papered over the problem. But I don't accept that.

The Army in particular has 10 to 12,000 non-deployable soldiers directly resulting from the repeated deployments, and we're going to pay that bill out of OCO because it is related to OCO.

Senator CORNYN. We don't know what sort of unexpected challenges and threats our country will face in the future, is my point.

General DEMPSEY. We do not, sir, and I accept that. But that's what contingency funds are for.

Chairman LEVIN. Thank you, Senator Cornyn.

Senator Gillibrand, to be followed by, my list, Senator Shaheen, Senator Blumenthal, Senator Manchin.

Senator GILLIBRAND. Thank you, Mr. Chairman.

Thank you, Mr. Secretary. Thank you, General Dempsey. I appreciate your service. Thank you, Mr. Comptroller, as well.

I understand you touched earlier on today on the value of the Guard and Reserves and how important their service has been, serving shoulder to shoulder in both Afghanistan and Iraq. With regard to your Air National Guard strategy—excuse me, your Air Force restructuring strategy, about half the cuts have come out of the Guard, even though they only represented about a third of the costs. I believe the Joint Chiefs did a—who did the report? Yes, the Vice Chairman of the Joint Chiefs did a report talking about managing budget issues, and actually made the point that Guard and Reserve provide capabilities at a lower cost than would be the case were the Nation to rely solely on full-time forces.

So I have a concern about the decisionmaking with regard to the Air National Guard, and specifically because of the assets that New York has. Obviously, we all have specific assets and strategies and resources in our States that we think are particularly important for our national security. But one thing that a lot of our bases and as-

sets have is this National Guard and Reserve component that has been so effective in both Iraq and Afghanistan.

So I would like and urge you to look at that restructuring to see if there are cost savings by maintaining particularly Air Force National Guard and Reserve components as they are, whether it's Zebruski or whether it's in Niagara. Those are important aspects.

The second issue that I want to highlight with regard to New York specifically is the cyber mission that we do. We do such an important mission for cyber security and cyber defense in Rome, Rome Labs, that has been vital, I think, in being at the cutting edge of both technology and research and development. One thing that I want to bring your attention to is what makes New York so good at doing some of this is the public-private partnerships that have developed with the private sector. A lot of the DOD contracts are being done by private developers, researchers, scientists, that have developed as a hub in all these areas across New York. We have the nanotech center in Albany, we've got Rome Labs, we've got throughout western New York a lot of research and development that will very much complement the work that the military is doing.

I understand that there will be interest in consolidations and cutting, but you will lose that synergy, that effort towards collaboration and clustering that is so important in the high tech sector, and I don't want you to underestimate how valuable that is for the military.

Then last, just to speak to these particular assets in New York. We are 100 percent staffed. We have no environmental issues. We have a work force and communities that are so dedicated to the mission that the armed services have placed on these men and women, that you will lose some of that enormous benefit to the extent you have to consolidate or restructure.

We would love to gain missions, particularly with the National Guard and Reserve training, with unmanned aircraft and with cyber. So I wanted to just give you that background.

Secretary PANETTA. Senator, there are a just a couple things and then I'll yield to the General. First of all, on cyber, we are making increased investments there of about \$3.4 billion and even more in the out years, because we think cyber is extremely important. So obviously partnering with the private sector is extremely important, and being able to develop the technological capability that we're going to need to have for the future. So I think that's important to remember.

Second, with regards to the Air Reserve—and I understand the concerns. The Air Force made the decisions. Some of these planes in the past have come out of the active-Duty Force and that's one of the reasons they tried to look at where some of the reductions could be made based on the age of these planes, as well as their capabilities. But they are trying to do whatever they can to mitigate against those impacts, because again we do need to depend on the Reserve to be there. They've responded in dramatic fashion over these last few years every time we've called upon them to come forward and take their place alongside other fighting men and women in the battlefield, and they've done a great job.

We want to be able to maintain that for the future. But that was the reason some of these cuts were made in those areas.

General DEMPSEY. The only thing I'd add, you mentioned cyber and I want to mention for the record that we strongly support the Lieberman-Collins-Rockefeller legislation dealing with, to get us in the proper place in dealing with the cyber threat, which is significant and growing, as well as the Senator Feinstein amendment to that legislation. So I'd like to say that.

Then I'd also say, I'm one of your constituents and how about them Giants?

Senator GILLIBRAND. Go Giants.

Thank you all for your service.

I wanted to make sure that there's nothing else that you need in the cyber bill as well, that you have reviewed it, and that it is providing the assets and resources that you need to enhance your mission.

Secretary PANETTA. I think the General is correct, that the bill that I know is being put together by Senator Lieberman and others reflects all of the issues that we think are important to address. So we'll continue to work, however, with the Senate and with the Congress to make sure that if a bill does emerge it addresses our concerns about trying to make this country better prepared to deal with the cyber issues that I think are growing every day.

Senator GILLIBRAND. I would request that you look at the legislation with an eye towards making sure you have all the authorities that you need to support this growing mission, and also the resources necessary to do adequate recruitment, because obviously we want the strongest pipeline for cyber defense that we could create and the flexibility to bring in the talent that you're looking for. We want to make sure that, whether it's civilian talent or through the normal course, we want to make sure you have the flexibility and ability to recruit, train, and keep the best and brightest to do that.

Last, if I have time, Mr. Chairman, it's a very separate issue, but one I feel very strongly about, that I would like your commitment. I've heard you already speak to the issue of sexual assault in the military and the ability of the military to respond effectively to those concerns, to allegations, and to making sure we have the best fighting force we can have. That means that we create the right protocols and the right ability for women to be able to report such incidents and to be heard on those issues.

I'd like your comments, your views on that, and I would like to work with each of you on developing stronger protections for our women who are serving.

Secretary PANETTA. Senator, we look forward to working with you on this issue.

You've provided great leadership on this issue, and it's an area that concerns me greatly, that the incidents of sexual assault have grown. Frankly, my concern is that we have got to be able to take action in these situations.

One of the keys—as you know, I announced a series of steps to try to improve our response to sexual assault. One of the most important things is to make sure that the command structure responds to these situations, because the longer they take to respond,

it inhibits the ability to bring a case, and that's what's hurt us in being able to move aggressively in most of these cases.

So we need to do a broad education effort to make sure that the command structure understands how important it is to respond in these situations. We also need a legislative package and I would like to work with you in trying to address the legislative needs that we're going to need in order to really be able to get this problem in control.

Senator GILLIBRAND. Thank you, Mr. Secretary.

Chairman LEVIN. Thank you, Senator Gillibrand.

Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman.

Thank you, Secretary Panetta, General Dempsey, and Mr. Hale, for your commitment and your stamina. We appreciate it.

I want to begin actually where you began, Mr. Secretary, with Congress must do everything possible to avoid sequestration, because I certainly agree with that. I share the concerns we've heard expressed from my colleagues. I'm not going to ask you to respond to this, but I would certainly hope that we in Congress would do what you have been willing to do, and that is to put everything on the table and put aside our posturing and come to some agreement that addresses the long-term debt and deficits of this country.

It is inexcusable that we are in this position now with you and all of the men and women who are serving in defense and in our military and across the Federal Government not knowing what we're going to do because we have been unable to act.

So I would like to go in my questioning, I would like to start with where Senator Gillibrand left off, and that is with the Guard and Reserve. I was very pleased, Mr. Secretary, to see in your statement that you talked about continuing a National Guard that is equipped and ready. I know that the decision to transition our Guard and Reserve units from a strategic Reserve to an operational Reserve required a significant investment and a change in strategy.

So, General Dempsey, I wonder if you could speak to the original rationale for that transition?

General DEMPSEY. Well, I think it's important to roll back the tapes, maybe all the way back to 1973, when, coming out of the Vietnam War, there was no Joint Chiefs at the time, but the service chiefs all realized that one of the problems we had during that conflict was we really never got the American people involved because it was borne on the back of the active component, with very little reliance upon the Guard and Reserve.

So we built a structure that not only allows for the utilization of the Guard and Reserve, but it makes it absolutely necessary. So the question is not will we use the Guard and Reserve, because fully a third of the capabilities necessary at any given time to do anything reside in the Guard and Reserve.

So we are committed to it. And what we've found in this conflict as we went forward, we relearned a lot of those lessons. We made some pretty significant investments and the Guard and Reserve and the active component have never been closer.

Now, as we go forward, of course, and as the demand goes down, that's going to put some—and the budget goes down—that's going

to put some strain on that relationship. You've seen some of that already.

But I can tell you that each service has a plan in terms of the rotational readiness of its formations, that they will include the Guard and Reserve in that rotation. So the entire Guard will never be operational, any more than the entire active component is always operational. But I think you can feel secure in the knowledge that we understand and will work toward this goal in a rotational readiness cycle.

Senator SHAHEEN. I appreciate that. As we look forward this year, I know that the Air Force is going to be making some initial decisions on where to base the new KC-46 tankers, and I would hope that the Air Force and DOD will take a look and ensure that at least some of those aircraft are based at Guard bases around the country. I have one particular in mind, but I'll let you draw your own conclusions.

But can I ask you, is there a commitment on the part of DOD to base some of those new tankers at Guard facilities?

Secretary PANETTA. I think the Air Force is looking at a whole set of options in order to make sure that we mitigate whatever cuts have been made and make use of the facilities that are out there with the National Guard and Reserve. I can assure you that they'll be in consideration.

Senator SHAHEEN. Thank you. I appreciate that.

I would also like to go back to BRAC, which a number of my colleagues have addressed, and I share many of the concerns that have been expressed. I know, Secretary Panetta, that you've said you've seen just about every side of the BRAC process. Can you commit to providing us with a comprehensive assessment of the savings from the 2005 round, and also to—I assume if you're looking at 2013 and 2015 that you also have estimates of savings in those two rounds, and that we would also see those as we're looking at a decision about what to do about the next BRAC round?

Secretary PANETTA. I'll be happy to give you what information we have with regards to the past BRAC rounds, and obviously some ideas about what we would do in terms of future rounds.

You know, look. As I said, I've been through the process. Frankly, I don't wish the process on anybody, having been through it, because it is tough. 25 percent of my local economy was hit by virtue of a BRAC closure. But we did use it as an opportunity to develop a college-university campus there and it's proved very successful as a reuse.

I think the issue is it did cost a lot more than anybody anticipated, but the fact is we are achieving in the long run significant savings as a result of that. That's number one. Number two, I don't know of any other way to deal with the kind of infrastructure savings we've got to achieve here as a result of reducing the force without going through that kind of process. That's the problem I have. It's the most effective way of trying to address that issue.

Senator SHAHEEN. Well, certainly in New Hampshire we've seen both sides of the issue, because Pease Air Force Base was the first base closed in the country. Fortunately, it's doing very well now. And the Portsmouth Naval Shipyard, which is on the border be-

tween New Hampshire and Maine, was actually removed from the last round by the commission because of their effectiveness.

One concern I have as we look going forward, particularly with respect to our public shipyards, is that there's a real backlog of projects that need to be done at those shipyards. Obviously, the Portsmouth shipyard is not alone in that. And they have been producing, I think, very well despite that backlog. They just delivered the USS *San Juan* attack submarine eight days ahead of schedule, despite some of the challenges with that.

So I hope that—Senator Collins and Senator Ayotte and I had an modernization in last year's defense authorization bill that asks the Department to produce a shipyard modernization plan to address these shortfalls. I hope that the Department will take that very seriously and produce that, because as we're looking at our security going forward those public shipyards are a critical part of that.

Secretary PANETTA. Senator, as I stated before and I'll say again, we absolutely have to maintain the industrial base we have, and the shipyards, shipyards in your area, the other shipyards we deal with, are extremely important to our ability to respond to the needs that we have. So we're going to do everything possible to work with you, not only to increase, obviously, the competitive nature of trying to achieve savings, but also to try to do what we can to provide those upgrades.

Senator SHAHEEN. Thank you.

A final question. One of the concerns that we've heard in a number of reports over recent years has been the challenge of attracting people with the backgrounds that we're going to need, with science and math, the STEM subjects, to be able to continue to do the jobs that are critical to our defense establishment. I wonder if either you or General Dempsey could address what strategy we have for trying to attract those young professionals when the private sector is offering them so many more attractive monetary rewards.

Secretary PANETTA. You know, it's something—initially I shared the same concern. I know when I went out to NSA and when I look at the people that are involved in that area, not only at my past agency, but other agencies as well, I have to tell you we are attracting some very bright, capable young people to those jobs. They're very interested, they're very capable, and I have—with the investment we're making in cyber, I'm absolutely convinced we're going to be able to attract the talent to be able to make that work.

Senator SHAHEEN. I think our challenge as a Nation—excuse me, General Dempsey—is to get enough young people engaged in those subjects, so we're training the people we need.

General Dempsey?

General DEMPSEY. I think the service chiefs will have a view on this as well, and it's actually exacerbated by the fact that—and I think you and I have actually had this conversation—that only about one out of every four American young men and women can qualify to get into the military, either based on education or physical issues or issues of making really stupid Facebook posts in their youth or something.

So we are all competing, as you say, academia, corporate America, and the military are all competing, for the same 25 percent of

the population. So the answer's got to be to get after education in this country as well, it seems to me.

Senator SHAHEEN. I totally agree.

General Dempsey, I was very disappointed to hear you mention the Giants. You're fortunate that all the other New England members of this committee have gone.

General DEMPSEY. My condolences, ma'am. [Laughter.]

Senator SHAHEEN. Thank you.

Chairman LEVIN. Thank you, Senator Shaheen.

Senator Blumenthal.

Senator BLUMENTHAL. Just in fairness, General Dempsey, and as a New Englander, I interpreted your remark more as an expression of battlefield admiration than an endorsement. So I think you're still on fair ground.

I want to thank all of you for your extraordinarily effective and persuasive explanation of the President's budget and thank you for your patience in answering our questions so effectively.

I want to begin with a subject that the President certainly emphasized, which is undersea warfare capability, and note the slipping, postponing, delaying, whatever the correct term is, of a submarine construction, one submarine from 2014 to 2018. I have heard from both Electric Boat and indeed within the Navy about the cost savings that can be realized if we stay on schedule and build two submarines every year. I wonder if there is a possibility for considering and perhaps your hearing our views on that issue, Secretary Panetta?

Secretary PANETTA. This is all about, obviously, having to reduce the budget by a half a trillion dollars. We have to look really closely at affordability and cost efficiencies. And if anybody comes forward with a better idea as to how to save money, I'm more than open to listen to it.

Senator BLUMENTHAL. Well, I think we may come forward if you'd be willing to consider it.

Secretary PANETTA. Absolutely.

Senator BLUMENTHAL. I would appreciate it.

Let me go to what you have really very convincingly said is the military's greatest asset, which is its people, and you've been discussing it very movingly and inspiringly, most recently to Senator Shaheen, talking about keeping faith and providing many of the men and women, our warfighters who are going to be coming back from Iraq and Afghanistan, with jobs and transition assistance, which has been expanded under the most recent legislation on veterans to be approved by this Congress, an amendment that I offered in a separate bill.

I want to focus on what can be done to aid those veterans before they leave the service to more effectively transition into civilian employment, because as they come back if they enter the Guard or the National Reserve, to have an unemployment rate which is vastly higher, that is right now in Connecticut double the general rate in Connecticut, 15.5 percent as compared to 8.2 percent, will simply be a profound deterrent to anyone going into the armed services. If that is going to be the kind of hurdle they face coming out of the service, it will defeat your best efforts to recruit the brightest and most capable.

Secretary PANETTA. Senator, this is a problem that I worry about a great deal. Frankly, it's one of the risks involved as we reduce the budget by this level, is how to ensure that we take care of those that are returning. We already have a backlog and we're going to be pumping anywhere from 12 to 14,000 a year as we go through these drawdowns.

I think it is extremely important that we be able to provide the services as these men and women come back to really be able to counsel them, to gather them, to make sure they're aware of the job opportunities, to make sure they're aware of the education opportunities, to make sure they're aware of the funds that are available to help them transition, to make sure that their families are cared for as well as we make that transition.

This has to be a package approach. Each service now does it in their own way. They do it pretty effectively. But I think we've got to make very clear that nobody should fall through the cracks.

Senator BLUMENTHAL. I know the Marine Corps has been doing it more effectively. I've talked to General Amos about—

Secretary PANETTA. They do a great job.

Senator BLUMENTHAL.—his very, very effective work. I wonder if—and you may already be doing it—whether there's some servicewide approach building on the best models and best practices, would be appropriate.

Secretary PANETTA. We are looking at that.

General DEMPSEY. If I could add, Senator, there are more initiatives on this issue than we possibly have time to discuss. As the Secretary mentioned earlier, we're trying to team ever more closely with the Veterans Administration to do this. We're starting to take a view that transition begins when you enter the service, not in the last six weeks before you leave.

But the other thing I want to mention here is some of this can be legislated, some of this can be made a matter of policy, but this is one of those issues that will be best solved from the bottom up when corporate America reaches out to embrace the returning veterans.

And by the way, a lot of them are. I can't tell you how many times I'll go to some conference or something and someone will tell me that they have a new initiative to hire 10,000 veterans. So I think it's a matter of kind of merging what can be done at the governmental level, but also what needs to be done at the grassroots level to help this out.

Senator BLUMENTHAL. Well, I would agree with you, General Dempsey, that corporate America is stepping forward more often and more effectively. But I don't believe I'm telling you anything you haven't heard before in saying that there's still a lot of employers who look at somebody who's in the National Guard or the Reserve and who say, not explicitly, but think to themselves: This person's going to be gone for a year or more if he or she is deployed, and better to hire someone I know I can count on to be on the job without interruption.

That is a discrimination. It's illegal if it can be proved, but it has to be surmounted as a matter of practice implicit in some of the employers. I believe that we need more effective measures for enforcement to counter that approach, because it will undermine your

best efforts, which I admire, to attract the best and most capable to the Guard and the Reserve.

So I'm not asking for your comment, but I hope that perhaps we can work together on the initiatives that we don't have time to discuss here.

Just one last question. The IEDs that all too often are maiming and killing our warfighters, I wonder whether there are new initiatives there that perhaps we can discuss, if not here, at some other point, because I've been interested in it and appreciated Secretary Carter's very important work in accelerating delivery of the so-called biker shorts and the groin protective gear, and also the work that I hope is being done to discourage the Pakistanis from permitting the fertilizer and ammonium calcium nitrate from crossing the border and going into these roadside bombs.

Secretary PANETTA. Yes, Senator. And I know that your time is short on this round, but I'd just assure you we are seized with this. Our relations with Pakistan have been somewhat challenged. They're improving, and this is one of the points of friction between us that we have to get at.

Senator BLUMENTHAL. Thank you very much and I appreciate your answers to my questions. I want to associate myself with the remarks made by Senator Gillibrand and your remarks about the problem of assault, sexual assault within the military, but also the issue of suicides, which we will not have time to discuss today, perhaps I can follow up with you on.

Thank you.

Chairman LEVIN. Thank you, Senator Blumenthal.

Senator Manchin.

Senator MANCHIN. First of all, I want to commend the three of you for your endurance. I know you've been through this before, and I a lot of the questions have probably been touched on that I wanted to ask, but I wanted to go over a few things if I may.

First of all, the most defining moment in my short Senate career was when Admiral Mullen sat there and the question was asked to him, what's the greatest threat the United States of America faces? I thought I would hear some type of a military response, whether it was Al-Qaeda, whether it was North Africa, or China building up their military. And he didn't even hardly hesitate. He came right back and said that the deficit and debt of this Nation is the greatest security. And I know you all realize that and take it serious, too, and I know we've talked about it, Secretary.

I think in saying that—and really, I'm looking everywhere I can to cross over the aisle in a bipartisan way to find out how we can make this financial, the wherewithals that we have financially, but also get our financial house in order. I know that we talked about cutting back, and everybody—I don't know of anybody in here, Democrat or Republican, that does not support a strong military.

But everybody's afraid of the political ramification if they say one thing. I can only say this to you, that with the growth of the contractors in the military—when I looked at just the period of time, maybe 10 years, and the support of contractors—and I'm not talking about the manufacturing base of contracting, and I wanted to maybe mention, if you would, as I get done with this question,

about Buy America and how we can do more in America to make sure that we are supporting the manufacturing base.

But with that being said, in a simplistic way I believe that we could strengthen the military or men and women in uniform by reducing the contractors who are doing the same. I hear an awful lot of them that tell me that—I see them in the airports, and I ask every one of them that are private contractors that are going back to Afghanistan, and I stop and I talk to them. I introduce myself. Were most of you previous military? Yes. Would you have stayed in the military if not for the large paychecks that you might be able to get from the contractors? Yes, we would have if this option wasn't there.

So I can't figure this one out. Then it'll dovetail into the whole thing I'm going to talk to, which I know everybody's talked about: How do we best use our National Guard? We're all extremely proud, but I can give you examples of how we say—but first of all, the purpose of contracting. Can't we cut the amount of contractors that we have that are doing the same jobs as military without facing political ramifications of you're cutting the military? I'm not going to vote to cut the military, but I will cut the contractors, sir.

Secretary PANETTA. Senator, this is an area that we're paying attention to in the efficiencies that we're looking at, which are going to be about \$60 billion. This is one of the areas that we are looking at, contract services, number of contracts that are provided, in order to determine where we can achieve savings.

And any ideas you have, recommendations along these lines, we're more than happy to listen to. This is a big job, going after \$487 billion in savings. So I'm willing to look at any area necessary.

Senator MANCHIN. Well, I'm just—Secretary, there was a report—I want to make sure of this—that \$12 million a day for the past ten years in Iraq and Afghanistan has been wasted, misspent, whatever, by contractors. I think that report was given to you, too. So there's many areas.

But I'm just saying, wherever a uniformed person can do it, why—I know we're cutting 100,000 troops. That concerns me. If anything, I'd rather cut 200,000 contractors and keep the 100,000 uniforms and use the support of our National Guard.

I will say this, that they touched on the veterans, all of us. I can't—to me, in the private sector you do the best job of providing the training for a military person, their discipline, their ability to come out and they can do it. Why is our unemployment so high, and what are we doing wrong? And maybe not—we started a caucus, I started it with Senator Kirk, and it's "Hire a Vet." I've got two vets in my office and we're looking for more good vets. We always do.

How do we do this to prepare to get them back in? I know that the Senator from New York touched on that quickly.

Secretary PANETTA. I think, and I'll let the General expand upon this, but we really are—look, part of the problem is the economy, the overall economy. These kids are coming back and they go back home, and most of these local economies are having tough economic times, and you suddenly pour some of these young men and women back into their communities and there aren't jobs for the people

that are there, much less for these young people that are coming back.

Having said that, we really have had some impressive efforts by the private sector, because of the reasons you suggested. These are kids who are disciplined. They usually have a capability and a talent that is extraordinary that can be used. And most of the private sector people I talk to really want to have these kinds of individuals as part of their work force.

More and more of these individuals are now coming forward. We've set up a web site where we list the jobs that are available in the private sector. More of these private sector individuals are committing themselves to hire our vets as they come back. So there is an important effort going forward, but a lot of it obviously depends on an economy that has to recover as well.

Senator MANCHIN. I think, first of all, I want to commend all of you for working with our office so close on this new caucus. We just started it, "Hire a Vet." We would like to even expand on that with you. If we would know who's cycling out and what skill sets, so we could network better, we think there's ways that we could improve on this and work together. So I appreciate that and we'll be very close.

General Dempsey, my final question would be to you. I talked about the National Guard. In West Virginia we've been very, very blessed by having a highly rated National Guard, one of the best in the Nation. A lot of people get a lot of good training, and I'm so proud of them. We saved the DOD \$27 million this year alone, and I'll give where we did it. If these small town facilities were fully tasked, DOD would save nearly—if we could do that, we think we could save \$250 million a year.

We're talking about things that basically is refurbishing generators, the Humvees, tents, tire assemblies. These are things that we have been able to do at tremendous cost savings, and I'm sure other Guards are doing them also. Is there a way that we can network more of that to use our Guard? We've proven that the savings in just a couple of our little facilities was quite substantial, and I don't know how we can expand on that.

General DEMPSEY. I don't either, sitting here today with you, Senator. But certainly we all, to include the service chiefs, who really are the leaders of their particular Guard—you're going to have General—I'm not throwing him under the bus here, but you're going to have General Odierno here later in the week, and I think he would be eager to understand that and see if we can take advantage of it.

Clearly, anything we can do to in-source, and I mean active, Guard, and Reserve—is effort well spent.

Senator MANCHIN. Yes. The other thing, it gives the training to the person we're trying to cycle back into the private sector, so it has a twofold purpose.

I think you all realize the sensitivity of what we're dealing with here, trying to make sure that we give you what is needed to keep this you safe and free. On the other hand, the responsibility, when Mike, when General Mullen said our greatest threat is basically our own finances. So we're taking all that serious. We need your help, and we think contracting—if we can downsize the contracting,

reinforce the military and people in uniform, I think you'll have us all on both sides. You might be able to bridge the gap that we can't bridge.

Secretary PANETTA. Senator, if I could just comment. Look, I think the Defense Department has stepped up to the plate. What we've proposed here is real, it's well thought out. We've done a strategy to back up our decisions. And that, all of that's contained in our recommendations.

But I really would urge you and others to engage in the broader discussion that has to take place with regards to how we reduce the deficit. That has to include a number of areas that, unfortunately, have not been on the table, that have to be on the table if we're ever going to confront the debt crisis that faces this country. This can't just fall on the backs of defense. It's got to be—other areas have to be considered if we're going to be able to effectively reduce the deficit.

Senator MANCHIN. There's a group of us in a bipartisan effort that are looking at ways that—and we know it takes everything, getting the money that we're not receiving now that should be paid in revenues, and also make sure we get fraud, waste, and abuse, and run more efficiently. So I think you're going to find quite a few of us on both sides willing to meet with you, sir.

Thank you so much. I appreciate all your service.

Chairman LEVIN. Thank you, Senator Manchin. As I mentioned before, I hope all of us will take a look at the proposals in the budget in front of us to raise additional \$3 trillion for deficit reduction. It's in the budget that came in yesterday, but it seems a lot of us are unaware of that. Half of that is revenue increases. Upper income tax increases, restoring their bracket, the millionaires tax, a number of other revenue measures, are in this request. And I was kind of surprised that so many of our colleagues here today talking about the need for deficit reduction and the importance of avoiding sequestration—which I think, by the way, is a bipartisan goal—were unaware of the fact, because I don't think the administration, frankly, has done a good job of focusing on what's in their own budget in terms of deficit reduction. It meets the 1.5 or \$1.2 trillion goal.

Senator MANCHIN. Mr. Chairman, we've had this discussion and we can raise the revenues without raising taxes, by closing the loopholes—

Chairman LEVIN. Exactly right.

Senator MANCHIN.—changing our corporate laws, changing and making sure there's a fairness. If the American people think that we're putting fairness to the system, I'll guarantee you they're behind us 1,000 percent.

Chairman LEVIN. They are. And it's amazing, when you look at public opinion polls they say that we have to include revenues in deficit reduction. We can do it without raising taxes on middle income Americans.

Senator MANCHIN. And we can cut spending, too, sir.

Chairman LEVIN. And we can cut spending, too. The balance in this budget that has been given to us yesterday is about 50 percent additional cuts and about 50 percent additional revenues. But frankly, I don't think the administration in its rollout yesterday fo-

cused on the fact that this would avoid sequestration. This budget, if we adopted it, avoids sequestration. It does it because finally they're talking about additional revenues.

Now, they've talked about it in the administration, but now they've put it in their budget. We had Republican colleagues today talking about avoiding sequestration, and when I pointed out this budget that was given to us avoids sequestration because there's additional revenues in it, what they were saying is, well, they hope they can vote on it. Well, my answer to that is we also ought to have a Republican alternative, if there is one, so we can see exactly what the options are in that regard.

So we've had silence on the revenue side from our Republican colleagues, and it's that silence which needs to be corrected by the administration, frankly. And I would hope that there would be greater focus on what's in the budget relative to the revenues which will help us avoid sequestration. We all want to avoid sequestration.

And I think that you are interested in having a bite to eat. We thank you very, very much. We thank your staffs, and we will stand adjourned.

[Whereupon, at 1:50 p.m., the committee adjourned.]