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Senate Budget Committee Holds Hearing on President Obama's Fiscal 2013 Budget Proposal for the Defense Department

[LIST OF PANEL MEMBERS AND WITNESSES](#)

CONRAD:

I want to welcome everyone to the Senate Budget Committee. Today's hearing will examine the president's defense budget request. Our witnesses today are the secretary of defense, Leon Panetta; General Martin Dempsey, the chairman of the Joint Chiefs of Staff. Also joining them at the witness table is the undersecretary and comptroller of the Department of Defense, Robert Hale.

I want to particularly thank Secretary Panetta for being here today. It's been some time since the secretary of defense has appeared before the Senate Budget Committee. As a former OMB director and a former House Budget Committee chairman, Secretary Panetta understands the important role of the Budget Committee, and we especially appreciate his willingness to appear here today.

Secretary Panetta gave me a commitment that he'd come, and I very much appreciate his keeping that promise. We look forward to his testimony, as well as that of General Dempsey and Comptroller Hale.

We also very much understand the time constraints that you are under. We recognize that you have many issues on your plate, especially with what is happening in Syria and Iran and the Middle East, and of course North Korea and China and Russia, and on and on it goes.

So we do recognize the heavy burden that's on your shoulder, and we will keep our commitment to get you out of here as expeditiously as possible.

I want to begin by highlighting the budget crisis facing the country. Despite the progress in the last summer's Budget Control Act, we remain on what is fundamentally an unsustainable course. Admiral Mullen, General Dempsey's predecessor as chairman of the Joint Chiefs of Staff, described the national debt as our biggest national security threat.

I understand General Dempsey may not share that exact assessment, but I think nonetheless recognizes this is a key challenge facing the country.

CONRAD:

We simply will not be able to remain a global superpower if we fail to stop the explosion of debt. And we're now at a debt, gross debt, 100 percent of GDP.

What is of even greater concern is where we are headed, because Congressional Budget Office tells us if we stay on our current course we're headed for a debt well over 230 percent of GDP.

Under CBO's alternative fiscal scenario, gross federal debt will reach 103 percent of GDP this year, well above the 90 percent threshold that many economists believe as the beginning of the danger zone. And it will continue rising to 120 percent by 2022 and well beyond that in the years beyond 2022.

The reality is that defense spending, both in core defense budget -- in the core defense budget and in war costs has grown dramatically and has been a factor in contributing to recent deficits.

In 1997, we spent \$254 billion on the Department of Defense. In 2012, when we include war costs, we'll spend about \$645 billion on the department, which is down slightly from the peak in 2010.

All of the decline from 2010 to 2012 came from a reduction in war costs. The core Department of Defense budget has been about flat since 2010, but remain at a very high level.

If we compare recent overall defense spending and budget function 050 to recent non-defense discretionary spending, we can see that overall defense funding has remained at about \$554 billion since 2010, not including war costs, while non-defense funding has fallen from \$540 billion to \$489 billion in 2012.

So of the discretionary pot, basically defense is level, non- defense down slightly.

Looking forward, the president is proposing a small reduction in Department of Defense funding in 2013, bringing it down from \$530 billion in 2012 to \$525 billion in 2013.

Over the next 10 years the president's Department of Defense request would roughly match the level set in the Budget Control Act, not including the sequester.

As we can see from the blue line on this chart, the president's request would provide a steady increase in the defense budget from 2013 on.

The red line on this chart shows what would happen to Department of Defense funding if the sequester were implemented. We would see a much steeper drop in 2013, but then steady growth after that.

I believe the steep drop in 2013 required by a sequester would be a mistake. But I also believe further reductions beyond the Budget Control Act levels must be considered.

The green line represents the proposed Department of Defense funding under the so-called Simpson-Bowles plan, which would provide a smaller drop in 2013 than the sequester but slower growth in funding after that.

Obviously, all of these have to be reviewed in light of the defense threat that we face at the time decisions are made. All of us understand budgets are taken at a point in time, and we all understand that there are threats facing this country that are unpredictable.

As I noted, war costs have started to come down; overall war funding dropped from \$159 billion in 2011 to \$115 billion in 2012. The president's budget provides \$86 billion in 2012 for war costs, and then includes a plug number of \$44 billion a year for the remainder of the 10 years.

This next chart puts our defense spending in a historical perspective. We can see that even with the drop in war costs included in the president's budget, defense spending would remain very high by historical standards, near the peaks of the Korean War, the Vietnam war and the Reagan defense buildup during the Cold War.

Defense spending came more dramatically following those conflict periods. Now, we all understand none of these periods can just be easily compared, because we face a different threat environment now than we faced after those conflicts.

I want to conclude with a quote from the former defense secretary Robert Gates. In an interview on CBS's "60 Minutes" last year he said this: "The budget of the Pentagon almost doubled during the last decade, but our capabilities didn't particularly expand. A lot of that money went into infrastructure and overhead and, frankly, I think a culture that had an open checkbook."

Well, we can't afford an open checkbook anymore. I recognize the administration has already taken steps to eliminate some inefficiencies in the Defense Department and to end some unnecessary or wasteful programs, and we applaud that. But we know that we're going to have to do more.

I have always been a very strong supporter of defense spending because I believe providing for the national defense is the government's core responsibility. And make no mistake, Congress will continue to provide our troops everything they need to complete the missions that they are assigned and to keep them safe.

And we have to of course recognize that we still face very serious potential new threats. I mentioned some earlier. I want to focus on Iran, Syria, the Middle East, Pakistan. These are all of deep concern to members of this committee. I know they're of deep concern to you, Secretary Panetta, and your entire defense team.

But given the fiscal crisis that we confront, we're going to have to find more savings in the core defense budget. We can't rely solely on declining war costs for savings, and we need to ensure that every dollar going to defense is essential to promoting the country's national security.

With that, we'll turn to Senator Sessions for his opening statement, then we'll go directly to the secretary for his remarks, and then we'll open it to questions.

SESSIONS:

Thank you, Mr. Chairman.

Secretary Panetta, we're honored to have you with us today.

And, General Dempsey, it's a pleasure to see you again. I had the opportunity and honor to visit you in -- as you were deployed in Iraq on more than one occasion and to work with you in your new position here.

Mr. Hale, we're delighted to have you.

America is blessed with the greatest military the world has ever seen. We must ensure that it remain so. I know you're honored, Mr. Secretary, to lead such a magnificent force.

Defense is a core function of government, and the continued dominance of our military deters threats and encourages peaceful resolution of conflicts.

I fear, however, that the budget hearings today may not be a good use of your time. The Senate Democratic leadership is refusing for the third straight year to bring a budget plan to the floor. Has the Democratic majority forgotten the warning that Admiral Mullen gave us, our former chairman of the Joint Chiefs, who told us that the debt is the greatest threat to our national security?

How will we be able to defend this country when we're broke? General Dempsey, the sequester I know you feel is too draconian on the Defense Department. I agree. But it's a direct result of unsustained debt, and it does threaten our national security if we don't break that cycle.

America leads the Western world in per-person government debt. Amazing. At \$44,000 for every man, woman and child, America's per capita government debt is worst than Greece. But the president has submitted a budget plan that will continue the unsustainable course and increase our gross federal debt by another 75 percent over the next 10 years, from about \$15 trillion to \$26 trillion in 2022.

The president's budget also raises taxes by almost \$2 trillion, not -- those taxes not to reduce the deficit, but to pay for a \$1.6 trillion spending increase above that that we just projected above what we reduced spending just a few months ago.

In other words, he is spending \$1.6 trillion more than the levels we agreed to in the August debt deal.

Almost as shocking is the administration's unwillingness to tell the truth about our situation to the country. I sent a letter to the president's budget chief, Jeffrey Zients, asking him once again whether their budget plan increases spending relative to current law, a very simple question. I received the response last night that once again refused to answer this simple fact, this simple matter.

If the administration thinks they can sweep this under the rug they're wrong. Congress and the White House committed \$2.1 trillion in spending reductions, about a 3 percent reduction in the expected growth, not a reduction in spending, but a reduction in expected growth over the next 10 years, resulting in a \$45.5 trillion spending through 2022, total spending. This is the new ceiling on how much we can spend and the starting point for much needed reductions.

Now, after just a few months, the president is proposing abandoning even those small cuts. This doesn't mean we should not reorganize where the initial \$2.1 trillion in cuts falls. Under the Budget Control Act the defense spending, one-sixth of the budget, defense spending is, we will experience a 20 percent reduction in real dollars over 10 years.

If this sequester stays in real adjusted for inflation dollars, Defense Department will take a 20 percent reduction over the president's budget over 10 years. Non-defense spending, the other five-sixth of the budget, will experience a 50 percent real dollar increase over that same 10-year period.

So it is critical that we reorganize the Budget Control Act, but also we must not reduce the size of the total cut we promised the country just a few months ago, thereby increasing spending over the modest reduction that was agreed to.

SESSIONS:

Instead we should be taking thoughtful actions to place this nation on a sound fiscal path. The first step in the process is to dispense with some common myths about the defense budget. Senator Conrad made some points and they provide insight. I'd like to provide some points I think also provide insight into where we are.

Myth one, that defense spending is at an all-time high. The truth, during the war on terror, it's averaged about 4 percent of GDP, around half the post-World War II average. Fifty years ago, national defense made up 48 percent of the budget, while entitlement spending accounted for 26 percent. Next year, entitlements -- entitlements will be 60 percent and defense will amount to 19 percent of the total budget.

Myth two, we can balance the budget on -- by steep cuts to the Pentagon. The truth, over time, entitlement obligations will consume an ever-larger share of federal spending. In 2030, amazingly -- this is just eight years outside our budget window -- in 2030, entitlement obligations will be as much as six-times greater than defense spending, rising from there. Even eliminating defense in its entirety would not come close to balancing the budget, if you eliminated it entirely.

Myth three, defense spending has seen the fastest growth of any item in our budget. The truth, while the Pentagon's base budget has increased 10 percent since 2008, three years, it's increased 3 percent a year, non-defense discretionary spending increased 24 percent, not counting the stimulus, during just the first two years of President Obama's presidency. So the cuts that showed in the non-defense discretionary are impacted as part of the Budget Control Act agreement that are projected out there, but it's from accelerated levels of spending that's surged.

Over the last three years, Medicaid has increased 37 percent, while the Defense Department has increased 10 percent. Spending at the Department of Education grew 70 percent over 2009 through 2011, compared to the previous three years of education spending. Food stamps have seen a 300 percent increase since 2001.

Myth four, the wars in Iraq and Afghanistan have been leading contributors to the deficit. While the war on terrorism has imposed substantial costs, this year's deficit alone -- \$1.3 trillion -- equals the entire cost of the wars in Afghanistan and Iraq. War spending represents only 4 percent of the total government outlay in the last 10 years.

So I share these numbers because it's essential that Washington engage in facts-based -- facts-based budgeting. Every department, agency, every part of government will have to experience reductions, including defense. I know you're working on that now and it's a very important priority for you and for the United States Congress. But these decisions should be guided by an honest assessment of facts, and the fact is that the only thing the president seems willing to cut significantly is defense.

The rest of the budget will continue to surge out of control. And by the year 2030, nearly every penny of revenue the government receives will go to the entitlement and interest payments, leaving no money outstanding for defense, education, highway and other matters.

So we should chart a different course; control the growth of government, and empower the private sector, and maintain a strong, cost-effective national defense. If we do this, we will create growth, good-paying jobs, reduce surging health care and energy costs, and pass a better future to our children.

Thank you, gentlemen, for your service to your country, and I look forward to an important discussion today.

CONRAD:

Let me just say in the interest of I think providing balance, I agree with many of Senator Sessions' observations. I think that was very useful going through some of the things that people think about defense spending and providing an additional perspective. I think that was very useful.

But I think we should also remind ourselves the Budget Control Act passed Congress. We all voted for it to have almost \$500 billion of savings out of defense. That was passed in the Budget Control Act. I understand some did not vote for it, but the fact is the vast majority of the Senate did -- 74 votes in the Senate for that. The House passed it; signed by the president.

The Budget Control Act also provided for special powers to the special committee to deal with entitlements, to deal with revenue. They did not succeed. So that leaves us with the sequester which was also passed as part of the Budget Control Act that says we've got to cut an additional, General Dempsey tells me, \$535 billion or roughly that amount, over the next 10 years on top of the other almost \$500 billion of savings out of defense.

The other thing I think we should remind ourselves is when we talk about cuts in Washington, cuts relate to a baseline. I think this is sort of the point that you were -- part of the point you were getting at, Senator Sessions. Cuts relate to a baseline. A baseline is inflated by historic experience.

And so, you know, I think most people when they think about cuts think that you're going to get less money than you got the year before. Other than this next year, what we're seeing is increases are being slowed -- increases in spending being slowed, rather than actually getting less money than you got the year before. Now, in the case of defense for the next year, we actually do see a \$5 billion reduction in the president's proposal -- \$5 billion less than they got the previous year.

So with that, Mr. Secretary, welcome back to the budget wars. I know you spent a lot of time in this room. I've spent a lot of time in this room. I don't think anybody's given more distinguished service to this country in so many different roles than have you. I think you were outstanding as the chairman of the House Budget Committee. You were outstanding at the Office of Management and Budget.

You were outstanding as the president's chief of staff -- President Clinton; played a key role in getting us to balanced budgets in those days. The last time we've had any balanced budgets around here was when you were at the helm and I was a very willing ally in your efforts. Then at the CIA, where you did really such an outstanding job, and now here.

We've got a lot of confidence in you, but we also know you've got tremendous challenges facing you, and please proceed.

SESSIONS:

Mr. Chairman, just, if you -- I -- I think you gave a nice summary of -- of what the situation is that we're facing. The Defense Department is looking at almost \$500 billion in cuts. They're working hard to achieve that. They said -- saluted "yes, sir, we're going to do this." And that would put you in the leading part of the entire government in reducing spending.

However, the sequester -- language that was put in at the last minute without any real debate, driven by the president, I guess -- the Democratic negotiators added another \$500 billion in cuts, as you noted, to it. It's that cut that I think that is risky, and I believe the secretary believes would be devastating, as he said, to the defense budget.

And what I would say is we agreed to the cuts. There was really no debate about where they would occur. I just truly believe that we shouldn't give those up and say just because they can't be placed additionally on the Defense Department, that the remaining five-sixths of the government, much -- about half of it totally protected from any cuts. I do think we need to look at maintaining the level of spending we agreed to in the Budget Control Act and not back away from that.

So that -- maybe we're in agreement, maybe we're not, but I see that as the challenge we face today.

CONRAD:

You know, I think, Senator Sessions, you and I, we may not be in agreement exactly how to accomplish it, but I think we're very much in agreement that we've got to maintain that level of savings. We've got to find that level of savings.

All right. Mr. Secretary, please proceed.

PANETTA:

Mr. Chairman, Senator Sessions, members of the committee, I want to thank you for the opportunity to have a chance to appear before you to discuss the president's budget request for fiscal year 2013 for the Department of Defense.

As pointed out, as a former chairman of the House Budget Committee and a former OMB director, I have a very deep appreciation for the important role that is played by this committee, having -- having spent a lot of time in this room on budget conferences over the years. And your basic role is to try to achieve fiscal discipline and help set the government's overall spending priorities.

As you know, and as you pointed out, Mr. Chairman, I had the honor of working on most of the budget summits and proposals during the '80s and '90s that ultimately helped produce a balanced federal budget. Believe me, I know first-hand what a very tough and critical job you have, particularly given the size of the deficits that unfortunately face our country again.

It is no surprise that there is a vigorous debate in Washington about what steps should be taken to try to confront these challenges. We went through many of the same debates in the '80s and the '90s. Thankfully, the leadership of both parties were willing to make the very difficult decisions that had to be made in order to reduce the deficit.

Today, you face the same difficult choices. And while I understand the differences, there should be consensus on one thing, that the leaders of both the legislative and executive branches of government have a duty to protect both our national and fiscal security. I know that as elected members of the Congress, particularly the members of this committee, you take that duty seriously, as I do as secretary of defense.

I do not believe -- I fundamentally do not believe that we have to choose between fiscal discipline and national security. I believe we can maintain the strongest military in the world and be part of a comprehensive solution to deficit reduction. The defense budget that we present to the Congress and to the nation seeks to achieve those goals.

PANETTA:

The F.Y. 2013 budget request for the Department of Defense was the product of a very intensive strategy review conducted by senior military and civilian leaders of the department under the advice and guidance of the president. The reasons for this review are clear.

First, we are at a strategic turning point after a decade of war and after substantial growth in defense budgets. And second, Congress did pass the Budget Control Act of 2011 imposing spending limits that reduce the defense base budget by \$487 billion over the next decade.

We made the decision that the fiscal situation that was presented to us also gave us the opportunity to establish a new defense strategy for the future. We developed the strategic guidance before making any budget decisions to make sure that budget choices reflected the new strategy. We were driven by strategy, not simply by budget reductions.

We agreed that we are at a key inflection point. The military mission in Iraq has ended. We are still in a very tough fight in Afghanistan, but 2011 did mark significant progress in trying to reduce violence and transitioning to an Afghan-led responsibility. And we and our NATO allies have made a strong commitment to continue this transition through the end of 2014.

Last year, there were successful NATO operations that led to the fall of Gadhafi, and we have had very targeted counterterrorism efforts that significantly weakened Al Qaida and decimated its leadership.

But even though we have had these successes, unlike past drawdowns where threats receded, we still face an array of security challenges. The chairman referred to a number of those. We are still at war in Afghanistan. We still confront terrorism, if not in the FATA, in Somalia, in Yemen, in North Africa and elsewhere.

There's still a proliferation of weapons of mass destruction in the world. Iran and North Korea continue to undermine stability in the world.

There is continuing turmoil in the Middle East. Any one of those events in the Middle East could be thrust upon us in the future.

There are rising powers in Asia and growing concerns about cyber intrusion and attacks.

We must meet these challenges, we must meet these threats if we are to protect the American people.

And at the same time, as we try to protect the American people, we have a responsibility to fiscal discipline. This is not an easy task.

We made the decision that we didn't want to repeat the mistakes of the past. We've gone through drawdowns in the past in the defense budget. We decided to be guided by these guidelines. Number one, we wanted to maintain the strongest military in the world. Number two, we did not want to hollow out the force, and in the past, when defense cuts were made across the board, in effect what you did was you weakened every area of defense, and that's what resulted in hollowing out the force.

To not have that happen we have to take a balanced approach to budget cuts and look at every area in the defense budget and put everything on the table.

And lastly, of course, we didn't want to break faith with the troops and their families, those that have had to be deployed time and time and time again over 10 years of war.

The president's budget requests \$525.4 billion in F.Y. '13 for our base budget and \$88.5 billion to support the war efforts. In order to be consistent with Title 1 of the Budget Control Act, our budget request had to be roughly \$45 billion less than we had anticipated under last year's budget plan.

Over the next years, defense spending will be \$259 billion less than planned for -- that we had in the F.Y. '12 budget, a difference of nearly 9 percent. And over 10 years, starting in F.Y. '12, it will be reduced by \$487 billion.

To meet these new budget targets and our national security responsibilities we had to fundamentally reshape our defense spending priorities based on a new strategy. The Department of Defense has stepped up to the plate to meet its responsibilities under the Budget Control Act.

But with these record deficits no budget can be balanced on the back of defense spending alone. For that matter, no budget can be balanced on the back of discretionary spending alone.

Based on my own budget experience, I strongly believe that all areas of the federal budget must be put on the table, not just discretionary, but mandatory spending and revenues. That's the responsible way to reduce deficits and the responsible way to avoid sequester provisions constrained in Title 3 of the Budget Control Act.

The sequester meat ax, as pointed out, would cut another roughly \$500 billion over the next nine years. These cuts would in fact hollow out the force and inflict severe damage to our national defense.

The president's budget does put forward a plan to try to avert sequestration and reduce deficits by \$4.3 trillion over the next decade. Whether you agree or disagree with these proposals, I encourage this committee to look closely at the president's approach and to hopefully adopt a large, balanced package of savings that de- trigger sequestration, reduce the deficit and maintain the strongest national defense in the world.

The \$487 billion in 10-year savings that we have proposed come from four areas of the defense budget: efficiencies, force structure reduction, procurement adjustments and compensation. Let me, if I can, summarize each of those areas.

First of all, efficiencies, more disciplined use of defense dollars. On top of \$150 billion in efficiencies that were proposed by my predecessor as part of the F.Y. '12 budget, we added another \$60 billion,

primarily from streamlining support functions, consolidating I.T. enterprises, re-phasing military construction programs, consolidating inventory and reducing service support contractors.

As we reduce force structure, something that Secretary Gates pointed out has increased as a result of large budgets over the last 10 years, we have a responsibility to provide the most cost-efficient support for the force that we're going to need.

For that reason, the president will request the Congress to authorize the base realignment and closure process for 2013 and 2015.

Now, look, as somebody who's been through the BRAC process, and I had it happen in my district in California, we lost Ford Ord, the Ford Ord reservation, which constituted 25 percent of our local economy. So I've been through BRAC. I know what -- what it -- what it means and the impact it has on people, as well as your local communities.

At the same time, I don't know of any other effective way to achieve infrastructure savings in the long term, and that's the reason we ask you to consider that.

Achieving audit readiness is another key initiative that will help the department achieve greater discipline in the use of defense dollars. As you know, I've directed the department to achieve audit readiness by the end of calendar year 2014.

But efficiencies are not enough to achieve the necessary savings that were mandated. Budget reductions of this magnitude require significant adjustments to force structure, to procurement investments, and, yes, to compensation. The choices we made reflected five key elements of the defense strategic guidance that we developed at the department, with the support of the service chiefs, the undersecretaries and the secretaries.

Let me describe the key elements of that strategy and the decisions that followed, some of the decisions.

One, the force of the future will be smaller and it will be leaner. That's a fact. But at the same time, it should be agile, it should be flexible, it should be ready, and it should be technologically advanced.

We knew coming out of these wars that the military would be smaller, we would be doing a drawdown in the military. But in order to ensure an agile force, we made a conscious choice not to maintain more force structure than we could afford to properly train and properly equip.

We are implementing force structure reductions consistent with the new strategic guidance for a total savings of about \$50 billion over the next five years. We're gradually re-sizing the active Army, going from 562,000 to 490,000 by 2017. That's a level that's slightly higher than where we were prior to 9/11.

We're doing the same thing with the Marine Corps, going from 202,000 to 182,000 Marines by 2017.

We're reducing and streamlining the Air Force's air lift fleet. In addition, the Air Force will eliminate seven tactical air squadron but retain a robust force of about 54 combat fighter squadrons and enough to obviously maintain air superiority and strategic air lift that we need.

The Navy, while it will maintain and protect some of our highest priority and most flexible ships, it will retire seven lower priority Navy cruisers that have been -- that have not been upgraded with ballistic missile defense capability.

The second area in our strategy was that we wanted to rebalance our global posture to focus on emphasizing Asia-Pacific and the Middle East. Those are the two areas where obviously we could confront challenges in the future.

The strategic guidance made clear that we have to do everything to project power in the Pacific -- in the Asia-Pacific region and in the Middle East.

So to this end the budget does maintain our current bomber fleet, it maintains our aircraft carrier fleet, it maintains the big deck amphibious fleet that we need, and we do enhance our Army and Marine Corps force structure presence both in the Pacific as well as in the Middle East.

Thirdly, we have to deal with our responsibilities elsewhere in the world as well. So to do that we recommend building innovative partnerships and strengthening key alliances and partnerships in Europe, in Latin America and in Africa.

This strategy makes clear that even though Asia-Pacific and the Middle East represent areas of growing strategic priority, the United States must work to strengthen its key alliances, to build partnerships.

And one of the things we are doing and recommending is the development of innovative ways to have rotational deployments by the Army, by the Marines, by special operations to sustain a U.S. presence elsewhere in the world.

PANETTA:

Fourthly, we wanted to ensure, as we must, that we can confront and defeat aggression from any adversary, anytime, anywhere.

This fourth area means that we have to have the capability to defeat more than one enemy at a time. In the 21st century, we have to recognize that our adversaries are going to come at us using 21st-century technology. This is the world we live in, and we've got to be able to respond with 21st-century technology as well.

So we must invest in space, in cyberspace, in long-range precision strike capabilities, and in special operations forces to ensure that we can still confront and defeat multiple adversaries even with the force structure reductions that I outlined earlier. Even with some adjustments to force structure, this budget sustains a military that is the strongest in the world, that is capable of quickly and decisively confronting aggression wherever and whenever necessary.

And lastly, our strategy was to protect and prioritize key investments because it can't just be about cuts. It has to be in what do we want to invest in for the future, and our capacity to be able to grow, to adapt and to mobilize. So we've made recommendations to invest in science and technology and basic research and special operations forces and unmanned air systems and in cyber.

At the same time, we recognize that we've got to be able to look at our modernization needs and make decisions about those that can be delayed. This budget identifies about \$75 billion in savings resulting from canceled or restructured programs. They include \$15.1 billion from restructuring the Joint Strike Fighter; \$13.1 billion by stretching investment in the procurement of ships; \$2.5 billion from terminating what we considered one expensive version of the Global Hawk; \$2.3 billion from terminating a redundant weather satellite program.

The key to this strategy is making sure that we -- as we do this, we maintain a very strong Reserve and a strong National Guard. They have been one of the very important factors in our ability to conduct war over the last 10 years. The National Guard and the Reserve have fought right alongside the active duty and they've done a great job. They've gained tremendous experience. I want to be able to maintain that for the future so that we can mobilize quickly if we have to. And I also want to maintain a strong and flexible industrial base.

Finally, the most fundamental element of our strategy and our decision-making process is not our technology or our weapon systems or our force structure. It is our people. They, far more than any weapon system or technology, are the great strength of our military. We're determined to sustain the programs that help our families, that help the troops, that help our wounded warriors and that meet their needs.

And yet, to build the force needed to defend this country under existing budget constraints, cost growth in military pay and benefits has to be put on a sustainable course. That part of the defense budget, by the way, has grown by nearly 90 percent since 2001. So for that reason, we felt an obligation to look at how could we control costs in this area.

Well, on military pay, there are no pay cuts and we will provide pay raises these next two years. We will try to limit those pay raises in the out-years. We've also looked at ways to try to increase fees to pay for TRICARE costs. Health care in the military is costing me close to \$50 billion right now. There have to be ways to try to control those costs as well.

And as you know, we've recommended a retirement commission to look at that area for savings, although we do want to grandfather those that are serving so that they don't lose the retirement benefits that were promised to them.

So that in summary is the package. This has not been easy. This is a tough process. And obviously, we need your support to -- to review the proposals we've made and to give us your best guidance as well. I'm a believer, as someone who comes from the Congress, that we need your partnership in order to try to implement this strategy.

And as you know, this committee in particular, this is a zero-sum game. If you're going to restore cuts, you've got to find places to cut it. And there is a very narrow margin here for -- for mistakes. If you're going to restore funding in one area, then you've got to cut more in force structure. If you're going to restore compensation, you've got to cut more in weapons systems. That -- that's the process we went through.

Also, make no mistake, there is no way I can reduce the defense budget by a half-trillion dollars and not have it impact on all 50 states. That's a reality. In addition to that, I can't reduce the budget by a half-trillion dollars, and frankly, not increase risk. Bottom line is we think these are acceptable risks, but there are risks. We are going to have a smaller force. We are going to depend on mobilization. We're going to depend on the development of new technologies. We've got to meet the needs of troops as they return home to find jobs, to find support systems in their communities.

So as I said, there is no margin for error here. But Congress mandated, as has been pointed out, on a bipartisan basis, that we reduce the defense budget by \$487 billion and that is what we have done. In many ways, this is going to be a test. Everybody talks a good game about deficit reduction. Everybody talks about cutting costs. This is a test of whether or not this is about talk or about action, and whether or not we do this right, or whether we walk away from that responsibility.

Mr. Chairman and members of the committee, as a former member and chairman of the Budget Committee, this committee must never cease being the conscience of the Congress when it comes to fiscal responsibility and doing what's right for this nation. I look forward to working with all of you closely in the months ahead to do what the American people expect of their leaders, to be fiscally responsible in developing the force of the future, a force that can defend the country, a force that will support our men and women in uniform, but more importantly, a force that is and always will be the strongest military in the world.

Thank you, Mr. Chairman.

CONRAD:

Thank you, Mr. Secretary.

I understand, General Dempsey, that you have a statement. We would welcome you to make that at this point, and then we'll go to questions.

First of all, I want to thank you, General Dempsey, for your service. It is distinguished service. I very much appreciated the visit you paid to me several weeks ago. I think that was about as frank and forthcoming a discussion as could be had. And that's what has to happen. We are all going to have to be part of a solution if we're going to actually produce one.

So welcome, General Dempsey, and please proceed.

DEMPSEY:

Thank you, Chairman Conrad and Senator Sessions. And I assure you it's a great honor to put the uniform of our nation on every -- every day. And I do commit to you to continue to have those frank conversations as we collectively try to do what's right for our nation.

This budget represents a responsible investment in our nation's security. It strikes a purposeful balance between succeeding in today's conflicts and preparing for tomorrow's. It also keeps faith with the nation and with the source of our military's greatest strength which, as you heard Secretary Panetta say moments ago, are America's sons and daughters who serve in uniform.

As we sit there, they're out there well beyond our shores doing everything that our nation asks them to do. In just this past year, our soldiers, sailors, airmen and Marines further crippled our enemies, Al Qaida. They shifted more responsibility onto Afghan shoulders. They protected the Libyan people from near-certain slaughter. They helped Japan recover from a tragic disaster. And they brought to a close more than 20 years of military activities over and in Iraq. And behind the scenes, they defended against cyber- threats, sustained our nuclear deterrent, and partnered globally to prevent conflict.

What's even more remarkable is that they've been doing this for the past 10 years -- one of the -- is the way they've been doing this for the past 10 years during what I think we'd agree has been one of the most searing periods in our nation's military history. They do it with uncommon professionalism and pride. They do it with moral courage, backstopped by unsurpassed skill. And they do it with an -- with the unassailable support of their families. So it really is truly a privilege to serve with each and every one of them.

They are our nation's pride and it's our responsibility to keep faith with them, and I think our budget does that. One way the budget keeps faith is by being strategy-based. Our new defense strategy draws on the lessons of the past 10 years of war. It also acknowledges a new fiscal reality. It anticipates a dangerous and competitive security environment, and it affirms our need for a joint force that is always ready and always dominant.

This budget helps us build just such a military. It restores versatility at an affordable cost. It retains our conventional over-match, while mainlining emerging capabilities like cyber. It puts us on a path for a joint force in the year 2020 that is global and networked, versatile and responsive, and that preserves options for the nation.

We also keep faith by reducing risk. Risk is inherent in all strategies and in all budgets that resource them. In my judgment, the risk here lies not in what we can do, but how much we can do and how often we're asked to do it. This budget helps buy down that risk. It does this in part by preserving a strong reserve component and developing the joint capabilities we need for an uncertain future.

More importantly, this budget continues to invest in our people. It ensures our troops have the best equipment, the best training and the best leadership. To me, this is a nonnegotiable strategic imperative for the nation. It's how we win wars.

In order to do all this, we had to achieve the right balance among force structure, modernization, operations, training, pay and benefits, not just within each service, but overall. So what I want you to know is that this budget is a budget for a joint force, not the aggregate of individual service budgets. Changes not informed by this joint context risk up-ending that balance and could compromise the entire force. And indiscriminate changes such as the cuts looming on the horizon through sequestration would cause self-inflicted and potentially irrevocable wounds to our national security.

DEMPSEY:

Finally, this budget honors our commitments by providing our military family with the compensation and care they deserve. There are no freezes or reductions in pay, as the secretary mentioned. There's no lessening in the quality of health care for active duty members, and in particular for our medically retired and wounded warriors. Family support and child care are safeguarded.

But we can't ignore hard realities. Pay and benefits are now roughly one-third of defense spending. We simply had to act to slow this growth. So pay raises slow over time and retirement reform gets a look, and we adopt modest increases in health care fees for retirees.

We must act now to make our health care system sustainable. If we don't, its very viability will soon come into question.

I know there's concerns about these changes and about others, and believe me, I've heard those concerns. Our troops, our veterans, their families and you have my personal commitment to continue to work on these, to keep looking for ways to be more innovative, affordable and equitable, to make sure we recruit and retain the very best.

In closing, I offer my sincere thanks to this committee and to the entire Congress. Thank you for keeping our military strong, thank you for continuing to take care of our military family, thank you for supporting those who serve, who have served, and, importantly, who will serve. I know you share my pride in them and I look forward to answering your questions.

CONRAD:

Thank you very much for that excellent statement.

And we're going to go to questions. We're going to do five- minute rounds today, given the number of people and given the need for the secretary and the chairman to leave here at an appropriate hour.

First of all, this is a challenge for all of us. We face a circumstance in which we're borrowing 40 cents of every dollar we spend. Our revenue is at or near a 60-year low in terms of share of the economy. Our spending is at our near a 60-year high in terms of a share of our spending. Our gross debt is now 100 percent of our gross domestic product.

These are hard facts. Secretary Panetta, having worked with you before, as I indicated earlier, being an ally in your efforts to get a balanced budget before and the last time we've actually seen success in accomplishing that, you know I think better than almost anyone in this town, maybe almost better than anyone in this country, how really hard it is to get the job done.

What is always interesting to me is how many speeches are given, how many brave statements are made, when the hard choices are made how few people are left at the table, because it's not popular. I mean, the hard reality is doing what has to be done, to reform entitlements, it not popular. To reform the revenue system, that creates its own challenges. And to face up to costs in every part of the federal government, there's a constituency for every dollar. Nobody knows that better than you do.

So let's start with this question. The Budget Control Act asked for \$487 billion of savings over 10 years. That's in the president's budget, that's in train.

The Budget Control Act also called for a sequester if the special committee did not come up with a specified level of savings. The special committee failed. That's the hard reality we're left with. They did not succeed. And so we are left with a sequester which calls on additional savings out of defense of -- I think General Dempsey used the number with me, \$535 billion; our number is slightly different than that, but almost the same.

The question is this now, and we've heard you loud and clear, sequester goes too far. Is there a place in between? And I say this and I know you don't want to negotiate against yourself, I understand that.

I was part of the Simpson-Bowles commission. It had overall savings almost as big as the sequester amount, in addition to the saving -- the other savings in the Budget Control Act.

Other bipartisan commissions in trying to bell this cat have called for similar level of savings. And I understand again, loud and clear, we hear you, that that from your perspective goes too far.

But let me understand, is there no additional savings that can be derived beyond those that are imposed in the first tranche of the Budget Control Act requirements?

PANETTA:

Mr. Chairman, having -- having been through this process a great deal, the \$487 billion, almost \$0.5 trillion, is the largest amount ever included in any budget agreement or summit that I've ever worked on. And it's a -- it's a big number.

And yet I thought it was very important to be able to work with the service chiefs and others to develop a strategy that would be able to implement those savings in a way that would still protect the kind of force we need for the future. And I think we've done that. We've tried to do this in a responsible way.

And I guess what I -- what I need to have in order to make this -- to make this work, frankly, is a degree of stability with regards to the defense budget and as to where we're going over the next 10 years, particularly in light of the threats that we're confronting.

I mean, this is not like the past. We've got some very significant threats that are still out in the world, any one of which could -- could have us immersed in a new conflict, and any one of which demands that we have a presence in the world.

So my view is that what we have presented here is a strong budget, it is fiscally responsible, it sets the right path for the future. If at some point in the future threats reduce, if there are areas of efficiencies that we could gain additional savings, of course we will look at those additional savings.

But for now what we have put in place I think represents an important step that we should stick to.

CONRAD:

All right. Let me just say to you, and I want to be very honest and direct, I don't know how to write a budget that achieves the kind of deficit and debt reduction that we need -- and by the way, I would go further than what the president has presented. I actually would go further than Simpson-Bowles. I tried to convince Simpson-Bowles to do \$6 trillion of deficit reduction because we could balance the budget with that amount. There wasn't support on that commission for going that far.

So I think you know where I'm coming from. I would very much like to achieve a balanced budget at the end of 10 years, given the level of debt that we have.

And I don't know a way to do that without fundamentally reforming entitlements, without fundamentally reforming the tax system and asking those who are the best off among us, who enjoy certain tax preferences, to give them up. And I don't know any way to do it without asking for additional defense savings.

Let me ask this. Before the Simpson-Bowles commission top defense analysts appeared. I asked them about their assessment. One of the things they reminded of us is 51 percent of all federal employees are at the Department of Defense.

And they also reminded us that did not count contractors. When we asked them how many contractors there are, they said, "Well, we can't give you a number." I said, "Well, what's the range?" And they said 1 million to 9 million; 1 million to 9 million.

Can you give us a better assessment today of how many contractors there are at the Department of Defense?

HALE:

Yeah, I'm not sure where the 1 million to 9 million came from, Mr. Chairman.

Our -- we do have limited data on the number of full-time equivalents, but it's more like 300,000 contractor full-time equivalents. I'm not sure where the -- the 1 million to 9 million may be including multiplier effects in the budget. I'm not sure. But that's our -- a rough estimate now.

CONRAD:

Can you tell us, what is the cost per soldier, to maintain a soldier for a year in Afghanistan?

HALE:

Right now about \$850,000 per soldier. And I'd be careful with that number because there are some fixed costs that are built into that number and the decisions you make about those fixed costs are going to affect it. But it's...

CONRAD:

No, we understand that.

I'd just say this to you. When people back home ask me and when I give -- the number I've had previously was \$600,000, so that kind of takes my breath away, when you tell me it's \$850,000. When I tell them \$600,000, it takes their breath away.

Can you help us understand why that cost is so -- you're talking \$850,000 a year per soldier.

HALE:

Let me try. The major component of the extra costs in Afghanistan are higher operating costs for our weapons. When you're in a war you are operating a much higher tempo. That's a good part that's probably 50 percent of the budget. There's some special pays and allowances.

And then there are all these enabler costs. For example, the JIEDDO costs for improvised explosive devices. We have some coalition support payments. All of those are amortized into the

\$850,000. The \$600,000 might be closer to a variable cost if you just looked at (inaudible) operating costs. It's mainly you're operating at a very high tempo in a war zone and we need to support that.

CONRAD:

I think it did -- I think it did reflect a variable cost.

Let me just say, I've gone over the five minutes, but we'll go to Senator Sessions, I just want to conclude this round on my part by saying I think at the end of the day, before we're done -- it is not going to be possible, absent some other things happening, and goodness knows that could happen tomorrow, so we all understand that, but budgets have to be based on what we know at the time we write them -- that we're going to have to have additional savings if we're really going to deal with the debt threat confronting the country.

PANETTA:

Mr. Chairman? Could I -- could I just comment...

CONRAD:

Mr. Secretary?

PANETTA:

... could I just comment on that?

Look, this Congress proposed as part of the Budget Control Act a trillion dollars in savings off the discretionary budget. You can't meet the challenge that you're facing in this country by continuing to go back at discretionary spending. That's less a third of federal spending.

PANETTA:

Now, if you don't -- you know, if you're dealing with the two-thirds that's entitlement spending, if you're not dealing with revenues, and you keep going back to the same place, frankly, you're not going to make it and you're going to hurt this country. You're going to hurt this country's security not only by cutting defense, but, very frankly, by cutting discretionary spending that deals with the quality of life in this country.

CONRAD:

I couldn't agree with you more. I mean, I -- I don't know what could be more clear. And of course, Leon, you understand it because you've actually written budgets around here, as have I.

And it's not possible. We -- in fact, it's almost bizarre, isn't it, what the strategy has been so far. The strategy so far is to go after discretionary spending that is the part of spending that's going down as a share of GDP. And we don't go after the part of spending that's going up as a share of GDP and going up markedly. Those are the entitlements.

We have to be honest with people. And we have to help them understand what are -- what is the place where spending over time is really rising dramatically. It is in the entitlement accounts. And on the revenue side, the fact is the revenue is the lowest it's been in 60 years.

So this is reality talking. I'm glad you gave a dose of it here.

Senator Sessions?

SESSIONS:

Thank you.

Mr. Secretary, thank you, as we wrestle with these challenges.

I would just say that the discretionary spending this country has embarked on, non-defense, has grown substantially. It grew 24 percent in the first two years of the president's tenure, and not counting the stimulus package that was almost \$1 trillion in addition to that. We are over \$1 trillion in the other stimulus we've had since. So we're spending a lot of money there.

I would also note that food stamps is an entitlement. It's increased 300 percent. There's a lot of fraud, abuse and waste in that program. Medicaid increased 37 percent in three years. Defense Department base budget is up 10 percent, while the war costs have been dropping over those years. Medicaid is a huge, growing program; Medicaid, Social Security, Medicare increasing at almost 8 percent a year, whereas our economic growth is projected to be about 3 percent over the next 10 years. That's why we're -- that's unsustainable.

Would you agree, Mr. Panetta, that's an unsustainable path?

PANETTA:

There's a lot of unsustainable paths.

(LAUGHTER)

SESSIONS:

It is an unsustainable path. So I guess what I would say to my colleagues, and I hope that we understand this, that food stamps, Medicare, Medicaid, Social Security were exempted from any cuts under the sequester; not a dime. So the cuts fell dramatically on other discretionary and the defense. And defense hadn't had as much increase prior to these cuts taking place as the other discretionary did.

So I think defense being a core function of government, this is a dangerous path for us to be in. We've got to get off of it.

Mr. Secretary, we talk about the -- the money shortfall. Admiral Mullen has said that threatens our national security inevitably, just as crunching it down. Do you agree that it does threaten our national security?

PANETTA:

I do.

SESSIONS:

With -- with regard to the sequester and the situation we're in, the president's budget calls for almost \$2 trillion in new taxes. As a reality, that's not going to happen. He also basically abandons a sequester and increases spending about \$1.6 trillion over where we were with a sequester in place. So I'm worried that we may not reach a conclusion of this satisfactorily before you face a financial challenge of great significance.

Do you have plans now to deal with the eventuality that perhaps an agreement won't be reached and you might have to go forward with the sequester reductions?

PANETTA:

Senator, we are not -- we are not and we have not made any plans with regards to sequester. The problem is this, that sequester has this kind of meat-axe approach and formula for cuts across the board that, you know, frankly, you can't do a hell of a lot of planning for.

Secondly, it would truly be a disaster. I'd have to take the strategy I just presented to you and throw it out the window if sequester did happen. And for that reason, I just -- I urge the Congress to come together. We will work with you to try to develop some approach that can de-trigger sequester before it happens.

SESSIONS:

I will work with you on that. I believe that's what we have to do. We have multiple threats around the world. I just returned from a trip with Senator McCain, Blumenthal, Graham and Hoeven in Afghanistan, Egypt, Libya, Tunisia, Israel. And you never know when -- what danger will break out next. There's a lot of tension in that area of the world. Then we've got our obligations in the Pacific. That's very significant.

There are just things that a core defense budget, I believe, has to be maintained sufficient to meet the challenges we face. And I do believe that the -- that the remaining five-sixths of the budget, almost half of it not touched at all with any reduction in spending, have got to be -- a little more than half -- that is really just a challenge to us. We just can't balance this budget on the back of the Defense Department.

And if we break faith with those fabulous men and women who've been deployed repeatedly, away from their families, placing their lives at risk -- if they see what we've done is disproportionately targeting them for the wasteful Washington spending that's been going on, we would have broken faith with the best people this country has produced.

And I -- I hope and pray somehow, Mr. Chairman, we can work this out. I know you share those concerns.

CONRAD:

Thank you.

Senator Sanders?

SANDERS:

Thank you, Mr. Chairman.

Mr. Secretary and General Dempsey and Mr. Hale, thanks very much for being with us today.

I'm going to pick up on a slightly different tangent than my friend from Alabama, and suggest to you that everybody understands that our country faces huge economic challenges. Our middle class is collapsing. We have more people living in poverty than probably anytime in the modern history of this country, which is one of the reasons that Medicaid is up; one of the reasons that food stamps are up. We've got 50 million people who have no health insurance and millions of families are struggling to send their kids to college or to pay for childcare.

So how we deal with every aspect of the budget, including the military, impacts on every other.

Now, the reality is, as I understand it, and somebody correct me if I'm wrong, military spending has tripled since 1997 -- tripled; not exactly ignoring the military. And we now spend more on defense, as I understand it, than the rest of the world combined.

I want to start of by asking you, Mr. Secretary, is my understanding is that the United States still operates 268 military installations in Germany and 124 in Japan. Now, in Germany people all have health care. In Germany, their kids go to college without having to pay for it, as a matter of fact. So I'm kind of interested to know why we have 268 military bases defending Germany. I thought that was won a few years ago. Can somebody help me out on that one?

PANETTA:

Well, I will also yield to General Dempsey on this. First of all, that 268 number sounds very high. We cut almost 140 bases out of Europe over the last few years. And as a result of bringing down two additional brigades out of Europe, we will -- we will bring down that infrastructure even more.

SANDERS:

Mr. Secretary, that's the best -- I may be wrong, but that's the best information we have. But by the way, why are we, although World War II has been over a few years, why are we -- who are we defending? The Soviet Union doesn't exist. Why do we have that kind of presence in Germany when we have 50 million people in this country who have no health insurance?

PANETTA:

I can't answer the latter -- the latter part of your question, Senator. But I will say that I'm an advocate of maintaining our relationship with NATO. NATO gets maligned on occasion. They've done some great work around the world. They've got a \$300 billion budget in the aggregate.

If we go to war tomorrow, who's the first people we're going to ask...

(CROSSTALK)

SANDERS:

But who are we going to war with in Europe, do you think?

PANETTA:

No, no, that's not the point, Senator. If we go to war tomorrow, the first people we'll ask to go with us are Europeans.

SANDERS:

But the fact -- the question why we have that type of -- 268 military installations...

(CROSSTALK)

PANETTA:

Well, Senator, I'll have to give you the -- I'll get you the data. I've spent 12 years in Germany. I can't imagine. I've never counted up anywhere near 268 installations, but we'll take that one for the record.

SANDERS:

I want to pick up on another question -- a question that the chairman asked about defense contractors. My understanding is that in the past, the DOD has estimated that we have some 500,000 to 600,000 people who are military contractors, is -- and that the GAO has estimated that number at 900,000.

DEMPSEY:

You know, I think I need to see the definitions of what we're including. Are we including private sector contractors who are supporting others, the multiplier effect?

SANDERS:

I suspect we are.

DEMPSEY:

The -- the numbers I'm giving you, and I'll agree they are rough in number, are the portion -- the full-time equivalents that we believe we're paying is around 300,000.

SANDERS:

I had an interesting experience. I was in Afghanistan maybe a year-and-a-half ago. And we were being taken around by two fellows in an armored car. One was with the U.S. military. One was a private contractor. They were both -- both doing basically the same work. The guy who was the contractor was making substantially more than the fellow who was in the Army. Does that make sense? Can you talk about that?

PANETTA:

Let -- let me -- let me just say, Senator, that the area you've pointed out is an area that, frankly, needs attention at the Defense Department. One of the reasons we are looking at \$60 billion in trying to make the place more efficient is going after contractors and trying to reduce those numbers. So I just wanted to assure you that I'm -- I'm aware of the problem.

Senator Gates -- Secretary Gates at one point basically said he didn't know how many contractors he had at the Defense Department. It is a large number. Frankly, it's too large and we need to do what we can to reduce it.

SANDERS:

I appreciate that answer.

Last -- last question I would ask, Mr. Chairman. My office has gotten involved a little bit in terms of fraud. You are dealing -- you know, you have a huge budget dealing with thousands and thousands of defense contractors, et cetera.

My understanding is that the top three defense contractors -- that's Boeing, Lockheed and Northrup Grumman -- paid over a billion dollars of fines over this 10-year period to settle fraud allegations. Not just the top three. There's massive amounts of fraud going on in terms of defense contractors dealing with the DOD.

Are we moving aggressively to try to address that issue?

PANETTA:

That is part of our effort to -- two ways. One, to be able to go after those kinds of fraudulent activities in the -- in the -- the various contracts that we have to try to achieve savings there. But in addition to that, the auditing -- I mean, we're department that still cannot audit all of our books. That's crazy.

SANDERS:

It is crazy.

PANETTA:

We need to do that and...

SANDERS:

I would just say -- and I thank you for raising that point -- we hear, you know, people talking about we need more money. And what you have just told us is we don't even know what we're spending and how we're spending it.

PANETTA:

Well, we don't have auditability, and that's, frankly, something we owe the taxpayer.

SANDERS:

I would think so.

My last...

CONRAD:

No, we gotta -- we gotta stop there because we're a minute over and with the number of senators we have, if we don't -- if we don't impose that discipline we won't get done in time for the secretary to meet his requirements.

Senator Enzi?

ENZI:

Thank you, Mr. Chairman. And I want to congratulate you on this historic hearing. I think this is one of the few times that the secretary of defense has appeared before the Budget Committee.

And I really appreciate you doing that. I know you've been here in a number of other capacities. And of course I -- I come from Wyoming, which is a very patriotic state. It probably has the highest percentage of people that are serving or have served in the military. And there's a rumor, it's attributed to the president, that there would be one base in each state eliminated.

In Wyoming we only have one base, it's by Cheyenne, and it's an integral part of -- that's our biggest city, of 56,000. So it's a big part of that city, and the two work together, and I appreciate the military doing a number of tests of inter-military cooperation there, which have been very successful.

So I appreciated your comments that you would be going through a BRAC process. We have no problem with the BRAC process. I know that it has been difficult but fair in the past, in those people that saw it.

I just want your reassurance that that is the process you'll be using.

PANETTA:

That's correct.

ENZI:

Thank you very much.

I also, as a co-founder of the Air Force Caucus and a former member of the Air National Guard, I noted your comments about the reduction in strategic air lift, and so I -- am I correct in assuming that that will rely more on Air National Guard units then? We're very efficient at providing that. Would that be a fair assumption?

DEMPSEY:

The chief of staff of the Air Force, and of course who is responsible for two of the legs of the triad, are looking at the balance of capabilities, both active, Guard and Reserve.

I don't have the answer committed to memory on how it will affect the Guard, but I'm sure we can get you that answer, sir.

ENZI:

Again, I hope you'll take a look at the cooperative efforts that we've had of combining regular Air Force and Air National Guard in Wyoming.

My third concern, I mentioned that we only have one base in Wyoming, it happens to be a missile base. And Senator Conrad and I chair another caucus that worries about the nuclear capability of this -- of this country.

And we're wondering, there are rumors that the department's preparing unilateral reductions in nuclear force beyond the requirements of START. And so is that what the future is for the ICBM force? And are there really any significant budget savings from ICBM reductions?

PANETTA:

Senator, one of the things in our budget is to maintain the triad, the nuclear triad, and the deterrent -- the deterrence that we have. We think we need to maintain our missiles, we need to maintain our submarines, we need to maintain our bombers that are part of our deterrent, and we will continue to do that.

The one thing you're referring to is a review that was being conducted I think pursuant to legislation from the Congress, to review our nuclear stockpile and nuclear issues. And there were, you know, a number of options that were discussed. There have been no decisions on that. And, frankly, one of the -- one of the options that was presented was maintaining the status quo.

ENZI:

I appreciate that, particularly in light of what's happening in Iran right now. Some deterrent may be absolutely necessary.

And my final area of concern, because I got a letter just this week from a man in the military who's about to retire and his family has been a part of TRICARE and he appreciates that, but he's heard these comments about how the cost for TRICARE, the participation was going to have to go up.

And the reason he wrote me is because he has a sister that's on welfare and his sister pays nowhere near the cost that he does. And so he's not sure that the military is such a good deal compared to welfare. That seems to me to be a terrible comparison. Is that something that's going to be taken into consideration as you're looking at these additional costs?

PANETTA:

Well, we do, in the recommendations, we do base it on -- on income levels with regards to retirees and what they're asked to provide in additional fees.

The problem we have, Senator, is that the costs in health care have grown dramatically, as they have elsewhere. I've got about \$50 billion in the defense budget that goes for health care. So we were looking for ways to try to see if we could provide some -- some additional cost control and increasing these fees is one of the recommendations that we've made.

And we do it still recognizing that the TRICARE program is a much more -- a much more, in terms of cost, is much less in costs than the private sector in terms of those same health care benefits. So it's still a pretty good deal that we provide for retirees, even though we are asking for these additional fees.

ENZI:

I appreciate the brevity of your answers and the clarity of them.

Thank you, Mr. Chairman.

CONRAD:

Thank you, Senator.

Senator Nelson?

NELSON:

Mr. Secretary, thank you for your long and distinguished record of public service, even when I had the privilege of serving with you when we were both young congressmen, and you were the head of reconciliation in the Budget Committee in the House. And nobody understood what reconciliation was. And you were trying -- and here we are, some three decades later, still talking about reconciliation. So thank you.

I want to call to your attention on subject matter not directly in your jurisdiction, but I have filed what the administration has requested, a veterans conservation corps for unemployed veterans, to bring them into the federal employ for one year -- these are veterans coming home that are unemployed - - to do projects helping the environment, teachers aides, et cetera, and give these veterans a chance to get over the hump. And that indirectly affects you. It certainly -- even though it's going to be run through the Department of the Interior and with the concurrence of the Department of Veterans Affairs.

I wanted to ask you about this sequester. Now, let's remember what the sequester was. It was an attempt to try to create a guillotine that would hang over the heads of the super committee so that the super committee would have a significant incentive in order to come to agreement. And of course the super committee, on a vote of 6-6. And now we are having to do with the sequester, which is law, unless we change the law.

And so what do you do? You talk about what you need is certainty in budgeting for the Defense Department, and yet you've got this guillotine hanging over the head of the Defense Department that would go into effect in January of 2013.

How do you deal with this in your budgetary planning?

PANETTA:

Senator, it, you know, it is very unfortunate because, frankly, it is -- it sends a very dark cloud over the Defense Department -- and, frankly, our Defense Department contractors that worry about the possibility of sequester and what it means for their employment force as well.

So there are a lot of very concerned people looking at the prospect that it may happen.

And for us, as I said, obviously we are not planning, we have made no plans for sequester because it's a -- it's a nutty formula, and it's goofy to begin with, and it's not something, frankly, that any -- anybody who is responsible ought to put into effect.

NELSON:

Thank you.

PANETTA:

It was designed as a gun to the head.

NELSON:

Yes, it was.

PANETTA:

And, you know, I was disappointed that the super committee failed in its job.

I have to tell you, you know, having -- having been in the budget process for a long time, there was a time when we had to be in a room negotiating with the administration on budget reductions, and, frankly, we were not allowed to leave that room until we had resolved the issue. And that's what should have happened here.

NELSON:

It should have...

DEMPSEY:

Chairman, could I add my voice to that? I know I'm taking up your time, sir, and I apologize, but I feel, you know, we showed a -- Chairman Conrad, you showed the charter -- maybe it was Senator Sessions -- of the times in the past when we've done drawdowns. And you mentioned a moment ago we should plan for what we know.

Well, one of the things we know is that this drawdown is occurring not in an area -- in an era of peace and stability following conflict, but in an era that is actually more dangerous than the era we're just leaving. That's a big difference in terms of how we deal with this.

Secondly, on sequestration and our ability to plan for it. We'd have to change the strategy, without question.

And third, the thing you need to understand is some of the variables that we can affect are fixed. So our manpower, we're already off-ramping 120,000, 125,000 notably soldiers and Marines. We can't speed that up much. So that's a fixed variable.

DEMPSEY:

Infrastructure is fixed, because even if Congress decides on another round of BRAC, it'll take some time to implement. Therefore, there's four places we're gonna go for money if we have to go for more money. Operations Maintenance Training and Modernization, that's it. There's no place else to go.

And so, where you'd ask me, can I go back and look for more money in those four accounts, no sir, not in this environment.

NELSON:

Quick question, Mr. Chairman, on another subject.

Mr. Secretary, you -- you're secretary of the Navy as stated the policy of the Defense Department. Given the fact of the lessons of Pearl Harbor, how you need to spread the assets of ships that there be the spreading of those assets as they have always been, of the carriers on the Atlantic coast, just like they're spread on three home ports on the Pacific coast. Is that what you understand to be the policy of spreading the carrier assets on the Atlantic to two ports?

PANETTA:

That's correct.

NELSON:

Thank you.

CONRAD:

Senator Johnson?

JOHNSON:

Thank you, Mr. Chairman.

General Dempsey, Secretary Panetta, Mr. Hale, thank you for your service. I mean that sincerely.

I'd like to reinforce a couple points that Senator Sessions made earlier, with a couple graphs.

The first one, I think it's -- I'd like to dispel the notion contrary to popular belief that the wars in Iraq and Afghanistan have been the primary cause of our deficits, it's just not true. Over the last ten years we've spent total about \$1.3 trillion. And this graph just shows the spending on the wars in blue, and the deficit is in red, and so, you know, just to make that point, you know, so many people believe that it's the war spending that's caused our deficit simply not the case.

I mean, last year we spent about \$115 billion on those -- on those wars. And, we had a \$1.3 trillion deficit so. That's -- that's the first point.

Secondly, I'm new to town here. And, I'm (inaudible) and so I do like looking at history and numbers. And I was really surprised when you take a look at the average spending on defense over the last number of decades -- during my lifetime how it's declined. We've been -- we've gone from an average of about 8 percent in the '60s down to 5.6 percent in the '70s and '80s, to 3.8 percent in the '90s, 3.6 percent the last decade.

Really a record low during my lifetime and (inaudible) asked three years it's been about 4.8 percent. As well as, if you take a look at defense spending as a percentage of total budget that went from 43 percent in the '60s to 28 -- 25 percent. Basically the last three decades it's been 18, 18 and 19 percent. And now the fiscal 2013 budget would have it at 16 percent.

So, to me, I believe, and it just makes common sense that the defense of the nation is really the top priority of the government. And it looks like that our -- federal government has changed its focus from really defending the nation to really protecting entitlements. So, let me just start out first by asking why -- why is it the case that President Obama, and just seems like an awful lot of Democrats pick on defense first for adjusting the fiscal situation. I mean, that is the first thing they want to cut. I mean I don't understand that. Can you -- do you have any explanation on that?

PANETTA:

Well, Senator, first of all that's not true. The fact is that it was the Congress, through the Budget Control Act that mandated the reductions in defense that I'm implementing. I'm following the law and the Congress passed that law.

JOHNSON:

But was it -- was it -- weren't the defense cuts really -- really pushed by the democratic side and by the president?

I mean it's -- it's -- let's face it, that was the hammer over the Republican's head to come to the table was the defense sequestration which, by the way, you referred to as mindless and I agree with that.

PANETTA:

My understanding is that you came up with, however you did it, with about a trillion dollars in discretionary savings. You -- the Congress made a decision that you were going to fence those funds for national security as well as non defense discretionary. That automatically established a number of close to a \$500 billion that we would have to reduce defense.

So, I don't -- I think it's unfair to say that somehow the democrats were pushing for it, it was basically a bipartisan deal.

JOHNSON:

Next question then.

I think -- I think as the chairman pointed out, and I think you agreed with, I mean, entitlement spending is what's driving our deficits, especially long term. Can you explain why the president hasn't proposed any kind of reform for saving Social Security, Medicare? There's just been no proposal whatsoever. I mean, Secretary Geithner even admitted there's absolutely no plan to save Social Security. Why is that?

PANETTA:

Well, you know, if I -- if I was an OMB director I could engage with you on that, but you know I'm the defense secretary and that's what I focus on. But I -- I'm sure that the -- the president has indicated that the -- if there's a willingness to come together and look at all elements of federal spending including entitlements that there would be a willingness to be able to put together the kind of comprehensive solution that I've always been a part of in my budget history that needs to happen now.

JOHNSON:

OK, I understand comprehensive and I understand balance, but the fact is everybody recognizes it's Social Security and particularly Medicare that's driving our deficit problem. There's been no proposal -- it's just used as a political football, I mean that's basically true correct?

PANETTA:

Well, you know, it's -- look, it's the old game. You know, on one hand...

JOHNSON:

And -- and -- and that's a problem: it's a game.

PANETTA:

No, it is -- it is -- that's unfortunate, it is a game. Because on one side, people will defend not touching revenues which need to be part of the deal. On the other side, there are those that will defend not touching entitlements, which have to be part of the deal. If you want a deal with the size deficits that this country's facing, you better put everything on the table.

JOHNSON:

One -- one just quick question. When we're asking the military to increase their contribution to TRICARE, we're not asking any other government employee to do that. I mean, why is that? Why ask the military and not -- not maybe, I guess, maybe unionize members of the federal workforce.

PANETTA:

Well, I mean the work I'm -- I'm proposing, I'm -- I'm dealing with the defense budget, I'm not dealing with other elements of the budget. And, we felt that in order to control our health care cost, this was one way to try to do that.

JOHNSON:

OK, thank you, Mr. Chairman.

CONRAD:

Senator Begich?

BEGICH:

Chairman, thank you very much.

Before I ask my questions or comment, I always like to give a little bit of good news. I do this on a regular basis because we get dense in here. I just want to, you know, where we were three years ago, where we are today (inaudible) headlines from just yesterday: U.S. stock rises on home sales data, housing trends make home depot a buy, why? Because people are now remodeling, spending in their homes they live in.

Pending home sales rise to a near two year high, economy moving the right direction. National Association for Business Economics say forecasters have raised their expectations for employment, new home construction, and business spending. Why? Again, because the economy is moving in the right direction. Consumer confidence up in February for the sixth straight month. Along with that today, if I recall the numbers, unemployment claims are at the lowest level -- or the most consecutive level -- lowest level since March '08.

Why I like to do that is because this is a budget committee meeting, we want to talk about not only cuts, but where we are in this economy. Is it where we want it be, no. Can it be better, yes. Is it better, absolutely. So I want to put that into context here.

I do want to -- to my colleague on the other side, I can answer your question on the insurance premiums. Not that I want to see any military premiums increased, but they pay a lower premium, a lower co- pair than folks who work in the federal government as a civilian worker, that's just a fact. That's why there's probably an adjustment. But I don't, you know, without the chart, I just want to make sure that's clear.

The other thing I want to make point, the chart was interesting about the military expenditure. But we have to include State Department, CIA, AG, and oh, by the way, V.A. -- the V.A., which will be trillions to the expense of these wars. We cannot forget that, I know I serve on the veteran's

committee, I know a couple of my other members here do. That's an ever growing cost to us that we must bare, and we are responsible to do. They served our country, they did it at our call, we can argue over the wars but the V.A. must be taken care of and the veterans must be taken care of.

So I want to make sure when we talk about these numbers, everything's included today and into the future. Because it's important that the public who watches this or subjected to watch us in this opportunity here they get the facts.

I want to ask you specifically, I want to be a little parochial, but I do want to follow up on one question I was asked earlier and its -- it leads to my question about (inaudible) Air Force Base in Alaska. But first, before I do that, I can't have the details, I know there was some debate over how many bases in Japan, how many bases in Germany, so forth. But there's over 600 military bases overseas, and I guess my concern is as we look at the realignment, especially now that we've identified the Asia-Pacific as an important asset that we need to protect and be engaged in. Of course I'm biased here, Alaska is by air, by sea, is the closest other than Hawaii. Despite how they put Alaska down by California all the time, no disrespect to your state, but they get a little confused on the map. But we are closer in a lot of ways.

So, it -- I'm a little confused on why we have these 600-plus bases, with limited -- I understand now you're thinking about two brigades. Now, two years ago we asked for this, I know you weren't there two years ago, we asked for this, now there's some discussion. (inaudible) Air Force base, which seems to be in the right location. The F-16s are planning to move. Was the same debate we had when we did the BRAC, exact same debate. We're not doing a BRAC now, the folks are just doing it.

The first question is: did legal -- the Department of Defense's legal counsel look at this and how it conforms or not conforms to what BRAC may require if there is a BRAC? In other words, this seems to be kind of going around the system.

(UNKNOWN)

Senator, I think the -- the reason we -- the president would be requesting a BRAC is to basically go through the process of what infrastructure should we reduce in this country. And so that's the process that I would expect we would go through.

BEGICH:

But (inaudible)'s already -- here's what they've done, this is what gets me very concerned. They said we're gonna move these F-16s, and now the Air Force is now doing the analysis if it's going to save money. Versus the Army which I'll use Fort Wainwright (ph) and other forts in Alaska, they're actually going through a process before they determine what they're going to do. I don't -- I don't get this, to be very frank with you, that it's almost like they've picked the location, many locations I will say, some of my colleagues here in their states. But they're now -- now starting the analysis. Does that seem -- and yet this is the same debate we had on BRAC on the same location.

(UNKNOWN)

I would, I mean I -- I strongly urge that you talk with the Air Force chief...

BEGICH:

We have.

(UNKNOWN)

... and the (inaudible) secretary.

BEGICH:

General Schwartz, we've had him up in Alaska and I still have the same questions. That's why you're here today, and that's why I'm asking you today.

(UNKNOWN)

Well, and I guess -- and I guess I have to ask some of the same questions.

BEGICH:

OK. So, can I look forward to having a response back on that?

(UNKNOWN)

Yes, indeed.

BEGICH:

That would be very important. The last thing I'll just say, I would and will put it in for the record on MEADS (ph), you know, it was in this committee a year ago and it was through the work of the chair bringing folks here in front of us that we discovered some expenditure that we think is not the best use of the money.

I need more definition of why you are funding that again. And I have some other questions. I'll submit them to the record, in keeping with my time as the chair restricted us to.

(UNKNOWN)

No, I -- I appreciate that. And we'll get a full response back to you. But I think the problem with MEADS (ph) is if -- if we don't meet our funding requirement that the obligation that we made, we'll incur an even larger fine for not putting up that money.

BEGICH:

Except -- I'll end on this. Every contract you sign, any department signs, is subject to appropriation. That's how the contractor signs it, knowing that this body, meaning the...

(CROSSTALK)

BEGICH:

... could not appropriate -- we never exercise that. It's like a fake clause. Well, let's just not give the money -- no fines then, because they signed the contract with that obligation.

(UNKNOWN)

I understand. And Appropriations ultimately makes those decisions. And, you know, one way or another, we'll pay a price here if we don't meet that obligation.

BEGICH:

OK, I'll leave it at that.

CONRAD:

Senator Ayotte?

AYOTTE:

Thank you, Mr. Chairman.

Thank you, Mr. Secretary. Thank you, Chairman. Thank you, Secretary Hale.

Secretary -- excuse me -- Chairman Dempsey, I have great respect for you and your service to the country and the important role that you play. But I have to ask you about the interview that you gave with CNN. Because I need to understand it.

When you were asked by Fareed Zakaria about what we were counseling our Israeli partners with respect to Iran, and you said that you were counseling them not to attack Iran, and then you also said that you believed that the -- the administration believes, I assume, that the Iranian regime is a rational actor.

Can you help me understand, you know, why you would have said that, particularly in a public interview about one of our closest allies?

And I'm really concerned that, in doing that, that we are sending the wrong signal to Iran. Can you help me with that?

DEMPSEY:

No, actually, thanks for asking, Senator. And you beat Senator Graham to the punch.

(LAUGHTER)

No, I really -- honestly, I want to clear up some things. First of all, I didn't -- I didn't counsel Israel not to attack. We've had a conversation with them about time, the issue of time. And that will require a much longer conversation.

But on the issue of rationality, look, I agree that -- that Iran is a regime that is dangerously misguided. And, I mean, look at its behavior. It protects itself. It loathes its neighbors. It interferes with its neighbors. It threatens its neighbors. And it disregards its own citizens.

So, you know, none of that is acceptable to us or to our way of thinking and of our way of being rationale, but it does fit their pattern of thinking and a 30-year history of conduct.

So my view of this is we can't afford to underestimate our potential adversaries by writing them off as irrational. That's, kind of, the juxtaposition of the phrase.

And I personally don't mistake Iran's rhetoric for a lack of reason. I think the issue here for us all is that we have to decide what global pressure, including the use of force, if and when necessary, can turn that regime away from its nuclear ambitions, its nuclear weapons ambitions.

So thanks for letting me clear that up.

AYOTTE:

But as I understand your testimony, you wouldn't take force as an option off the table?

DEMPSEY:

Absolutely not.

AYOTTE:

And one of the things I'm concerned about, when you think about with the description as the way it came across in the interview with CNN as describing Iran as a rational actor is this issue that, if they acquire a nuclear weapon, it's not just about their using it, but also the possibility -- they are a great state sponsor of terrorism -- that they would -- could provide that nuclear weapon to let others use it on their behalf. Is that not a real risk with Iran?

DEMPSEY:

That is a real risk, as is the risk of nuclear proliferation among others who, feeling threatened, would seek to acquire their own nuclear weapons.

AYOTTE:

And I think, when we hear those types of possibilities -- and we've just heard today that that is a real risk, if Iran acquires a nuclear weapon -- that most of us think that can't be a rational act, from our perspective, of terms of looking at and the world and the number of innocent lives that could be lost if a terrorist group acquires a nuclear weapon and Iran provides it to a terrorist group.

You would agree with me that I understand that, maybe, by their calculations, it's rational, but by ours, it would not be?

DEMPSEY:

I think that's exactly the point. And as we seek to influence their behavior, we have to understand their way of thinking. That was the only point I was making.

AYOTTE:

OK. I appreciate your testifying about that today.

And I would ask Secretary Panetta, just as a follow-up to the question that Senator Johnson asked, really is this, the bigger question, in the president's budget, you are -- you are recommending increases to our active-duty and veterans, in terms of health care costs.

But it doesn't seem the president's proposing, really, any increases, as I can see it, effectively none, to the civilian workforce.

And I think that's a hard ask of our military, when they're already making so many sacrifices, when we aren't making sacrifices on the civilian side, too.

Do you think that's fair? And do you think that, really, we should also -- including myself, by the way. Members of Congress have what the civilians have. I think all of us should be sacrificing, and I worry that we're asking them to go first -- understanding that I know that health care costs are a big issue.

PANETTA:

Senator, you know, again, if I was an OMB director, you know, I think I'd give you an answer that dealt with the entire budget that the president presented, but as defense secretary, I had to deal with what I was responsible for, and that's why we approached it based on where we thought the savings could be achieved in...

(CROSSTALK)

AYOTTE:

I just worry about your ability to go to our military and to ask them to do this, to make the sacrifice, when civilian employees of the federal workforce, including members of Congress, because we get the same health plan, aren't making a similar sacrifice.

And you, as the leader of the Department of Defense, I just worry about what message we're sending to our military with that.

So that's where I worry, and I worry about you as a leader having to go and sell that.

PANETTA:

I -- I understand. But, you know, one of the great things about our men and women in uniform is they go where they're told to go and they do what they're supposed to do. And they salute and do the job. And that's -- that's what they're doing here.

AYOTTE:

But we have a responsibility...

CONRAD:

Senator?

AYOTTE:

... for them.

CONRAD:

Senator? Senator Whitehouse.

WHITEHOUSE:

Thank you, Chairman.

Mr. Secretary, welcome. We are gearing up towards another BRAC round, maybe two, I gather.

The last BRAC round, as I understand it, only addressed American bases. You've just said that the question in the upcoming BRAC round would be what infrastructure should we reduce in this country? Is there a way to and should we include in the next BRAC round both domestic and overseas bases, particularly given the extent to which so much of what is done can now be done from a remote location because of our electronic capabilities.

We fly aircraft from remote locations far away from theaters of operation, for instance.

PANETTA:

Senator, we -- we have the authority that we need to close bases abroad. We've closed about 140 bases in Europe. We're looking at another 40 to 50 bases that will be closed. So we do -- we do have the authority to look at the infrastructure abroad and try to reduce that.

When it comes to this country, the only way we can do it, obviously, is with the approval of the Congress. And that's why the BRAC process was developed.

WHITEHOUSE:

And I get that. There's a political difference between your executive ability to close an offshore base and the requirement that Congress approve of or tolerate a decision to close a domestic base.

But nevertheless, when you're looking at our posture as a military and trying to figure out where the most effective basing is, isn't it a bit artificial to have the BRAC process only look at American bases and not overseas bases?

Shouldn't it be included into a, in effect, global BRAC?

PANETTA:

Well, you know, I think Congress certainly, if it proceeds with the BRAC process, has every -- every right to ask the administration and this department to present our rationale for what we're doing with regards to infrastructure abroad and how that fits the larger picture. I agree with that.

WHITEHOUSE:

OK. Let me jump to cybersecurity.

As I understand it, your testimony says there's \$3.4 billion for Cyber Command, which I applaud, which I think is necessary. I think, frankly, we're a little bit behind the curve and we're in a race, and the threat vector is developing at a far greater rate than our defense capability is growing against it.

Could you speak, a little bit, about military supply chain security against planted cyber threats?

We have supply-chain security for textiles. Thank God for Rhode Island industries. And yet we have aircraft flying around that have components that are built overseas.

Do you need more resources, now that the cyber threat has become more great, to make sure that our supply-chain security is protected -- our supply chain is protected against cyber intrusion?

PANETTA:

I -- you know, I -- as has been pointed out, we are seeing increasing attacks, cyber attacks, not only in the public sector but the private sector as well.

And I think this country has a responsibility to develop the defenses that have to be there in order to ensure that -- that this country is not vulnerable to those kinds of attacks.

Our -- the money that we've dedicated in our budget tries to improve our technologies, our capabilities, within the defense department and within NSA. But I would -- I would suggest that part of that consideration has to be what do we need to make sure that the equipment, the technology that we're getting -- all of that has adequate protections against cyber attack?

WHITEHOUSE:

Let me make a request for the record, if I may, since my time is starting to run out -- two requests for the record. One is that, if you could break out for me what in your budget is related to supply-chain security...

PANETTA:

Sure.

WHITEHOUSE:

... and to the extent that you can make that specific to cyber attacks and specifically from the Chinese, if you go that far...

(CROSSTALK)

WHITEHOUSE:

... I'd like to get that.

The second thing I'd like to do is to have a discussion with whoever in the Department of Defense is focusing on health care reform for the Department of Defense.

You're a very big buyer. I think you said \$50 billion in health care. A lot of that gets delivered overseas, but a lot of it gets delivered here. That's the kind of money that can make a difference in how people behave. And there's a significant reform movement that is taking place. And I just want to be connected with whoever is engaged in that for the Department of Defense.

PANETTA:

Yeah -- no, I will -- I will have our under secretary responsible for the health care area get in touch with you and go -- go through the issues that we're dealing with here to try to...

WHITEHOUSE:

That would be great. I appreciate it.

Thank you, Mr. Secretary.

Thank you, gentlemen, for your service.

CONRAD:

Thank you.

Senator Portman?

PORTMAN:

Thank you, Mr. Chairman.

I'm going to start with Under Secretary Hale. I don't know if he's gotten too many questions today, but first to thank him for working with us on ensuring that CFOs around government have the standing they deserve, and I appreciate his conversations with me in that regard in ensuring that that legislation kept them as confirmed individuals in their various departments and agencies, including DOD.

Auditing -- as we begin this downsizing, it seems to me the most critical thing is to be sure we're -- we're doing it right, whether it's this first \$487 billion or whether we have to go something beyond

that. And I'm concerned that we still don't have the kind of sound audit that we'd like to have of the department. Can you give us a status report on that and what you're doing to accelerate the auditability of DOD, given the huge sacrifices that DOD is being asked to make?

HALE:

I can. First, thank you for your help on the CFOs. I appreciate it.

We have a plan that we set up a couple of years ago to move toward audit -- auditable statements in a cost-effective manner. We're focusing first on the information the department most uses to manage, particularly budgetary information and accounts and location of our assets.

At Secretary Panetta's direction, we have accelerated particularly the budget statement portion of it because it is a key one, seeking audit readiness by 2014, with all of the statements being audit-ready by 2017, as the law requires.

We have set aside a fair amount of resources. We have a governance process. As I mentioned, we have a plan, and we have some near-term successes. The Marine Corps, I should say, is going through an audit process now for its budget statement. They're close in terms of -- of getting an opinion. And a variety of other appropriations received, which is our funds distribution process, got a clean opinion last year.

We're trying to do near-term things that show progress, both frankly to ourselves and to the Congress. We're not there yet, but we're committed to it. I think Secretary Panetta's support is a golden opportunity for us, and I want to leverage it in every way I can to move forward in this important area.

PORTMAN:

Great. Thank you. I appreciate it. Just know we're watching and I appreciate your efforts, and having a former OMB director as head kind of helps to get some attention on it.

By the way, finally one OMB director made good. Congratulations, Leon, for continuing to exceed expectations of OMB directors.

Quickly, on this whole issue of the sequester, this first stage, you said, and I was here earlier listening to your testimony, that it creates risks, and that's the \$487 billion. You also said those were acceptable risks and explained why.

This must mean that there are additional risks with step two, which was an additional \$535 billion. How would you describe those risks that would be entailed should we move forward with sequester as currently planned?

PANETTA:

They would be -- they would be devastating because the cuts would be made, as you know, according to that formula, across the board. So it would -- it would come out of force structure. It would come out of readiness. It would come out of, you know, I assume compensation would be on the table as well. And it would come out of every area of the defense budget.

And the danger is that when you do it that way, you automatically hollow-out the force because what you're doing is you're weakening every area of the defense budget by -- by some kind of -- by blind formula. And it means that even though we'll have a smaller force structure as a result of those cuts, they will be ill-equipped, ill-trained and ill-prepared to be able to...

(CROSSTALK)

PORTMAN:

Mr. Secretary, when do you need to start making the changes? In other words, January 1st next year is when a sequester goes into effect. But when would you have to start making changes at DOD?

PANETTA:

I -- I'm waiting for OMB guidance on that, but I -- I would assume sometime in the summer we'd have to do that.

PORTMAN:

In the summer. So you're looking for at least something from Congress prior to the summer. We're now into the spring and we would need to act here pretty quickly.

You talked about health care earlier. Let me give you a statistic that I have. I hope it's not right because it's scary: \$17.4 billion is what you spent on health care in 2000. And you said earlier that you're spending \$50 billion today. Is that correct?

PANETTA:

That's right.

PORTMAN:

So you've seen a huge increase in your health care expenses and it's the biggest increase in your budget, as I understand it.

Do you think you're doing enough on health care in this first stage and what more can be done?

PANETTA:

It's the first step. I think there are probably other steps that we have to look at as we look at kind of health care costs generally. But we -- we thought that probably the first step would be to try to increase these TRICARE fees and then continue to kind of look at health care delivery in the future.

HALE:

May I add to that?

PORTMAN:

Yes, sir.

HALE:

We are actually doing a number of things in the health care area. It's not just the TRICARE fees. Trying to improve the quality, and again I think the -- our under secretary of personnel and readiness to address this better, but we have looked a provider costs. We sought and received authority, for example, to use federal pricing schedules for pharmaceuticals, which has significantly reduced our costs; to use Medicare payment rates for our outpatient payments, which also significantly reduced our costs.

We really did a number of those things before. We looked at the TRICARE fees last year and then this proposal we've made this year. So we're looking across the board at health care and trying to hold down costs, while maintaining the quality of the care, which is critical.

PORTMAN:

General?

DEMPSEY:

Could I just add one thing on sequester, please, Mr. Chairman?

The -- it's already beginning to have an affect on our defense industrial base. Although we can wait until the summer, there are some -- there are some corporations in our defense industrial base who with the specter of sequestration hanging over them, are already making some decisions about their workforce. And so this is a -- this is an immediate problem for them that will become a problem for us eventually.

PORTMAN:

I thank you. I know my time is up, but the audits are critical as we're downsizing to make sure it's done right. We've got to be sure we're dealing with these health care costs because that takes away from readiness and operations. And I know the chairman has talked about putting a budget together. We'd have to do something pretty quickly here, it sounds like, to avoid eroding further the industrial base and having DOD making decisions that would be detrimental and devastating, as the secretary said.

Thank you, Mr. Chairman.

CONRAD:

Senator Murray?

MURRAY:

Thank you, Mr. Chairman.

Secretary Panetta, as you know, I spent a lot of time last year on the Joint Select Committee on Deficit Reduction, working with Democrats and Republicans to tackle some of the issues that you're talking about today. All of us went into that committee knowing that sequestration would be a terrible outcome and we understood that across-the-board cuts to these programs, as well as middle class families and the most vulnerable Americans depend on, would be bad policy.

That was really the point of the bipartisan triggers that Senator Reid and Speaker Boehner agreed to. They were supposed to be painful to push us towards a compromise. So I was really disappointed that despite the fact that we put a lot on our side, some pretty painful cuts out, we couldn't get to an agreement because we couldn't come to that shared sacrifice moment.

I'm still willing to make those compromises needed to get to that. I hope everyone on both sides are because I think we're all really concerned about where -- where that's going to go.

But I didn't want to focus on that today. On my time, I wanted to question -- ask you a question about an issue that has become very important and has recently come to light at Madigan Army Medical Center in my home state of Washington. A number of soldiers had their behavioral health diagnosis changed from PTSD to other behavioral health disorders that didn't come with the same level of benefits. However, following, as you may know, an independent review at Walter Reed, a number of those diagnoses were then changed back to PTSD.

Obviously, this is really troubling. Though it's even more troubling to me and to many servicemembers and their family members in my home state and a lot of people I've been talking to is the allegation that the decision to strip those soldiers of a PTSD diagnosis came from a unit at Madigan that seems to have been taking the cost of a PTSD diagnosis into account when they were making their decision.

Now, there's an investigation going on into this, but really to me, one of the things is clear is that oversight within the Army and at the departmental level allowed this break from standard diagnosis process to go unchecked.

So I'm really concerned about how the services handle non-PTSD behavioral health conditions like adjustment disorder, where servicemembers are administratively separated instead of going through the physical disability process. And I wanted to ask you, given that an adjustment disorder is compensable by V.A. and DOD is required to use the V.A.'s ratings schedule, what is the reason for DOD treating adjustment disorder differently?

PANETTA:

Well, I was -- I was very concerned when I got the report about what happened at Madigan. And I think it -- it reflects the fact that, frankly, we have not learned how to effectively deal with that and we have to. We -- we need -- we need to make sure that we have the psychiatrists, the psychologists and the medical -- the medical people who can make these evaluations because these are real problems.

I -- I've met with men and women who have suffered this problem. I just met with a couple last night. And they had to go through hell in order to be able to get the diagnosis that was required here. And that should not happen.

So we are investigating, obviously, what took place, but I've directed our personnel under secretary to look at this issue and to correct it because it's unacceptable now to have the process we have in place.

MURRAY:

Well, I -- I appreciate the attention given to this. It's going to take a lot of work. And I'm deeply concerned when someone comes home from war and they have to go through a diagnosis like this. It's hard enough when you've been told to man-up during your time of service, to then face the fact that you have PTSD and then to have that reversed and changed back, and then told there's nothing wrong with you. It's just devastating to these men and women and their families.

So this is something I'm going to be following very closely. I want your personal attention on it. And I think that the issue that was raised at Madigan really needs to have a more -- shows us that we need to have a more clear, consistent guideline for clinical practices for diagnosing and treating PTSD -- PTSD.

PANETTA:

I agree with that. I agree with that. Absolutely -- you're absolutely right.

MURRAY:

And I never want to hear anybody in any service say, "We're not going to give you a diagnosis of PTSD because we have a budget problem."

PANETTA:

That's for sure.

MURRAY:

OK. Thank you very much.

CONRAD:

Senator Thune?

THUNE:

Thank you, Mr. Chairman.

Mr. Secretary, thanks for being with us.

General, Mr. Hale, thanks being here. I also want to recognize Colonel Toliver (ph), who commanded one of the finest bases in the country, Ellsworth Air Force Base in Rapid City, South Dakota.

Mr. Secretary, I know -- I think you've touched on this once already, but I just want to maybe put a fine point on it, but you recommend in your budget that Congress enact two more BRAC rounds. And -- and it seems like that a lot of that excess capacity among domestic bases could be filled by closing overseas bases, particularly in Europe, and bringing troops home from bases that -- back to bases in the continental U.S. And particularly given the fact that it seems that we've had a military presence in Europe for a long time, obviously, but it seems to make abundant good sense to get some of these folks home.

So if you could just kind of elaborate on why you haven't recommended closing overseas bases in this budget, especially in parts of the world where it's perhaps no longer necessary to have that kind of a military footprint.

PANETTA:

Well, we have -- we have made recommendations with regards to reduced infrastructure abroad. It's one -- it's an area where we have the authority to be able to make those reductions. And as I pointed out, we've closed about 140 bases abroad. We're going to close additional bases, particularly as a result of reducing the number of brigades in Europe from four down to two.

But at the same time I do have to tell you that operations, particularly in the Middle East, have required some of the key bases in Europe to be important launching points for -- for our Air Force and for travel and for supplies to that area.

So there is a need, A, to try to maintain those basic areas. And in addition to that, obviously our NATO requirements and our partnership require that we engage in exercises and in a rotational presence there to work with NATO so that we can build up that partnership to make it capable of dealing with its responsibilities as well.

But having said that, we are in the process of looking at additional reductions abroad. When it comes to the United States and the kind of infrastructure reductions that have to take place here, frankly, there's no other way to do it than through the BRAC process.

THUNE:

Mr. Secretary, the president has said that he would veto any attempt by Congress to prevent the effects of sequestration on military spending. And I want to share with you some things that you've said, for example at the Munich security conference earlier this month, that you and the president, quote, "are not paying attention to sequester, sequester is crazy."

You also said that you strongly urge Congress to be able to come forward and try to de-trigger that amount because, frankly, it's not the amount, it's also the way it would be done, the formula is built in the sequester, it would cut across the board, and as I said, it would certainly virtually devastate our national defense, end quote.

Now, so essentially I'm trying to figure out, because there are conflicting messages coming out. You're urging the Congress to do away with sequester, at the same time the president has said that he would -- has threatened to veto legislation that would do away with it. So how do you -- how do you sort of reconcile or square those...

PANETTA:

Senator, I think what the president stated was that if there were just an effort to de-trigger the defense part of sequester, that that -- that he would oppose that, that he thinks that sequester across the board, both on defense and non-defense, is -- is severe enough that both areas ought to be addressed in trying to de-trigger sequester.

THUNE:

There's a question, too, about whether or not if there -- if there were a sequester in the defense, how it would be applied. And Section 302 of the Budget Control Act speaks of sequestration and budget enforcement in terms of accounts, does not dictate that sequester cuts must be applied in equal percentages to each program, project and activity, as you claimed in a letter November 14th to Senators McCain and Graham on the effects of sequestration.

For example, you could choose to apply the amount to be sequestered from the Navy procurement account entirely to one activity within that account.

So how -- how would you approach this issue in terms of the flexibility? You're suggesting that this would be applied in a very indiscriminate way across the board.

PANETTA:

Let me -- let me ask our comptroller to...

HALE:

We're trying to work with OMB to understand. This is an arcane law. It goes back to the 1985 Budget Impoundment and Control Act. Our lawyers believe that it would be at that low level of detail that was in that letter. I think that we need to work with the OMB lawyers to see exactly what would be the case.

But make no mistake, I don't think anybody questions that at the account level -- Army O&M, Navy shipbuilding -- that would have to be equal in percentage terms. And I think that fits the meat ax description pretty well, if you have to do every account by the same percent.

So this is a bad idea. It's bad policy. And I really hope that the Congress will take the steps to de-trigger it.

THUNE:

All right. See my time's expired. I'm getting the -- I'm getting the gavel.

So thank you, Mr. Chairman.

Thank you all.

CONRAD:

I thank the senator. We're trying to adhere closely to the five because we promised the secretary to get him out of here by noon.

Senator Wyden?

WYDEN:

Thank you, Mr. Chairman.

And thank you, Mr. Secretary and your colleagues. And let me get right -- right to it. I wanted to talk, Mr. Secretary, first about the Guard and Reserve. You and I have talked about this in the past. In my view, their unique expertise and particularly their ability to adapt rapidly to mission requirements is one of the reasons we ought to be especially careful in this time of making tough choices with respect to what happens with the Guard and Reserve.

Now, this year you all are going to get four separate studies that are going to provide in-depth analysis of the cost comparison between reserve component military members and those on active duty. And what the studies are going to find, all of them, because we had a chance to hear about them, is strong evidence about how much less expensive the Guard is compared to the active duty.

So the question, Mr. Secretary, for you this morning is, wouldn't it make more sense to wait until you have an accurate model to compare cost before you go forward with disproportionate cuts to the Air Guard? What we've tried to do is look at the Air Force, tried to look at the Guard, and it just seems to me, while all the choices you have in front of you are tough ones, I mean there isn't an easy one, you know, there, wouldn't it make more sense to hold off until you get those four studies before there would be disproportionate cuts made to the Air Guard?

PANETTA:

Senator, you know, you -- first of all, I strongly agree that we have to depend on a strong Reserve and a strong National Guard to assist us, particularly when it comes to mobilization. And as we reduce the force, frankly, we're going to need to have that backup.

And that's why, frankly, when it comes to numbers in the National Guard and in the Reserve we pretty much maintain the force that we have now and we'll continue to maintain it.

The one area where there were reductions was in the Air Guard and Reserve, and it was done pursuant to the recommendations of the Air Force chief. And the basis for that was in the past we have reduced air lift in the active force, but we did not touch the Reserve force, and he felt, in order to achieve the savings that we had to achieve under this Budget Control Act, that there were areas in the Reserve where he could achieve some savings by reducing some of the air lift capability that was not multi-mission. And that's why the decision was made to reduce those areas.

At the same time, I have to tell you, I met with the governors yesterday. They have some -- the same concerns you have. And I indicated to them that we would work with them to determine whether we can -- we can try to do this in a way that can achieve the same savings but provide some -- some ability to relieve some of the impact that some of this would have.

WYDEN:

Well, thank you on that point, Mr. Secretary. Just if you will stay open on that and we can continue to have some discussion on that. I think as we look at those four separate studies (inaudible) Mr. Secretary, what you've done on this is to try to make this a data-driven debate. That's what's really swung us. If we can continue that discussion I'd appreciate it.

One other area I want to get into, and that is energy. You all at the Department of Defense are one of the largest single users of energy in our country, and sometimes just takes your breath away when you think through the implications.

On a recent tour, when we were in Afghanistan, we heard about the fact that it costs in some instances hundreds of dollars, in effect, to get a gallon of gas out to some of the forward operating kind of bases.

So what do you envision, Mr. Secretary, in this budget as actually getting accomplished in terms of making us more energy independent?

PANETTA:

I'm going to have General Dempsey speak to the particulars of what you just pointed out. Energy is a -- is a very important element in driving our national defense.

But at the same time we have made strong improvements in trying to develop energy efficiency, particularly in the Navy, as well as in other elements. And here the goal is to try to continue the investment in energy efficiencies because it does save money in the long run to be able to do that.

But let me ask General Dempsey.

DEMPSEY:

I mean, we are seized of this, Senator. You know, for me it's -- it's part efficiency and part effectiveness. The better we can do at becoming self-sustaining at the point of need, the less we keep -- we put soldiers and sailors, airmen and Marines on road networks. So there's a real operational requirement here.

I mean, look, you know there's places in Afghanistan where you can't get anything by way of resupply except by air dropping it. That kind of drives the cost of that commodity up, when that's the condition in which we place our armed forces.

So the secretary's point, we're seized with it, we've got a commitment in the budget, we've got some plans, milestones, and we're working toward it.

WYDEN:

Thank you, Mr. Chairman.

CONRAD:

Senator Grassley?

GRASSLEY:

Senator Wyden brought up the issue that I was going to start with on the Air Guard, so I don't expect you to say any more than what you said to him, but I'd like to make a little comment about your answer, and that would be this. That you probably correctly quoted the secretary of the Air Force that it was -- that the active duty had taken probably as much as it can and so something had to come from the Guard.

But we got the distinct impression with our meeting of the Iowa delegation in regard to the Des Moines 132nd Fighter Wing being removed that -- that, well, the last time they went through cuts the Air Force did not, now it was the Guard's turn, as opposed to being what Senator Wyden said, have data driven.

So we asked for a lot of this data, but we're not getting anything. And we heard from the National Guard Bureau which fighter wing to cut after the decision had been made to take the cut out of the Air National Guard.

So we're looking for the statistical basis, the data basis, whatever it is, and we're having a hard time getting it. And we'd like to have it, and not just Chuck Grassley but the whole delegation.

My second point would be to read a statement and not have you comment because I gave you a letter that's going to have the basis of what I want to talk about, but just so you know that this isn't something that I give little concern to.

For the last three years, we have -- in my office, we have read, each year, 120 audits done by the inspector general. And you want to remember, we pay about \$100 million a year in this area. So my letter is about just 16 of the 120 audits of the last year.

We've uncovered egregious waste and misconduct at DOD. These reports were issued by the Office of Inspector General last year. I discovered them during the course of my ongoing oversight review of audit quality, where I'm about to issue my third annual report.

If I had to use two words to characterize what I found in these 16 reports, these words would be scandalous and disgraceful. This is some of the worst that I've ever seen. These 16 reports tell me two things. First, all the waste of money needs to be recovered, and second, responsible persons held accountable.

You have said that you want to save \$500 billion. Well, the acting inspector general is serving up some savings on a silver platter close to \$1 billion worth. Unfortunately, without high-level intervention, I fear all the good audit work and all potential savings will be -- go for naught.

I fear the accountability and recover of wasted money not likely to happen any time soon.

All the information I see tells me the hard-hitting recommendations contained in these reports are being slowly and quietly ground down to nothing by Pentagon bureaucracy.

So I respectfully ask that you take a moment, read the summaries of those 16 reports that I picked out of the 120, which you'll find in my letter, and then tell me whether you're disturbed or angered by what you read.

If you see what I see, then please initiate a top-level review of all allegations laid out in these reports. Please urge those assigned that task to search for a reasonable path forward on all the unresolved recommendations. For audits, recommendations are a point of the spear. They're the bottom line. And they're about to fall through the cracks.

May I remind you that these audits cost, as I said, \$100 million. Given the strength of the evidence that I presented, I believe it is incumbent upon all of us to act on the waste.

And I'll just use one example, and only one sentence from my letter.

One of these reports calls for a review of the actions of officials responsible for approving P.V. projects that were not cost-effective and take administrative action as -- as needed.

Now, this is what the Navy's response was to it. In e-mail of January 17th this year, it stated, quote, "It is not necessary to take administrative action against officials responsible for selecting the projects and considers the recommendations closed."

I'll close with this, that I want to compliment -- on another issue, I want to compliment the Defense Department for reopening the Project Flicker investigation. Project Flicker was supposed to examine allegations that government employees, including DOD personnel, have pursued child pornography on government computers. Some of those involved were reported to have sensitive security clearances.

After learning that the Defense Criminal Investigation Service had arbitrarily shut down this investigation, I wrote your predecessor, Secretary Gates, on November the 5th, 2010. I wanted to raise questions about why Flicker investigation was allowed to go dead. I have recently learned that, after review, cases are now flowing from DCIS to the courts for prosecution. That's very good news, and I hope DOD employees purchasing child pornography while on the job are held accountable.

Thank you.

PANETTA:

Senator Grassley...

GRASSLEY:

You can respond if you want to, but you don't have to.

PANETTA:

No, I -- I understand.

(LAUGHTER)

But I'd like to. First of all, I want to thank you for your leadership on these issues. You and I have known each other a hell of a long time, going back to our days on the Agriculture Committee on the

House side. And I've always respected your work in -- in going after waste in the federal government.

I want you to know a couple things. Number one, on those I.G. reports, I do not take those lightly. I think they're seriously done. And my -- my direction to my department is that we will implement the recommendations contained in those reports. And I get a report on that and I'm happy to share that with you, as to what progress we're making in implementing those recommendations.

I have required, when an I.G. makes that kind of report, makes those recommendations, we don't just put it in a drawer; we've got to implement those recommendations. That's something I believe in.

Secondly, our ability to develop our own audit capability, I hope, will give us the ability to get ahead of this game, rather than behind it, where we are now.

GRASSLEY:

Well, I thank you very much. And I know you're very sincere about it, and I appreciate your following through.

CONRAD:

Thank you, Senator.

Let me put this chart up because, you know, Secretary Panetta, you gave a serious charge to this committee in your earlier testimony, saying that we've got to be the conscience of the Congress, in these committees in the House and the Senate.

You certainly were that when you were chairman. I have tried. I must say that I don't feel I've had great success in convincing my colleagues to face up to these matters.

I was proud to be part of the Fiscal Commission. I was proud to be part of the group of six. I think we made serious responsible suggestions to do things on a -- in a balanced way.

Yes, discretionary spending has to be addressed. Yes, we have to reform the entitlements. Yes, we've got to address revenue as well.

But as I -- as I've listened here this morning, I hope the conclusion is not that there's not additional savings that can be derived from defense, not another nickel. Because I don't believe it.

I mean, I've spent a great deal of time looking at places we could save responsibly, and I think don't think we're going to, at the end of the day, have an alternative here.

In fact, if we don't find a way to come together around a comprehensive plan to have additional savings, what's ultimately going to happen here is it's going to be forced on us. And it will be forced on us at the worst possible time, when we are in crisis.

I can't think of a worse outcome for this country. And the problem is, none of these things are very popular with the American people. The truth is, reforming entitlements -- over 70 percent say, no, don't touch them; revenue, about 65 percent say, no, don't do that.

Further savings on program after program that have already had significant savings looking ahead over the next 10 years, people say, oh, no, don't do any more there.

About the only thing they support on the spending side is cutting foreign aid. Well, Mr. Chairman, Mr. Secretary, former Mr. Chairman, you know that's not going to do it. That's less than 1 percent of the budget.

And about the only thing they support on the revenue side is taxing those who have incomes of over \$1 million. And there's no question in my mind we're going to have to ask some of them to do more.

But when I look at -- here it is. Here is the spending in dollar terms. Under the president's budget, there's this little dip, but then it goes up over the remainder of the budget period.

So, when people say, well, it's being cut to the bone, really? It's being cut to the bone? There's more spending every year beyond this next year than we've had, every year, more spending.

I'd compare it to the sequester -- oh, that is harsh. I don't think this is a wise course. I absolutely agree with you that this trajectory and sequester, too sharp a cut, and the means of doing it, across-the-board cuts, by the way, we share your view that's what would have to be done. That really doesn't make sense.

Simpson-Bowles was the only place we've had a bipartisan agreement around here, more savings initially and more savings over time than the president's budget, but not the kind of abrupt cut that we see in the sequester.

So I just say this to you, I hope that we don't conclude, or that it's not your testimony here today that there's not another dime of savings to be derived in defense.

You know, I was -- just had an analyst briefing that was talking about the way we manage our -- our Navy. And we keep crews tied to ships. And that means, when a ship is deployed and it comes -- or the crew comes back, the ship comes back. There's been analysis done that, if we kept the ship deployed and shared crews, that we could derive significant savings.

I don't know if that level of detail is something, Mr. Secretary, you've looked at, but I'd be very interested, do you believe or have you looked at the notion of having crews share ships so that we wouldn't have to, when a crew returns, return the ship?

PANETTA:

Mr. Chairman, I'm not sure that is the case anymore. Because I think there was -- there was a concern about just what you've pointed out. And let me get back to you to make sure that that is the case, but, no, I agree that that's an area that we need to review.

CONRAD:

All right. Contracting: Last year, the department's testimony here was we do have a contracting issue. We do have to better manage our contracting. We do have to derive savings there. Is that still the view of the department, that we -- that we have legitimate savings that could be derived...

PANETTA:

Yes.

CONRAD:

... from better managing of contracts?

PANETTA:

Yes.

CONRAD:

All right.

Senator Graham has returned. Senator Graham has been trying to get his questions in. He's had another hearing going on. That's why he's had to shuttle back and forth. I'm going to stop right now to give him a chance so that he has his opportunity.

GRAHAM:

Thank you very, very much.

This is not a budget question but does relate to what's going on in Afghanistan. There are 3,044 prisoners under American control under the law of armed conflict, General Dempsey, Secretary Panetta. I'm going to ask of you today to provide a detailed analysis of what they are being held for, how many of them IED makers, how many of them engaged in violent attacks against American troops. And do you believe that the Afghan legal system has the capacity to administer justice in these cases by March 7th?

DEMPSEY:

No, sir, I do not believe they do. And as you know, General Allen has a plan to build their capacity over time.

GRAHAM:

Right. But do you agree with me, General Dempsey, if we release these prisoners to the Afghan legal system as it exists today a lot of them would go back out on the streets and try to kill Americans?

PANETTA:

That's trouble.

GRAHAM:

That is trouble. Do you agree with me, Secretary Panetta, that of all the military strategies we've employed in Afghanistan, night raids produced a lot of good results?

PANETTA:

Absolutely.

GRAHAM:

And they've been reformed and the Afghans are more in the lead than ever?

PANETTA:

That's correct.

GRAHAM:

But from a military point of view they need to continue?

PANETTA:

Correct.

GRAHAM:

OK. Do you support a strategic partnership agreement with the Afghan government?

PANETTA:

I do.

GRAHAM:

And they need to do -- they need to step it up if they want one, do you agree with that?

PANETTA:

That's correct.

GRAHAM:

OK. Now, when it comes to the budget, you were asked about TRICARE premiums.

General Dempsey, when you retire would you be willing to pay more in premiums for your TRICARE?

DEMPSEY:

Yeah, I've -- I have made that clear in other testimony.

GRAHAM:

Well, I keep asking you, so I know your wife probably would like to me to stop.

But the reason...

(LAUGHTER)

... the reason I do that is because we haven't had a premium adjustment since 1995. If a means test is to be applied, I think that's smart.

Secretary Panetta, the entitlement part of the DOD budget, health care cost, is competing with guns and weapon systems, is that correct?

PANETTA:

Correct.

GRAHAM:

And you cannot sustain this. This is what you're telling the Congress.

PANETTA:

That's correct.

GRAHAM:

If we don't like the way you've adjusted the premiums, I would just ask the Congress, because we haven't done anything with Social Security -- we should -- I'm for means testing. I'm for a longer retirement age. I would support working till you're 70 for younger workers but giving you plenty of notice.

I'm willing to do the hard things, but when it comes to Department of Defense budget, because we haven't done these other things, there's no reason to put DOD in such a bind.

It is absolutely essential you get control of your health care costs. Is that correct, Secretary Panetta?

PANETTA:

That's correct.

GRAHAM:

If you got a better way of adjusting premiums, let me know, but it has to change.

PANETTA:

I'm open.

GRAHAM:

This is a better deal than you'll ever get in the private sector. It should be a good deal. But it's an unsustainable deal.

Now, when it comes to BRAC, I am in the camp that if we're going to look at trying to save \$480 billion, whatever the number is, that we should put everything on the table. And do you -- do you believe it would be prudent to take another look at our bases?

PANETTA:

You're in the right camp...

(CROSSTALK)

GRAHAM:

Well, I just think we can't say, "Not in my backyard."

Now, when it comes to sequestration, you say it's the dumbest idea you're heard lately, right?

PANETTA:

That's right.

GRAHAM:

And you're competing against a lot of dumb ideas. So that's really...

(LAUGHTER)

... that's really a big (inaudible). So would you -- would you be willing to consider resigning if you were ordered to implement sequestration, in protest?

PANETTA:

Well, I'm not going to go there, because I...

GRAHAM:

I wouldn't want you to.

(LAUGHTER)

I wouldn't want you to because I think you've been one heck of a secretary of defense.

But the way you communicate, General Dempsey, much to your credit, you're telling us without any nuance we'll destroy the military if we can't fix this problem. And I promise you we're not going to let the military be destroyed.

Now, when it comes to budget threats, budgets and threats, do you believe the Iranians are trying to develop a nuclear weapon, Secretary Panetta?

PANETTA:

I think they're developing a nuclear capability. Our intelligence makes clear that they haven't made the decision to develop a nuclear weapon itself.

GRAHAM:

Do you feel confident that we have the ability, if necessary, militarily to deal with the threat that Iran faces?

PANETTA:

Yes.

GRAHAM:

OK. And if we implemented sequestration, that threat -- that ability would be greatly reduced?

PANETTA:

That would hurt us.

GRAHAM:

OK. Now, at the end of the day, General Dempsey, you're being tasked to take \$450 billion out of the -- out of the military budget. We're being pushed to do that. But if you do more -- \$600 billion on top of that -- that'd be a no go for you?

DEMPSEY:

We'd have to go back and look at -- we'd have to redo our strategy and we would not any longer be a global power.

GRAHAM:

OK. When it comes to Afghanistan, Secretary Panetta and General Dempsey, is it worth it? What is winning? What's the benefits of winning? What's the cost of losing? Could you describe as briefly as possible?

PANETTA:

The reason we are there, Senator, is because our mission is to dismantle, destroy and defeat Al Qaida and their terrorist allies. And that means that our ultimate goal here has to be an Afghanistan that can control and secure itself and make sure that it can never again become a safe haven where terrorists can plan attacks.

GRAHAM:

Do you think that's possible?

PANETTA:

I do.

GRAHAM:

That would be winning?

PANETTA:

That's correct.

GRAHAM:

What's the cost of losing?

PANETTA:

The cost of losing is that the Taliban without question would regain control there, that terrorist allies would again come together, and their sole goal is to attack this country.

CONRAD:

I thank -- I thank the senator.

I thank the witnesses. I especially thank -- we're a little beyond time, I apologize for that. You've been extremely generous with your time. This is an important hearing for this committee.

We are delighted, Mr. Secretary, that you were here in person.

General Dempsey, thank you very much for your testimony and for your service.

Thank you, Secretary Hale, for yours as well.

And we'll...

SESSIONS:

Mr. Chairman, just let me thank the witnesses also for your testimony and for your service to your country. And we know and the military's accepted larger cuts already and working diligent to achieve those with -- in the most effective way, than other departments have been asked to achieve. In fact, many of them have asked to achieve not any cut, zero. And I think that's important.

With regard to the chart that you were showing, Mr. Chairman, I think that's probably not -- that's probably in dollars not adjusted for inflation. Adjusted for inflation I think if we continued, you wouldn't see a growth.

I think the relative growth pattern you showed in that chart is probably accurate between the three different proposals.

CONRAD:

Yeah, you're right, it's in dollars.

SESSIONS:

But if you adjust it for inflation and energy costs go up, material costs go up somewhat over the years.

So I just -- I think that the sequester represents a greater threat than we would like to admit, and the way to fix it is not to give up the reductions in the total number, but to look at the other aspects of the government, and Senator Graham mentioned that, and see if we can maintain a healthy Defense Department, making sure that our men and women in uniform know that, yes, we had to take some cuts and reductions, but we affirm them, we believe in them, and we're not breaking faith with them.

That can be done, and I think we share that common...

(CROSSTALK)

CONRAD:

Yeah, we share that view. I think it's a very good summary statement for what we've got to try to achieve here.

I think one thing that should go clear -- out as a message clear from this hearing, on both sides here we don't believe the sequester ought to go forward. It is terrible policy, certainly for the national defense of our country. So let's not have that be a result.

At the same time, we understand we gotta deal with this deficit and debt threat, too, as difficult as it is.

And, Senator Graham, thank you for your question, right on point.

We'll stand in adjournment.

CQ Transcriptions, Feb. 28, 2012

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SEN. JOHN THUNE, R-S.D.

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SEN. KELLY AYOTTE, R-N.H.

WITNESSES:

SECRETARY OF DEFENSE LEON E. PANETTA

GENERAL MARTIN DEMPSEY (USA), CHAIRMAN, JOINT CHIEFS OF STAFF

ROBERT F. HALE, UNDERSECRETARY OF DEFENSE (COMPTROLLER)

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