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REAL SPECIFICS: 15 WAYS TO RETHINK THE FEDERAL BUDGET

PART I: BUDGETING FOR A MODERN MILITARY

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ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

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706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

PARTICIPANTS:

Welcome and Introduction:

ROBERT E. RUBIN
Co-Chair, Council on Foreign Relations
Former U.S. Treasury Secretary

Moderator:

MICHAEL GREENSTONE
Director and Senior Fellow
The Hamilton Project
The Brookings Institution

Authors:

ADMIRAL GARY ROUGHEAD (Ret.)
Annenberg Distinguished Visiting Fellow
The Hoover Institute, Stanford University
Former Chief of Naval Operations

CINDY WILLIAMS
Principal Research Scientist, Securities Studies
Program, MIT
Former Assistant Director, Congressional Budget
Office

Discussants:

JOHN DEUTCH
Institute Professor, MIT
Former Director of Central Intelligence
Former Deputy Secretary of Defense
Former Undersecretary of Energy

MICHELE FLOURNOY
Senior Advisor at the Boston Consulting Group

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706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

Former Undersecretary of Defense for Policy

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Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

PARTICIPANTS (CONT'D):

SAM NUNN
Co-Chairman and Chief Executive Officer, Nuclear
Threat Initiative, Inc.
Former U.S. Senator (D-GA)

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P R O C E E D I N G S

MR. RUBIN: (in progress) -- of the Hamilton Project. At the beginning we issued a strategy paper. It was our idea as to what an economic strategy should look like for the country, and then in that context and ever since we've had events built around specific economic projects. We've presented rather serious policy ideas and serious policy discussions. We don't endorse proposals, but we have events like we're having today, and then we bring that work product to government officials and to the media through an extensive outreach process. We support market-based economics, but equally we support a strong role for government to do and fulfill the purposes that markets by their very nature will not perform. We believe in the objectives of growth, widespread sharing of income, and economic security. We believe that they can all reinforce each other.

In response to the hardship that many Americans have experienced and continue to experience,

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we've had events on and done work on stimulus, on mortgages and many other areas that are relevant to current conditions, but our focus is long-term economic policy.

Looking to longer term, we believe that our country has enormous strengths: cultural and entrepreneurial dynamism, the rule of law, flexible labor and capital markets, vast natural resources, and much else. As a consequence, we believe that our country should succeed over the long term, but to realize that potential we need a sound fiscal regime. We need vigorous public investments in the areas critical for success, and we need to reform, in many areas, health care costs, immigration, education, and much else.

I don't think there's any question but there's widespread agreement across a broad spectrum that our country has an unsustainable and dangerous fiscal outlook, but beyond that, there are wide disagreements as to what to do and when to do it. My own view is that job creation and growth versus

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deficit reduction, as the issue is often put, is a false choice.

I see senior executives of large corporations with substantial frequency given what I do, and virtually every discussion these executives express uncertainty about future policy, concern about our ability to govern, and say that those factors are seriously affecting hiring and investment. I believe that a well-constructed fiscal program could promote job growth and recovery in the short run and would certainly meet an absolute imperative for long-term success. That imperative includes avoiding the highly probable serious destabilization either in the form of fiscal crisis and financial crisis or serious inflation if our fiscal outlook is not addressed.

Some analysts are also concerned that the fed's unconventional monetary measures may pose similar risks, not now but at some time in the future, and complicate and heighten our vulnerability.

My definition of a well-constructed program will be one that stabilizes debt to GDP over the

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course of the next 10 years, the federal budget window, at some acceptable level and would include robust public investment, balanced funding from cost constraint and revenue increases, and possibly a moderate stimulus. The program would be enacted now, but implementation would either be phased in or deferred for some limited time with effective enforcement mechanisms to give the recovery some time to take hold.

There certainly are many who would disagree with my fiscal views and also the views implicit in what I've said about the role of government in our society and our economy, but as we face sequester and its across-the-board cuts in defense and non-defense areas of the budget, it seems to me we should all be able to agree that our fiscal resources should be used more thoughtfully to garner the greatest possible benefit from the money spent. That involves both reducing the role of politics and allocating resources, and that really is part of a larger issue, which is our nation's ultimate and fundamental

challenge, effective governance.

It also involves devising better policy for using available resources. In the context of the current fiscal debate, the Hamilton Project has put together a two-part agenda for the better use of fiscal resources. Today's program will start with our distinguished authors: Admiral Gary Roughead, Annenberg Distinguished Visiting Fellow at the Hoover Institution at Stanford and the former Chief of Naval Operations; and his co-author, Corey Shockey, also of the Hoover Institution at Stanford. And then the other author, Dr. Cindy Williams, Principal Research Scientist, Securities Studies Program at MIT and former Assistant Director of the Congressional Budget Office.

These authors will present proposals for more effective use of our defense budget at a time of fiscal (inaudible). Then these approaches and this whole question of managing the resources of the Defense budget, again in the context of fiscal constraints, will be discussed by a panel consisting

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of our two authors and three extraordinarily well-qualified discussants: John Deutch, Institute Professor, MIT and former Director of the Central Intelligence Agency and former Deputy Secretary of the Department of Defense; Michele Flournoy, Senior Advisor at the Boston Consulting Group and former Undersecretary of Defense for Policy; and Sam Nunn, Co-chairman of the Nuclear Threat Initiative and former Chairman of the Senate Armed Forces Committee.

The panel will be moderated by Michael Greenstone, (inaudible) Professor of Environmental Economics at MIT, Senior Fellow at Brookings Institution and Director of the Hamilton Project.

The next week on Tuesday, the Hamilton Project will turn to the domestic side of the agenda. We'll have discussions focusing on 13 very brief papers, and that program will begin with a discussion by three former CBO directors: Donald Marron, Bob Reischauer, and Alice Rivlin. The final product will be a Hamilton Project book that contains all 15 of the proposals that is aimed at the idea of making more

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effective use of the resources that we have.

Let me close my remarks by thanking our authors and our discussants, and we also thank the three people who created the electrical construct for this program: Michael Greenstone, as I already said, the Director of the Hamilton Project; Karen Anderson, the Managing Director of the Hamilton Project; and Adam Looney, Policy Director of the Hamilton Project and Senior Fellow at the Brookings Institution. Let me also thank our enormously talented staff without whose work nothing that we accomplish would be done. With that, let me turn the podium over to Michael.

MR. GREENSTONE: Okay, thank you, Robert, for that fantastic introduction to our two-part series on budget distinguished panel there's nothing to do but to get right down to business, and so we're very fortunate to have Cindy Williams talk about A paper she wrote for us and that will be followed by Admiral Roughead.

MS. WILLIAMS: Thanks so much, Mike, and thank all of you for coming. I want to thank with all

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my heart the Hamilton Project for making this work possible and for setting up this fantastic forum.

As of this morning, it seems as if the House and Senate are not going to find enough common ground to avoid sequestration starting about a week from now. Even if they do, the Budget Control of 2011 will still mandate 8 years of defense cuts beginning on October 1. Two weeks ago, Chairman of the Joint Chiefs of Staff, General Martin Dempsey, testified that those cuts would severely limit the Department's ability to implement the current defense strategy. Severely limit the ability to implement the current defense strategy, so the big question for the Defense Department and one that it really needs to answer very soon is what strategy could it implement given the likely budget limits over the coming decade? What I'm going to do is talk for a few minutes about the size of future defense budgets, and then turn back to that question of strategy.

I think that even if the Budget Control Act is ultimately overturned, it's very likely that

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Defense will ultimately be cut by at least that amount, by at least that amount. And if I can figure out how to advance this slide, I will. Where do I point? There it is. Okay. So, this slide compares the non-war national defense budget under the Budget Control Act, that's the bottom line. With the plan the President put forward in February and it backs up to 2001, so that you can see where we came from in the post-911 period. As you can see, the Budget Control Act would cut about 10 percent from the President's budget every year. It would return non-war defense spending to about its 2007 level in real terms.

Unfortunately, those Budget Control Act cuts are nowhere near what would be needed to bring the nation's future debt load into a sustainable path. Hold the federal debt just to today's level as a share of gross domestic product, just holding it to that point would require the government to shift hundreds of billions of dollars every year, either into taxes or out of spending or do some combination of the two.

Now, suppose it had to take all of that

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reshuffling out of the Defense Department. There would be no Defense Department left because we're talking about hundreds of billions of dollars, and that's about the size of the Defense Department's current budget, so it can't be done in that way. This entire problem cannot be loaded onto the back of Department of Defense, but I tried to explore what might happen if Defense got something like a fair share of dealing with that problem, and that is represented by the lowest of the 3 lines on this picture. Here what we see is if we didn't start until 2015 to get truly serious, beyond the Budget Control Act, truly serious about closing this fiscal gap, then Defense Department's fair share of the cuts that would have to be taken might come in to bring a Defense budget that looks about like this. This is about a 16 percent cut relative to what the President had in his plan that he submitted to Congress last February.

You also can see that it takes non-war Defense spending about back to the 2003 level, and so back to General Dempsey's point that the Department

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can't afford its current strategy even under a 10 percent cutback, which is the Budget Control Act cutback, and yet it might get an even more severe cutback, what strategy could the Department afford given what I think might be at three sources over the coming decade? What strategy could it afford?

Well, to answer that question, it's important to figure out what forces and what investment programs the Department could actually sustain given one of these two levels of resources, either the Budget Control Act level or the level that I'm saying might be a fair share for Defense.

The choices the Department makes and the forces it decides to keep or the forces that it decides to build and the modernization programs that it decides to keep or open up, the choices it makes regarding infrastructure, the choices it makes regarding readiness, all of those choices are going to determine the missions that the military can reasonably be expected to conduct in the future. And they're going to determine the level of risk that will

be associated with those missions, and ultimately, they are going to determine the defense and national security strategy that can ultimately be sustained under these levels of funding.

Well, I have a problem when I try to figure out what forces can be sustained under these levels, and that's even under a growing defense budget, the military is facing a problem with rising internal costs. There are several areas where their costs are growing significantly faster than inflation, and so if their budgets are held steady in real terms like all of these budgets would be, then those rising costs, internal cost growth, those rising costs are going to crowd out the money that can be spent on forces and the money that can be spent on modernization or readiness or infrastructure.

So, my report looks at several alternatives for holding those costs in check, and then in my report I basically assume those problems away and move onto the force structure problem. So, if those internal costs can be brought under control, if they

can be reined in, then cutting the Defense budget is still going to require significant reductions to force levels. And again, how those reductions to force levels get meted out among the services and also within the services is going to determine the shape of the future of the military and what it can do and what strategies basically are available to it.

So, you can come up with any answer you want in this game, basically, but I chose to look at things two ways. I looked at two options for force structure. The first one, Option 4-1 in the second column there reflects a 10 percent cutback to the non-war defense spending, so it's basically consistent with the Budget Control Act in the size of the future Defense budget. It then distributes the fiscal cutbacks proportionately among the Army, the Department of the Navy, and the Air Force. This option would result in a military that is about 14 percent smaller. You see the active Army brigades go down by about 14 percent than the one that the Department of Defense currently plans, but it's shaped

about the same as the force the Department of Defense currently has and is about the same as the force that the Department of Defense currently plans to have.

A force like this would still be capable of a wide variety of missions. It would still be the most awesome military on the planet, but it would not be particularly well tuned to any of the specific missions that even the Defense Department has been positing it wants to turn its attention to.

Option 4-2 takes a 16 percent cut, but it falls more heavily on the Army and less heavily on the Navy. This force would be smaller overall than the first one, but it would be significantly better aligned to the maritime missions that might predominate a shift toward Asia, the kind of shift toward Asia and the Pacific that the Defense Department talks about.

So, finally, what strategy do I think we can sustain under these budgets? I think the strategy of the future is going to have to be significantly more restrained than that of the past two decades. Under

likely fiscal constraints, the forces we can afford will not be suited to long wars requiring 200,000 troops on the ground. Policymakers should not call on them persistently to intervene in other country's civil wars or to topple dictators to build democracies in other countries, or for lengthy peace-keeping and stability operations. Instead, the strategies should focus very deliberately on conflicts against rising powers, on wars among the great powers, and on protecting the most vital U.S. national security interests.

In particular, the second option, Option 4-2, I think is well suited to a more focused version of the Department's own current plan. I think it's safe to say that under either option, the U.S. military will still be the strongest by far in the world, and if the internal costs can be brought under control, it can retain that position for decades despite the budget cuts.

So, I thank you very much. I look forward to the discussion with the rest of the panel and also

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with all of you.

MR. GREENSTONE: Thank you, Cindy.

(Applause) Next, we're going to have Retired Admiral, Gary Roughead, and I think it's a joint presentation with his co-author, Corey Shockey. Two for the price of one.

MR. ROUGHEAD: Good morning and thank you to the Hamilton Project for the opportunity to talk about something that I think is extraordinarily important. I will apologize ahead of time. I do not have any PowerPoint slides. I spent 4 years in the Pentagon and part of my rehabilitation is to not use PowerPoint for another 4 years.

I would also like to take this opportunity to thank my co-author, Corey Shockey, a brilliant thinker, strategist, and someone who knows how to frame a discussion extraordinarily well. So, Corey, thank you very much for being a participant in this.

There's enough talk about sequestration, and I will only add a short sound bite to it in that what we believe is that sequestration as currently enacted

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will have a significant effect on near and long-term security, and if it is implemented it will be very damaging, in my mind. And to make cuts without addressing the systemic problems within the Defense Department, or what we call the drivers within the Defense Department, if we don't address those, then the cuts that we make today will be followed by another round of cuts in short order. We acknowledge that what we are proposing is hard. It is painful, and it is very controversial. But if the systemic drivers are fixed, we do believe that reductions to the Defense budget to the amounts that are encompassed in the sequestration target can be absorbed, but they won't be able to be absorbed starting within the 10-year period starting now. In other words, some of the changes are going to have to be put in place through some changes in legislation, and then the drawdown of personnel, having done it within the Navy, is much more difficult than it may appear on a PowerPoint slide.

There are some assumptions that we've made

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in our paper: That we expect budgets to be tight for at least a decade. That's the environment in which we'll be operating; that the United States will remain the global security provider; that sensitivities with regard to sovereignty will limit and restrain and restrict access on foreign shores, and therefore offshore options are going to be preferred.

We also make it very clear that this time is different, particularly for our industrial base. The industrial base today is much more brittle than I have ever seen it in the amount of time that I have been involved in the Defense business. That the claim that we can take cuts now in the base will be reversible and it can regenerate the force structure later on, I believe, is a bad assumption to make. And we also believe that the international security environment is relatively and generally conducive to our interests.

And so, now is the time that we believe to make some systemic fixes to the way that Defense is resourced, and we propose three areas: something that we call force design, what is the total

military force that you need to go off and do the things that the nation expects you to be able to do; acquisition and personnel, and I'll cover the first two and then Corey will come up and talk about the personnel dimension, and we'll also wrap up. As I mentioned, our belief is that, going forward, offshore options are going to be preferred because of the concerns over footprint and sovereignty. That offshore option will also enable very agile and effective counterterrorism operations, which we consider will be necessary for the foreseeable future; that the large ground campaigns -- as Cindy mentioned -- will be highly unlikely. And this is a very difficult aspect of our discussion to take on, because of what our ground forces, particularly our Army and Marine Corps have done for the last 10 years -- the burdens they've borne, the success that they've achieved, and the character of those forces are something to be admired and to be respected.

But it's also apparent that in the new environment in which we will enter, that forces will

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have to arrive with a lighter footprint, and they'll have to arrive much faster than in day's past. So, accordingly, our proposal calls for a reduction in the active complement of the Army of 200,000, and 100,000 of that would move into the Guard and Reserve.

The Marine Corps, being the on-call force, and the rapid-reaction force, would be reduced to 172,000. And the Navy and the Air Force would retain the priority within the defense budget, going forward, with the Navy being responsible for Middle East and Asia presence, and the Air Force for speed of response in Asia.

The infrastructure from which those forces operate needs to be sized to the force itself, and that the apportionment of the defense budget must be apportioned to the strategy, and not in what has become the habitual equal service share over time.

We also believe that as we look to the future, that we should reduce the reliance of contractors in the operational environments in which we are engaged. And the civilian workforce, which

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does so much for the Department, and for our national security, while it has been illogically stable over time, and as the uniformed forces fluctuated, the civilian force has not, we are proposing that civilian force structure be reduced at a greater percentage than uniformed force structure. And that in order to manage that civilian work force, and to -- for want of a better term -- green our civilian defense personnel, that we would re-institute the National Security Personnel System that allows for better management, and provides for more incentive to young people to getting into the national security profession.

In the area of acquisition, we see the problem as being one of an overly bureaucratic requirements process, increasingly demanding regulation, redundant layers of oversight, and very dispersed accountability.

We believe that the nation's industrial base must be viewed as a national strategic asset, and to be managed accordingly; that, in moving forward with the programs, acquisition programs, that requirements

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must be frozen early. Life-cycle costs, particularly life-cycle costs of personnel must be a key acquisition factor, and that there needs to be more central accountability in our proposal, as has been made by others who have commented on the defense acquisition business, that the service chiefs become accountable for requirements and costs, and delivery of the systems.

We believe that the industrial base, as brittle as it is, needs to be expanded. This is particularly going to become very critical as we see the effects of some of these draw-downs on small businesses and their ability to survive in these tough environments. And we also believe, to better draw in and operate cooperatively with allies around the world, that there needs to be a major push on revising export controls, and some of the restrictions that keep us from being more interoperable through equipment with our allies and our partners.

And I will end there, and I'll ask Core Shockey to come up and talk about personnel, and then wrap up for us.

MS. SHOCKEY: So, Gary asked me to talk about the personnel issues, because he's hoping that if one of us gets tarred and feathered for these proposals that it's going to be me, and not him.

And it is a very emotional issue. It gets cast in terms of any changes to current compensation breaking faith with our military forces. And what we are trying to do is make it safe for people who want to make changes to current changes not to be cast in that light. Because we believe that there are sensible changes that can be made, and that the current compensation structure was designed for increasing the force by 100,000 active-duty soldiers and marines, while the country was fighting two wars across 10 years. It seems to us that it was reasonable in that context, but it's not necessarily true -- and I see Larry (inaudible), who's an ally on this -- when we are cutting the force, that, in fact,

our main message is that the all-volunteer force, as magnificent as it is, is becoming unsustainable, and we need to make sensible choices to bring the personnel accounts onto betting footing, so that the force of the future is as well trained, as well equipped as our current force is.

A couple of baseline points: The personnel accounts constitute roughly a third of the defense budget -- so, about \$200 billion. And in the Budget Control Act, the Congress gave the President an option, and the President exercised it, to exclude personnel accounts, all of them, from the reductions. So one of the reasons that last week you heard the service chiefs so anxious about the pressure on readiness, is that a full third of the budget has been exempted from the sequestration cuts. That magnifies the effect in the other part of the budget.

In fact, what we have, as Dr. Williams made clear, is we have a guns-versus-butter tradeoff going on inside the defense budget, where the personnel accounts have grown at galloping paces. They have

roughly doubled in the last 10 years, when the size of the force has only increased by 3 percent overall, and only increased by 10 percent if you concentrate it in the active-duty force. These accounts have doubled.

And benefits account for 51 percent of military compensation currently. The cost of military health care has doubled in the last 10 years, while the contributions that service members make to it have not increased. The current military health system requires no enrollment fee, and only a \$300 deductible, for a family, across a year.

The DoD budget that Secretary Panetta presented in FY 2013 slows the pace of the increases, but really does almost nothing to rein them in. And even then, Congress has been unwilling to make, to constrain the costs of the benefit packages.

One of the things that we noticed -- there's a terrific study done by Todd Harrison of CSVA, that tried for the first time to actually see if you could tailor benefit packages by asking folks in the service what do they value, to see how the costs to the

Department of the programs marries up against how people value it. And it's a fantastic study. I encourage you to see it. The benefits that service members valued most highly actually save the Department money. They are: being able to choose your duty station, and the length of your tour at that duty station.

So we believe there is actually really wide latitude to make changes within the benefit package that are cost effective, and actually increase service member satisfaction with it. And we are trying to make it safe for others to go to Capitol Hill and say that these kinds of constraints on the growth of the benefit package need to be undertaken.

Just to make a couple quick points in conclusion about our paper -- we do believe that spending cuts in the neighborhood of the top line, the \$500 billion additional to defense cuts across the 10 years, are manageable in a way that doesn't damage our security, provided DoD is given the latitude to actually set priorities and program those changes. So

it is not the size of the cuts that is so damaging, it is the fact that we're not giving managerial latitude to the Department to do it in a way that makes sense.

The American military is absolutely superb, as Dr. Williams also emphasized, and as Gary exemplifies. They are terrific at what they do. They are not, however, particularly cost effective. And as we are looking at roughly a decade of austerity in the defense programs, we believe we need to take this opportunity to put the main drivers of costs -- force design, personnel accounts, and procurement -- we need to put those on more sustainable footing. And if we don't, the austerity, whether it comes in sequestration, or whether it comes by other means, is actually going to be enormously damaging to America's security.

These aren't acts of God, these are choices. And we need to make sensible choices that bring our defense spending into a more cost effective basis.

Thank you. (Applause)

MR. GREENSTONE: Thank you.

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So, I think our first question will be for Michele. Michele, I recently read your op-ed in *The Wall Street Journal*, and I noticed there's a lot of similarities between what I think were two really excellent and brave proposals. There's a lot of agreement about reducing overhead, health care costs, some discussion of base closings, some discussion of reforming acquisition. And if there's a difference that I saw between your op-ed and the two proposals, it seemed to be that they placed a greater emphasis on, I guess the euphemism is "force redesign," or cutting the number of troops may be the more vernacular way.

So, I wondered if you could talk a little bit about that, and why think that that's less important than they do?

MS. FLOURNOY: Thank you. I, too, was struck by the similarity of the proposals, in terms of going after some very fundamental structural reform in the defense enterprise in the categories that you mentioned. I do think that's the place to start, and

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that is going to be most critical to putting us on a sustainable path during a decade of austerity.

The reason I didn't address further cuts in military end-strength is that, you know, this has been going on for awhile. As Admiral Roughead can attest, the Navy and the Air Force, in particular, have been trading end-strength to try to keep their modernization and readiness accounts healthy for a number of years now. You know, we already have a fairly ambitious draw-down underway for both the Army and the Marine Corps. I think the pace of that draw-down is about as fast as can be managed by the services at this point.

The question is, how far should that go? Should it go deeper than currently planned?

My own view is that that's a question we should visit in three, four, five years down the road, not necessarily one that we need to answer now. I would rather see our attention focused on the very politically challenging questions -- as Corey has

outlined, and Cindy, and Admiral Roughead -- of transforming the defense enterprise.

You know, I think that the strategic guidance that was put out a year ago actually gets the strategy about right. The question is, how do we continue to tailor the force towards really meeting those priorities of focus on East Asia, the continued ability to do crisis response in critical regions like the Middle East -- but accepting the assumption that we're probably not going to fight two large, long ground campaigns simultaneously again any time soon.

So, you know, again, I think this question is important to put on the table. I didn't put it first in my own writing because I think we're moving about as fast as we can on the draw-down at the moment. I think we have time to decide that ultimate question of how much farther do we push the reduction on the military side.

MR. GREENSTONE: Thank you.

The next question is for Senator Nunn. I think there's hardly a person alive with as much

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experience on these issues, especially having been involved in a previous draw-down.

I wondered if you could share with us what the Congressional perspective on some of these issues might be -- and the two proposals, in particular.

MR. NUNN: Well, let me say that I think the Defense Department made a number of proposals on the personnel side last year that were all rejected by the Congress. So there has to be a political strategy here to deal with that subject. And I think Gary and Corey, and the papers, both papers that were presented, basically talked about the service chiefs' getting involved in talking about the unsustainability of the personnel accounts.

Now, my experience tells me you've got to grandfather a lot of that. You cannot affect the people who banked on retiring after 20 years, and say you're all of a sudden going to change the system. But, for new people coming into the military, the system's going to have to change. But there has to be a political strategy even for that.

And there are a lot of things you can do, but without the leadership of the President of the United States on this issue, without the leadership of the Secretary of Defense, without the leadership of the service chiefs, Congress will have a very hard time grappling with it.

My experience tells me that the people that pay attention to any kind of change in compensation, even future change for people who are not even in the military now, they are the people who are in the military, and the retirees. And the constituents out there who, overall, believe in fiscal responsibility, and know that things have to be done, but don't know what, pay no attention whatsoever. So unless the chiefs get out in front here, the political strategy will be missing.

I think it's imperative that it happen. And Gary speaking out on this subject is enormously important. Cindy's paper is extremely informative. I think Corey outlined the personnel challenges.

So I think these two papers -- and I think, Bob Rubin, what you are doing here at the Hamilton Project is a real step forward in promoting this kind of discussion and this kind of debate which has to take place for anything to really be done on Capitol Hill.

I would say it's not a good precedent to have the Budget Control Act basically exempt all personnel. That just makes everything else much harder. CSIS -- and David Berteau is here today, Arnaud is here, and a couple of others from CSIS -- recently did a study that's basically -- correct me if I'm wrong on it -- but basically said if you take the sequester as it's now outlined, with very little flexibility, and if you take the internal problems within the Department of Defense -- not the top line, but what happens within, personnel account growth, retirement growth, health care growth -- if you take those two things as a given, to really get procurement and research and development, which is the future of our military, to get those accounts back to the

historical level would require almost a half million people be cut out of the force structure.

Now, those are several "ifs." But that shows you the scope and the magnitude of where we're heading right now. This is a very serious problem.

Let me just take just a moment to point out a few things where I think the papers are very valuable, and I see agreement between the two papers.

First of all, I think both of them agree that overall deficit reduction is absolutely critical for national security. And Admiral Mullen has said this over and over: The biggest threat to the nation's security is the deficit problem and the debt problem. So that's one I think both papers agree with. You all correct me if I'm wrong.

The second point I think they both agree with is that reform in defense, within the defense budget, is just as important as the top line. Both are important, but both have to be addressed. It's not just how much the top line is, it's what you do within the defense budget.

And the third point I think both agree on, and that is the sequester is not the way to cut. It's the worst possible way. Erskine Bowles said the other day it's stupid. And it is. I think it is really counterproductive. If you gave defense the same numbers, but gave them 10 years to do it, and a lot of flexibility, it makes an enormous difference what comes out at the end of that 10 years -- even if you come out with the same basic dollars.

The fourth point I think there's agreement on in both papers is that the personnel costs are unsustainable. We've already talked about that. That has to be known. That has to be a matter of education. If it's not, changes are not going to happen.

And the next point is -- and Michele would have a little different view on this -- but both papers indicate that force size has got to be reduced, the size of the forces. You can quarrel about how you take the cuts, which services, but overall, you can't

have the same number of people that you have now and meet these budget requirements.

The next point I think there's agreement on -- and I think we should not neglect this one in the debate and discussion, because I think it's going to have to be a national understanding on this, much more so -- and that is that we're going to have to have a more prudent and more restrained decision-making in terms of commitment of military forces to solve problems around the world. We simply cannot continue to make the kind of decisions we've made in the last 10 to 20 years.

And, finally, on the positive side, if we're smart -- I think both papers indicate if we're smart, we should be able to retain the strongest and most capable military in the world. But both papers assume policy-makers will make the tough decisions. That's another assumption of both papers. That is not automatic. And without leadership, that's not going to happen.

Let me just close my observations on the papers on the papers by one quote from the paper that Gary and Corey did, and I think this is enormously important -- important for the news media here today, too. And this is a direct quote, if I can read my writing:

"What is different today: speed and the ubiquity of information creates pressures to act, and increasing impulse to prematurely translate violence and disorder into strategic threats."

To me, that may be the most important sentence in the paper that Gary and Corey wrote, because that tells us we've got to understand that, in an information age, we simply cannot take every acute, serious problem and treat it as if it's a vital interest to the United States for which we're going to commit and put in harms way our young men and women in the military. That's going to require a different kind of thinking.

We have not adjusted in a post-Cold War world. In the Cold War we knew that neither we nor

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the Soviet Union could commit military forces every time there was a problem in the world, without the possibility of escalation to super-power confrontation and nuclear war. That restraint is gone. And with that restraint, I think America has got to rethink what we're doing.

MR. GREENSTONE: Thank you very much, Senator Nunn.

The next question is for John Deutch. So, John, I think, you know, part of the power of the American military is the awesomeness of the technology, you know, when you see what the Predator drones can do, and you can see the various incredible technologies that have come out of the military, on the one hand. On the other hand, everyone has their favorite story about the \$700 hammer. And I know you were in charge of acquisition and technology, and served as the Deputy Secretary of DoD -- including in a previous period of a draw-down.

I wonder if you could talk about the proposals in light of those experiences -- and the \$700 hammer, too.

MR. DEUTCH: Well, thank you very much. I think the problem we face, as everybody here has said, is simultaneously to move to a new defense posture that is going to be more affordable for the country. The only ways you're going to do that is by reducing forces, reducing op tempo, reducing acquisition, and also by managing to slow the growth, if not reverse the growth of personnel costs.

I want to focus some remarks in a different direction, one that goes beyond thinking of that problem through the eyes of three different services -- Army, Air Force, and Navy. I want to open a little bit about other considerations that come in. And, in particular, I want to just make four points about how you have to think about this a little bit differently.

The first is: The most important job of the new Secretary of Defense will be to formulate this problem of a new defense posture with an affordable

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10-year budget for the country. That is his most important job. It's got to be done by a civilian authority like the Secretary, as Senator Nunn says. The only way that that can be sold to the President, and then the Congress, and the people of the country.

Secondly, I want to tell you, in my judgment, the tremendous superiority of the U.S. military really comes from its ability to do combined operations -- to do combined operations between air and land, to do joint operations between sea and air. And it's that ability to do combined ops which no other military has, which is our strength.

And planning for and thinking about combined operations must be central to restructuring the force structure and the op tempo in this new world. That does not begin with services, that begins, basically, with the joint staff, and with the Vice-chairmen and Chairman of the Chiefs of Staff.

The second point is, if you think new threats we're going to face, the key threat circumstances -- I'm just going to mention three --

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counterterrorism, cyber warfare, and what we do about our nuclear weapon forces. Those are not connected with any particular service. They must begin by looking at this problem from either sync commanders, combined force commanders, or by looking at the National Security Agency and the intelligence community, but a much wider range of issues than (inaudible).

And, finally, the point that you made, Michael, in the last 50 years all of the major technology advances which have made our military so capable and so strong have really come from civilian leadership -- for example, Stealth, for example satellite reconnaissance -- and introducing that into the military services during the planning process. And that cannot be left out, as we go forward in determining what our future posture at lower budget levels is.

Let me -- I can't tell you how hurtful I found the remarks of these papers that criticized the

U.S. acquisition program. And if I may, I want to take a couple of minutes.

It is certainly true -- and it has been true since the year I first went to the Pentagon in 1962 -- that our acquisition program has been inefficient and criticized. And it is correctly so. I agree with that.

On the other hand, it is by far the best military acquisition system in the world, and it is certainly better than other government agencies' acquisitions programs, some of which I've also been involved in.

MR. GREENSTONE: You also teach at M.I.T., right? We grade on a curve there, don't we?

MR. DEUTCH: But there are some things in here that I think lead us in the wrong direction I want to mention to you, and it's a little bit confrontational, but that's okay.

The first is I don't think there's a legislative fix to our acquisition prop. I do think that the point made by Admiral Roughead is extremely important, and that is you have to get the acquisition process and requirements process working together more seamlessly than they currently do. That's been true for a long time. It has not been confronted. And that would be an important step forward. I don't believe that there's a legislative design that can fix the whole matter.

But there are some proposals in here that in my experience as being Undersecretary for Acquisition at a time when we had a drawdown that was closer to Dr. Williams' 16 percent, maybe in excess of it, than what is planned for today, that it's very important to -- two proposals (inaudible) -- what does it say? Let's cancel a program if it exceeds 10 percent of its design cost. I think that's a proposal (inaudible).

Now, I'll point out to you that Senator Nunn introduced in 1982, with Dave McCurdy, guidelines on major programs that if you go over 50 percent you've got to come up there and say -- explain why that happens. But I want to tell you, it's my experience that if a program goes over-budget, it depends on what the contracting service and development program or not. You've got two choices. The good news is you can cancel it; the bad news is you've got to pay for something to replace it. So, there's a very big problem here.

And my final point has to do -- and I'm sorry to go over this so much -- it has to do about

the defense industrial base. You know, during my time as acquisitions come down, we have given up competition in favor of efficiency in order to have enough production present. The idea that we could afford to increase our defense industrial base I think is just really not there. I would love to be able to do it. We have a single yard to build reactors, aircraft carriers; a single yard to build submarines; a single laboratory that makes large bore artillery. We have one producer of air-to-air missiles.

The worst thing for a monopsonist is making the decision about how much infrastructure you have. And I think that the idea of making our defense industrial base larger in order to deal with this problem really is going to be an expensive undertaking.

Well, I want to end by thanking Dr. Williams and thanking Corey and the Admiral. You know, the most important thing, which is not happening in this town the way it should, is to be debating these questions, debating what these choices are, because I

know that until a Secretary of Defense and a President stand up and say here's how we're going to balance a new force posture with an affordable financial plan, our military is going to be at risk. So, I thank both these authors for being on this board. Thank you.

MR. GREENSTONE: Thank you, John.

So, we now have a free-range -- we can have a free-range discussion here. And, like Senator Nunn, I had a favorite sentence in Admiral Roughead and Corey's paper. It's a different one, so I now wonder if I picked out the right sentence.

They wrote: "The security challenges we face are less daunting than at other points in history." So, I thought we have such a great group of people here to kind of unpack that sentence, and let me just contrast it. When you talk to people who are currently in the military, they're very quick to hear instability in the Middle East with Syria, al Qaeda, counterterrorism, North Korea, the possibility of North Korea building missiles that could deliver weapons to the United States, that problems in Iran,

cyber security, the possible conflicts between China and Japan in the future and what our role would be. And so I think it's important, you know, in parallel to talk about the budget. I think it's important to talk about what's the security situation and are we really at a different point in world history.

Anyone.

ADMIRAL ROUGHEAD: The point that we made in our paper -- and it is very easy to become captured by the events of the day and, as Senator Nunn pointed out, we have much more information coming at us and it tends to be, you know, a lot of emotion injected into it. But I simply look back on our history. And, as one would expect, there's a naval list.

Someone who I admire greatly was Chester Nimitz, who, when he told his wife that he had been told to go take command of the Pacific Fleet, she remarked to him "That's something you've always wanted," and he said "Yes, but the Fleet is on the bottom." So, that's what he started out with.

I also go back in the more recent history,

and I know some folks in the audience may have a better recollection of it than I, but take, for example, the Cuban Missile Crisis where we were positioning nuclear weapons in commercial airports around the country to respond to what became an increasingly probable nuclear exchange. I mean, those events were significant in the history of our military.

We do deal in a very disorderly, disrupted, and messy world, and it's going to be that way, and we're going to be more aware of that disorder and disruption. And how we approach it, I believe, is the key. So, I do think that there have been times within our history that have been much more daunting than what we deal with now.

MS. WILLIAMS: If I could jump in quickly. I need to a very, very simple definition of "national security," and a lot of people will find it old fashioned, but I think it's time we get back to it, and that's that national security is about the protection of safety, sovereignty, territorial

integrity, and enough of a relative power position in the world that we can continue to protect those three things. And that is it.

It's not about making sure that other countries don't have civil wars. It's not about making sure that other countries are democratic. Those may be esteemed, important goals to the United States for other reasons. They may be important goals to the United States even for humanitarian reasons. But they are not central to our national security. And I think the sooner we get back to the sort of old-fashioned definition of "national security," the better off we're going to be.

MR. NUNN: Michael, can I have one word. I alluded to it a minute ago, but it follows on this line of discussion. I think our two sentences kind of go together actually. But the last time --

MR. GREENSTONE: Heard about my sentence now.

MR. NUNN: It's been a long time since I've seen anybody tackle the subject of what's vital versus

what's necessary versus what's desirable. It's not that the desirable is not something your country's interested in. You don't want conflict everywhere in the world. You don't want civil wars. You don't want humanitarian problems. The question is what are the tools you use to deal with it? I think you use different tools for what's vital than you do for what's necessary and different tools for what's necessary from what's desirable.

Allies come into play here. We haven't talked about allies. How do we get our allies to do more? After the Vietnam war, President Nixon came out with the Nixon doctrine. I don't know at what stage we forget about it, but we clearly have. It basically said we'll help people who help themselves, as an oversimplification. But we seem to have lost that. And it has an effect, because people that think we're going to come to their assistance no matter what basically don't take the steps they need to take to prevent the problem in the first place. So, there's a psychology here that we have to begin to think about.

And also I think that we need to understand that the military cannot do everything. I think there are so many advantages of the volunteer force -- and I don't want to go back to another system -- but we have lost a lot of connectivity between the political leadership and people who have served in the military. And my observation is people who've never served in the military tend to think the military can either do everything after we've been successful for a little while or it can do nothing after we've had a big military problem. And there's a lot in between there. So, we've got to develop other tools of government to deal with the necessary and the desirable, and our other parts of government are not prepared to take those roles on.

We need to have people who can go in and help a country that's rebuilding, but usually it's the military who's organized and efficient, and the temptation is to have them do that. So, we've got to have other tools, including, as we're reminded by Bob Gates a number of times, the State Department -- it

has a larger and more viable budget.

When the Secretary of Defense says three or four times that one of the biggest priorities he has is to see the State Department and the diplomacy invigorated with budget, you know something is pretty important there, and that's the message he gave. So, I think we've got to think much broader than simply the budgetary issues. There are a lot of things at stake here.

MR. GREENSTONE: Michèle, I'm sure we'd love to hear your thoughts on this.

MS. FLOURNOY: This is to follow on. I noted that sentence as well, and it really jumped out at me, and I actually agree that we aren't facing existential threats. There are many ways in which friends in the world are very favorable to our interests and values. But I think we are facing an incredible degree of interdependence where our ability to grow our economy depends greatly on what's happening in places like East Asia and other parts of the world. And the nature of the environment -- we

are in a fundamental shift toward a much more multi-polar system.

The nature of the challenges we face is more diverse, more complex, more volatile, more unpredictable. And I think if you, in that context (inaudible), we think about what does U.S. leadership require? I still think we -- even though the nature of our power is changing and what it means to be a unique super power is changing, we still have a unique role and unique responsibilities both to protect our interests, many of which are vital beyond our shores, maintain our alliance commitments, ensure that we help our partners build that capacity that they need to be effective partners and allies and really take more responsibility for challenges in their own neighborhoods. That requires U.S. engagement and assistance.

So, I think we're in a situation where we are still -- we don't want to be the world's policemen. I agree we need a more selective and smarter policy of engagement, but we do have a unique

role to underwrite stability that is in our vital interests, particularly economically, and to be a catalyst for common action for coalitions of the willing to form to go after common challenges and share those burdens. So, I still believe that it requires a military that is thinking and operating in global terms, but I also agree with Senator Nunn's key point that we're not going to have a very successful foreign policy if one instrument has historically been on steroids and everything else is on life support.

MR. GREENSTONE: Thank you.

John, did you want to contribute to this?

Well, I thought I would try to probe a little deeper on one of the issues that I think people often equate with NAV Security, which -- cyber terrorism, and the role of the Department of Defense in that and is the Department of Defense the right place for that and how nervous should we be? Was I correct to be concerned when I was watching the Super Bowl and the electricity went out there?

ADMIRAL ROUGHEAD: I'll start, and I'm glad

to see somebody else had the same reaction during the Super Bowl. But, no, I think that this is all part of this changing information environment that we will live in, and in the case of the military we'll be operating in, and it's only going to become more complex as we go into the future. But I think that this is where there needs to be more of a national approach to how are we going to get at the cyber issues, because it doesn't parse itself nicely into a military dimension, a civilian dimension. I mean, it cuts across all domains that are now dependent on cyber.

The other thing that will happen -- and in both of our papers we continue to talk about the cost of people. You know, the best cyber operators in the country, I would submit, are the people who work within the Department of Defense. But that's going to be a very competitive field for those young people who are very, very good in that area. The financial sector will want them. Infrastructure will want them. And so it's going to be even more challenging to be

able to attract, retain those individuals.

And then within the Department of Defense itself, I think we have to look very differently at cyber organizationally. There will be a tendency, I predict, that we will want to parse our cyber organization and our cyber responsibilities the way that we've done it in the past, and that's geographically. Cyber doesn't know geographic boundaries, and therefore my concern is that we will build multiple organizations that look a lot like one another that draw on this demand for very rare talent and therefore will have incentive that talent. It will become more expensive. And so we have to really take a hard look at that.

And finally I would say that my sense is that the jurisdictional oversight of all aspects of cyber within the Congress is not optimized for the world in which we're going to be living. There are too many committees of jurisdiction that will break up a coherent approach to cyber.

MS. WILLIAMS: If I could just put in my two

cents, it strikes me that there are multiple dimensions, multiple types of cyber issues that we learned a lot over the past year.

For Defense, it's clear to me that they should be doing their own cyber defense. They should be protecting their own computers. They should be doing whatever they're doing on the offensive side as well. But more recently, Defense has put on the table that they'd like to greatly expand their role in another piece of the cyber puzzle, and that's to take over responsibility for the protection of civilian critical infrastructure from a cyber point of view, and I don't think we had that conversation in this country yet about where that role belongs, whether that is ideally a military role or ideally a civilian role.

If it's ideally a military role, then we have to figure out how we're going to pay for it in the Department of Defense budget. If it's a play for another role at a time of potential budget austerity as a way of making sure that Americans know that, you

know, they've got bigger roles, more roles, roles that everybody can see at home -- well, that's something that I think Congress needs to get involved in.

MS. FLOURNOY: Can I just comment on that?

I actually don't see this as a Department of Defense play for a larger role in cyber. What I think -- you know, we cannot afford financially or in terms of human capital to build multiple National Security Agencies. I mean, this is a national resource, and we have to figure out a conceptual and legal framework to have all of government utilization of a very unique set of resources. We can't build every agency its own NSA, and so far -- the fact of the matter is our critical infrastructure, which has huge implications for our national security, is largely owned and operated by the private sector. No one's talking about changing that.

What's being talked about is can we create a legal framework whereby the Department of Defense can actually provide, to share best practices, tools; assist private sector holders of critical

infrastructure to up their game in terms of defenses because of the incredible intrusions that we are experiencing and a very real threat that those could be used in an active war.

So, you know, this is a really tough area, and I agree we have to think through it very carefully in terms of appropriate constraints, oversights, protections for privacy, and so forth. But I think we're kidding ourselves if we think that we're going to multiply the kind of capability we have at NSA many times over and show that each segment of the government or the economy sort of has its own. We've got to build a national resource and then create a very sophisticated legal and oversight framework to make sure that resource can serve different customers and missions within appropriate constraints for those customers and missions.

MR. GREENSTONE: John, did you want to add something?

MR. DEUTCH: Well, this is a very important subject. Not all subjects are best discussed in Area

Code 202. (Laughter) I believe the hard part of this is actually that.

If you say the U.S. government better get its act together to protect our military forces and our government agencies and government functions from cyber intervention, I think that's absolutely right, but we're going to spend a lot more money doing it. If you say we also have to also worry about our private sector with its critical infrastructure or, you know, banks, whatever you want, then the question about how to do it best is uncertain, and it does involve what the consumer can absorb, like, in the consumer of cyber protection, information assurance can absorb.

And I must say I am skeptical of the ability of even the most talented defense or government agency to walk into certain businesses that are subjected to cyber attack and tell them what they need to do or should do about it. I don't think we've solved that problem. I think it's very hard for me to see how the NSA with its wonderful, unbelievably smart, great

capability is going to learn how to do the outreach that, let's say, the Boston Consulting Group could do to reach into these different businesses. (Laughter) So, I don't think we have an answer here, but I don't want to spend money out of here this morning till I have a better idea about what to do.

MR. GREENSTONE: The question for John Deutch is what's the definition of "cybernetics"? He testified before me one time that he three times in his little, small statement had the term "cybernetics," and I asked him a very logical question, "What's the definition of "cybernetics?'" Long, blank -- had no idea. (Laughter) Said, Mr. Chairman, may I take that for the record? Well, he wrote me a letter about two weeks ago. Anyway Deutch has learned a lot since those days.

MR. DEUTCH: I want to tell you, it was a classic (inaudible). A classic (inaudible).

MR. NUNN: Let me offer one observation. I was on a commission called the Marsh Commission back in the late '90s. We made a bunch of suggestions.

One assumption that we were dead wrong on. We assumed that the private sector was going to protect its own networks, its own information, because they would be driven to do so because of insurance risk. We felt that there were going to be so many at risk on insurance, and that has not happened. That has not happened.

Now, I still think it's going to happen, but one thing we thought was going to happen is that Company XZ would have its computers taken over by saboteurs or a foreign companies and from the computers there would be a tax launch that would cause great damage to Companies Y and Z and that you'd have one legal nightmare after another. Guess what. That really has not happened. But most companies don't realize that today that they are uninsured from that kind of liability, because insurance companies write out that coverage. They exempt that.

So, I guess my question is: Where are the trial lawyers when we need them? (Laughter) They've been missing in action here. But it has not happened.

But one other way of -- so, companies are going to have to do a lot more. Their own boards where I serve, they are beginning to understand that and are beginning to do more.

But one other thing I think we've got to if we're going to make progress with foreign countries -- and as Gary suggested, there's no limit, there's sovereigns everywhere. It's pervasive. So, it's not limited by geography or space. All countries have different interests and, of course, we're being hit every day and proprietary, intellectual property information is being stolen every day. Nobody can pinpoint exactly where it is, but there are a lot of suspicions. But other countries don't view it like we do. I think we've got to start thinking in a different framework if we're going to deal with other countries on this subject. CSIS has done a lot of work on it, but I think we have to divide it.

One division would be intellectual properties and proprietary. What do we do about that? Other countries may have similar interest in that as

they begin to participate in the private enterprise world, which is happening all over with emerging economies. So that's one division. Can we identify mutual interests there?

Another division would be criminal, criminal activity. Can we begin to sort out that and cooperate with other countries on criminal activity? I think the answer to that in many cases would be yes.

The third dimension is the most difficult and the most important from a security point of view and that's intelligence and security. That's an area we're not going to probably find that lends itself to cooperation. Now right now the problem is other countries in the world assume that we do what they do and that we do have the capabilities. We have enormous capabilities. Nobody's more capable than we are within SA and others, but we do not cross over into the criminal intellectual properties area. We deal with security and intelligence. We're going to have to start drawing some lines if we have any hope of dealing with countries like Russia and China on

this subject and that discussion has not really started.

MR. GREENSTONE: Thank you. I want to raise another topic so I think one -- half of my time is spent in academia and one of the favorite things for provosts and university presidents to talk about is interdisciplinary research. It sounds great. Everyone loves it. Everyone's got to be for it. And then in practice no one really wants to do it. I wonder if there's an analogy to joint operations in the military. So I think they're viewed as the wave of the future and many successful operations are joint collaborations across services. And I think the question I have as a total outsider is, is there a way for joint operations and joint planning to participate in the drawdown of the budget?

ADMIRAL ROUGHEAD: Sure, I think that one of the things that has happened, particularly as you talk about jointness, is the creation of large, joint headquarters. And if you look at the service personnel allocations, if you will, they are sized for

the services. They are not sized for the growth in the number of joint headquarters that have taken place. And so the services are providing people to those joint headquarters. And I think you have to decide at the end of the day what really gives you the effect, and it's how the various components come together to bring their individual capabilities to bear that really gives you the effect that you need in the battle space. And I think that what we've done is we've created far too much overhead in the joint world that I think needs to be drawn down. And as we move to the future, clearly there has to be compatibility in the systems that are being developed, but I really do think we have to rationalize the size of the joint infrastructure that we operate under today.

MS. FLOURNEY: Can I jump in on this point because it's something we haven't talked a lot about is the overhead piece. And I think we have to look at OSD, which has grown tremendously opposite the Secretary of Defense joint staff, which has grown co-common joint headquarters staff defense agency's

staff; not only in growth and size, but about how these organizations are structured. I mean most healthy organizations are a nice pyramid. Most of these organizations are like a diamond where you've got a very large middle and far too many layers, far too much bureaucracy, not as agile and responsive as they need to be. I consistently found, just for example, it's not to pick on the co-coms because they're an extraordinary, extraordinary in what they do -- but running a policy shop in the Pentagon I consistently found that there were more military officers on co-com staffs doing policy for country X than I had desk officers doing policy for the Secretary on country X. So it just tells me in the last decade where resources were no constraint, where we have a lot of mission demand, these things have grown like topsy, all of these headquarters. Now is an excellent time to really look from a mission-based perspective at streamlining, delayering, slimming down, these organizations to become much higher performing and lower cost.

MS. WILLIAMS: If I could go back to the first question that you asked about, joint planning. If we're going to have a drawdown, should we plan it jointly? And I think there's no question that joint considerations absolutely have to be taken into account here. Already we have a Navy that's not building all the ships that the Marine Corps thinks it's going to have to ride around on in the future. We have an Air Force that's getting rid of airplanes that the Army was counting on to transport its troops and its materiel. So unless we have conversations among and between the services on the drawdown, we face the very real possibility of having such mismatches in the force with too much of one thing to help the other services in a joint operation and too little of another thing to help the services in a joint operation.

That said, if we think at all that it would be a good idea not to take a peanut butter slice of 10 percent across all of the forces, but instead to distribute the cuts in a way that might make sense for

a future strategy that's both more focused and focused more on Asia and the Pacific; if we think that's a good idea, the last place to start on that conversation is among the Joint Chiefs of Staff because they each, each of the Chiefs of Staff, is going to be doing whatever he can to try to protect as much as he can of his service's assets. So that's not the place to have that discussion. The place that discussion has to start is with the civilians, with the Secretary of Defense. Now, we've had situations where the Secretary of Defense has been pretty sure he's going to this, and the services have balked and go around the side to Congress. So it's testament to the fact that we need a really careful communication strategy by the Secretary of Defense if this is ever going to happen. The Secretary has to line up the service chiefs. The Secretary has to line up the Chairman. The Secretary has to line up the Congress. That's hard. We sure haven't seen much of that kind of behavior between the Executive Branch and the Congress, or even in some cases between -- I'm going

to exclude the last round in which I think Michele was amazing with the uniformed military in bringing everybody to an agreement on how to handle the first round of cuts that's already been absorbed. But we need a better conversation and a clearer conversation about what we're really going to do instead of what we've had to date, which is no conversation whatsoever. Ten percent cuts coming at you this year? I'm going to ignore them. I am not going to plan for them. I'm not even going to have a Plan B for them. We need this conversation.

MS. FLOURNOY: If I could just briefly, just to put credit where credit is due, the thing I saw this last time around was a fundamentally different process where the President asked the Chairman, the Secretary, the Chiefs, the co-coms, to come together as a sort of executive board for national security and defense and said -- and this was when the Budget Control Act said Department of Defense, thou shalt take \$487 billion out of your budget over the next ten years -- fundamentally new fiscal environment. We

want to do this in a strategic way. So the President hosted a series of conversations multiple hours at the White House that gave each Chief, each co-com, a chance to influence the development of the shaping of the strategy. And while at the end of the day there was something in it that everybody hated, they all felt that they had been treated as partners in the process. They were stakeholders whose views were heard and respected, and they all slapped the table to sign on to the strategy.

There's something in that model that I think is critical at a time like this. And we need to somehow bring the leadership of Congress into this because absent that, you will have what you described, which is the gloves coming off, the knives coming out, and everybody trying to protect their little piece of the pie.

MR. GREENSTONE: John, did you want to add something?

MR. DEUTCH: I have three remarks to make about this, none of which may be popular with my

colleagues up here. The first is I'm all for taking out useless civilian people or military people in Joint Command Headquarters in OSD and elsewhere. I want you to go ahead and take them all out. That's great. It's not going to make a hill of beans in difference on the budget issues we've been talking about here this morning, but it makes you feel good. That's all.

MS. FLOURNOY: 100,000 people?

MR. DEUTCH: 100,000 people, good.

MS. FLOURNOY: That's nothing to sneeze at.

MR. DEUTCH: If you don't replace them with other things, but let me finish my point.

The second thing is just not that many years ago we had three different satellite programs, reconnaissance satellite programs -- A, B, and C -- Army, Navy, and Air Force. Now if you don't do some jointness, you are absolutely losing not only efficiency, but also capability. And an important fact, it is always a challenge to get the services to come -- sometimes it happens marvelously -- to get

that extra capability that you get from joint planning and joint operations. It's not just an overhead item. If you compare the effectiveness of the U.S. in military operations compared to other countries, just take China and look at their exercises, you will see that it's joint operations that have made the difference. So it's a serious matter to pursue this, and I feel very strongly that one shouldn't say there's too much overhead in there. It may be true, and I'm all for getting rid of it, but it is a great strength and we've got to keep pushing it and developing it.

MR. GREENSTONE: John, should that involve some of the new budget and ideas that came across in these papers where money was not spread evenly across the services?

MR. DEUTCH: I certainly don't think money should be spread evenly above the services. I don't know anybody on this group who would say that. The question is, how do you best and most effectively encourage that cooperation between different services?

And that is not so easy to do. And I must say, I agree with Cindy here on this. Say well, we'll just let the Chiefs do it historically hasn't always been the best thing to do.

MR. GREENSTONE: Admiral, I think it'd be a mistake for us to move on without hearing your views.

ADMIRAL ROUGHEAD: As a former Chief, I feel like I've been --

MR. DEUTCH: I love Chiefs, one at a time.

ADMIRAL ROUGHEAD: I think the one thing I would say is clearly there are service interests and there are very clear service perspectives on how that service can contribute to the overall joint solution. But I think it's also important to note that the Joint Chiefs, which are made up of the services, are not there gunning for one another, and Michele highlighted a very specific example. On the first round of cuts that we took, at the end of the day those were pretty dramatic cuts, and they required a lot of thinking, a lot of cooperation. But the services in the joint structure were able to put in place a reduced

military, but it still was able to do what the nation expected the military to do.

What we're talking about with sequestration is removing that ability to tailor, to blend, to adjust, in a thoughtful, practical way. And I think that the Chiefs and the Joint Staff need to be given more consideration than I think is the stereotypical view of service Chiefs and how they do business.

The other thing that I would like to add, and it comes back to rationalizing the joint structure that we do have. And I don't disagree with John. As a military force, no one does it better when we come together as a joint force. There's no question about that. When we passed the Goldwater-Nichols Act, which really gave birth to jointness if you want to go to that point in time, and I really do believe that we should take a look at that now. Because in many instances the number of people that we are flowing into joint headquarters and joint commands -- is it there to do the work of that command or is it there to put the brand of jointness on someone so that they're

now eligible for more senior promotion? And so we've got to take a look at it. And I think anytime you put a policy in place, you have to go back and look at it and is it doing what you wanted it to do? One of my great quotes from Churchill is that regardless of how beautiful the strategy may be, you should occasionally look at the results.

MR. DEUTCH: So could I ask the Admiral a question?

MR. GREENSTONE: Were you asking me a question?

MR. DEUTCH: I'm going to ask him a question. A key feature of Goldwater-Nichols was this requirement to go to flag rank I believe.

ADMIRAL ROUGHEAD: Right.

MR. DEUTCH: You have to have a joint assignment. Are you suggesting we ought to rethink that?

ADMIRAL ROUGHEAD: No, what I'm saying is that I think we should look at the model and when that's done and how it's done because right now we

have a significant throughput of people into the joint communities. And are we calling for that to be done too early or should we look at some later time? All I'm saying is that I think we've really distorted some of our personnel policies as it applies to jointness, and I think it's time to take a look at it and see if it still makes sense and are we getting the results we need and can we do it within the constraints of the budgetary environment that we're going to be dealing with?

MR. NUNN: As one that was pretty involved in Goldwater-Nichols, I would agree completely that it needs revisiting. I mean I think it was a very valuable piece of legislation. I think it's done a tremendous amount of good. I think jointness is a key competitive advantage. But it's been a long time and it needs revisiting, and in particular it needs revisiting on what Cindy was talking about, on the terms of how you manage budget cuts. That's not part of Goldwater-Nichols as much. That's the business side. And Goldwater-Nichols started down the business

side, but it was very incomplete on that. And those of us involved, we really did not think we could tackle that at all. It was sort of late in the game when we came up with the business side. We were so focused on operations, but you need a Goldwater-Nichols for the business side as well as updating the operational side.

ADMIRAL ROUGHEAD: And if I could, John, your point, I have been on record numerous times to say do not remove the joint legislation from over our heads because you will return to tribal behavior if you do that.

MR. DEUTCH: The other thing which Goldwater-Nichols does not make a critical point that's made in Admiral Roughead's paper, we still do requirements on the management of the program budgeting process, so the management of the acquisition process, separately. And that really was, I think, a big, big shortcoming and that really does need to be repaired if we're going to get lower budgets.

MR. GREENSTONE: I think that was at the -- yeah, the crux of my question. So we only have 4 minutes left to thank before we have such a great group of people here who can ask questions. There's one other issue I just wanted to return to. Both papers -- one of the areas of agreement in both papers was that there should be some drawdown in the number of active military people. I wanted -- and we're just coming out of a long decade of two wars, many people devoted their lives and many people injured, how quickly can we do that and still be faithful to the promises that have been made?

MS. WILLIAMS: I think we can do it a lot more quickly than people tend to think. I heard people say it would take 5 years. Michele offered that it is a big challenge to shed people from the services. But if you look back to the early 1990s when we were in the middle of a downsizing that ultimately cut about 33 percent of military people and more than that of the force structure, there were years when we did it extremely rapidly. So from 1991

to 1992 the Army alone cut 114,000 people, if I have the numbers right.

ADMIRAL ROUGHEAD: What was your number?

MS. WILLIAMS: 114,000 people from the active duty Army. The next year another several tens of thousands, so that over a two-year period we got down in the Army alone by more than 150,000 people. Now the numbers are different today, so if you think of it as a percentage problem, it's a different story. I think we can do it rapidly. We can't do it rapidly without tools, at least that's to say we can't do it rapidly and well without Congress giving the services some tools. When we did it the best during that post-Cold War downsizing was after Congress allowed the services to spend money to encourage people to volunteer, and the services did a kind of bait-and, or carrot-and-stick action. So first we'll offer you money to volunteer to leave and a good sizeable amount of money. And then if you fail to take that offer and you persist in staying but we need you to go, then you're going involuntarily. That carrot-and-stick

system, once the Army got that in place, worked extremely well. In fact, the Army used the tools so that it focused the money on those individuals who were in occupations and year groups that they really wanted to thin out. So by focusing in that way, having the tool of the voluntary separation paid that Congress made available, they were able to do an extremely good job.

Now the opposite of that was what happened in the very first couple of years of the downsizing. And that was a situation when the services didn't have these tools, and they weren't familiar with how to do a downsizing. They hadn't done it in a while. They had never done it to this extreme with an all-volunteer force. And they did most of it the first couple of years by cutting back accessions, cutting back the pipeline into the services, and later they all complained that they didn't have enough people in the middle-year groups. Well, guess what -- so I think if Congress gives the tools there's actually good prospects for quite a rapid downsizing of quite a

significant size.

MS. FLOURNOY: Can I just say one thing on this point? I agree with Cindy that there are a lot of best practices and tools from that period that we should draw on and try to replicate. But I think there are a couple of big differences in the current situation.

One is we're in a very different economy in terms of the ability of the economy to absorb people coming up rapidly. Second, this is coming on the heels of the most extraordinary decade in terms of what we've asked in terms of sacrifice from people. And I think putting a premium on fairness and a compassionate approach to doing this is key.

You know, I'm just speaking from my own personal experience. When my husband was mobilized for duty after 9/11 had happened, it happened very quickly. Well, demobilization also happened very quickly. And this is someone who, because he was in a startup environment, his job went away when he was mobilized. He was demobilized in two weeks. That's

hard.

You know, we have to help people manage this so that we don't put thousands and thousands of people who've just made an extraordinary sacrifice for the last 10 years out on the streets without the support and tools that they need. I mean, so, I just caution us not to draw a straight comparison from the experience of the 1990s because I think there are some important differences we have to consider.

MR. NUNN: You really need 20 years to change the personnel system fundamentally. Now, you can save money by other accruals because you don't have to put up the same amount but you've got to give people fair warning. You cannot jerk the rug out from people right at the end of their careers.

One thing we did in the post-Cold War draw down, we gave the services a lot of flexibility in taking people who were on the verge of retirement whose skills were not needed and giving them some plus up points to get to retirement if they went into certain critical needs like in school systems, inner

school systems, helping with teenagers, so forth and so on. There was a lot of flexibility in that.

But we've got to think back in the formation of the volunteer force. The Gates Commission that started the volunteer force basically had three assumptions they made very clear. One assumption was that we replace the 20 year retirement. Have we done it? No. The second assumption was you get rid of the up or out policy and retain people on skills and so forth. Stay longer; probably less people go into retirement but the ones that stay 20 years, many of them you need to stay 30 years. They get right at the point of skills.

They're only -- the retirement system was based on combat soldiers most of them out on the front lines. Today, one of the most important parts of the whole military machine are people who are maintaining the equipment, doing all of that with the high tech stuff. You need to keep those skills in the service longer than 20 years. So, the up or out policy, has that been changed? No.

The other is to begin to shift the pay schedules to skills rather than simply longevity and time in service. And that has not been done. So, the premises on which the Gates Commission was formed, not by Gates, but the Gates Commission on the volunteer force, and the things they said were absolutely essential to make the volunteer force viable, are none of them have been done. So, all of those things are going to have to be addressed. But we're going to have to do this over about 20 years.

You cannot, Michèle made the point, you can't change it immediately and you've got to give people fair notice. And it's the new people coming in that are going to have to adjust to this.

Gary makes a great point in his paper and Corey that the pay is much more important. There are some things more important to service people and we got to do a lot of research to figure out what that is. But you all started pointing out the things that are most important to people in the military and the pay is one of them.

ADMIRAL ROUGHEAD: If I could just add. As someone who has had to take out people who didn't want to go, it is really hard. It is hard to do it emotionally. It is hard to do it structurally. And it is hard to do it budgetarily. And so, part of what we're talking will require actually some cost. But it will not happen, I think, and this is where Cindy and I may disagree, that the PowerPoint slide will put you on a glide slope that I would submit you won't attain. Simply because of the difficulties and the fairness that has to be in place as we ask people who want to stay and serve their country that we're telling them that they can no longer do that.

That is really hard. And we should never underestimate that.

MR. GREENSTONE: Okay. We have such an excellent audience here. I think we should turn to them and find out what their questions are. Here in the front. Over there, yes.

SPEAKER: (inaudible) CSIS. We heard quite a lot of mention about cyber terrorism and cyber

warfare but very little about robotic warfare. And many people think that is the future. Any reason why it wasn't mentioned?

MS. FLOURNOY: I think autonomous systems in all domains are one of the trends we'll see in the future. And it one of the areas where I think we should be fencing research and development to explore those concepts fully because that will be -- it has the potential to be a real cutting edge, leading edge for us.

ADMIRAL ROUGHEAD: I think in our -- I mean we could have gone on at great length but we did make reference to the fact in our paper that what we have seen from the long dwell, the surveillance systems and remote vehicles that that demand will only increase. And right now we're captured by drones. But I would submit to you that autonomous underwater vehicles will play even a bigger role in undersea dominance than the airplanes do.

MR. GREENSTONE: Okay. There's no shortage of questions here.

MS. BRANNEN: Kate Brannen from POLITICO. Do you think the Defense strategy; the strategic guidance that was released in January should have built more flexibility into it. General Dempsey said that it couldn't absorb a dollar more worth of defense cuts and if it didn't have more flexibility built in why not? Why was that approach taken when greater defense cuts seem pretty likely?

MS. WILLIAMS: I think there was a sense that the task at hand was to take the 10 year budget guidance that was in the Budget Control Act of 2011 and rethink our strategy in that context. I think that there was an assumption that this is going to be an iterative process. That if the goalposts keep moving in terms of the resource constraints, we're going to have to keep learning and refining on that strategic guidance.

So, I think it was seen as a first bite at the apple. I think the fact that General Dempsey immediately started his (inaudible) exercise to think about the Force in 2020. There was no mistake in

that. I mean it was clearly this is going to be an iterative refining process but we don't want to accept risk or manage risk in areas that we really would rather not. Until we have clarity on the resource picture and we still don't have clarity on the resource picture because here we are facing sequestration and complete absence of any kind of consensus around the parameters of a budget deal.

So, I think again, it was a first bite at the apple. I think it was a good bite but I think everybody understood that it was the beginning of a larger and longer strategic dialogue.

MR. GREENSTONE: I think Corey wanted --

MS. SHOCKEY: Gary and I say in our paper and I think both of us feel pretty strongly that it would have been better management by the Department to at a minimum had excursions in the Defense strategy that speak to what would be necessary, where you would incur risk, where you would -- where the Department's leadership would recommend making choices that brought that strategy into line with the top that the Budget

Control Act envisioned. And that they chose not to do that actually aggravates quite dramatically the problem that Dr. Williams raised which is balancing risk in different parts of the Force.

It forestalled the public conversation. It forestalled the Congressional education that we are now racing to catch up with. And that was avoidable if they had actually had a broader conversation of the kind you suggest.

MS. FLOURNOY: Can I just respond to that? I'm sorry. The strategy did align with the Budget Control Act resource picture. The problem with going down the excursions and publicly talking about where you would take risk if you have to go next in advance of any decision in that area is that there are lots of folks on Capitol Hill who would love to pocket every area where you would take -- presumably be willing to take risk without actually giving you any promises to give you the resources to do the mission in light of that.

So, I think there is some real -- where I

agree that we need a larger strategic conversation on this. I think not getting the way you described, there was a reason for that because of the experience we've had with how that plays out on Capitol Hill.

ADMIRAL ROUGHEAD: But if I could, Michèle, that and I have the same paranoia about what you hang out there.

MS. FLOURNOY: I'm not paranoid. What do you mean I'm paranoid?

ADMIRAL ROUGHEAD: What you put out may be taken but I think what we've done in this very different time that we're in, is we haven't been pickpocketed; the whole enchilada is being taken through sequestration. And the American people has not had the benefit of the discussion of what are some of the risks. What are some of the tradeoffs? We're about ready to lose a great deal because we have been fearful of going and talking about some specifics.

MS. FLOURNOY: I think if the question was talking about the impacts and risks of sequestration, yes that's a conversation I think we should have been

having for a longer period of time. But I heard Corey's point differently which is to contemplate further revisions to the strategy based on lower resource constraints before we've even tried to get money out of the very, you know, the Defense enterprise that is so in need of reform as we've all discussed.

You know, to go down that road I think sets up the sort of pickpocketing that you describe in a way that's really not helpful to our effort.

MS. WILLIAMS: I have to say, the Budget Control Act was passed on August 2nd, 2011. If you think about it from that perspective, the Department had from August until February when they released their budget, or January when they released their strategy document, to think about the full impact of the law as it stood at that moment. Even if you forward the clock to November when they really knew that the law was going to stand or had a very likelihood of standing because the Super Committee crashed and burned. They should have known at that

point.

So, I'll let them pocket the problem of the first go round, the February last year budget, but I have to say I'm going to be very distressed if they submit a budget next week or two weeks from today, two weeks from now that does not come to terms with the law as it stands. Because we are not talking about pickpocketing that could happen in the future, maybe this law will be averted but I doubt it.

Sequestration, sure. Maybe it will be kicked down the road. But the BCA, the Budget Control Act itself with the out year ramifications is the law. And to come in with a budget that just says I'm pretty sure this law will be overturned and if it's not, you're picking my pocket, if that happens as the second year in a row I'm going to be very disappointed with the leadership of the Department of Defense.

MR. GREENSTONE: Okay. I think we probably have time for two more questions.

MR. FURMAN: Good afternoon. My name is Michael Furman. I am in the communication business,

satellite communications and worked on some of the, I guess, satellites that you have mentioned. But that's really not my point. My point is is that I'm viewing something that's overarching on all of this which I define as the political military industrial problem. And that is that for most of the constituencies of Senators and Congressmen, they have to fight religiously to stay in power by ensuring that the programs of Defense are defended in their region.

And this might come contrary to the plans that, for instance, the Joint Chiefs might come up with for a solution which is to optimize from the theoretical standpoint. So, what we're doing is we're going the pragmatic issues of the current politics of the day versus the problems of trying to make the military more efficient.

I wonder if the Admiral and the Senator might comment on that.

ADMIRAL ROUGHEAD: I'll let the Senator start first.

MR. NUNN: I'll follow you. I was an E-3 in

the Navy and the Coast Guard.

MR. GREENSTONE: I think John wants to say a word first.

MR. DEUTCH: I'd like to say something. I think it's a very astute point and Secretary Aspin, when he came over from Congress and he became Secretary of Defense, first thing he said was at a time when budgets were falling as Cindy has mentioned beyond what they're projected to fall now, he said you cannot stop this. You cannot stop this problem that the Congressmen and Senators have about what the impacts are on their district unless you have a very clear and convincing reason about what the Country needs for its national security and its forces.

And I think this last round of discussions we've had is we don't yet have and I appreciate the tactical reasons that they haven't been put forward yet, a new defense posture which could -- the President and the Secretary of Defense can put out there and it makes it much more difficult for that Congressional act. You'll never avoid it but absent

that it's going to happen to you all over the place. So, the key question is how quickly will the new Secretary of Defense put in place a compelling comprehensive new Defense posture with a budget which matches it at these lower levels in order to stop this continual issue which you understand quite understandably from the individual Senators and Congressman.

MR. NUNN: Congress has to go, at some point, to a two year budget. And the second year ought to be, in the Authorization Committee at least, for oversight. Oversight is a missing element on Capitol Hill. And that's an enormously important part of what Congress ought to be doing. And it's not just discovering things that are wrong. It's more important when you set a hearing on a subject, I see John Douglas in the staff. He was out in the audience. He was out in the audience. He was on our staff.

When you set a hearing on the subject that's the most important thing you can do in moving the

Pentagon because they start focusing on that. What the priorities of the Congress and the way they set hearings has a huge effect on the way people in the Department of Defense react because they have to get ready for the hearing. That's how you drive strategy.

When I became Chairman of the Armed Services Committee, we decided the first thing we were going to do is before we talked about any budgets was to have strategy testimony from the Department of Defense for one month. And we did that. Congress can make a lot of changes but it's got to get off the budgetary track. Everything is budget. And they don't have time. I mean, you got three budgets going at all times.

And so, the whole town is captivated by budgets and there's not oversight. And the American people sense that when they believe that you can even take a sequester without great damage. I think we're going to find out different. I think there's going to be great damage. And as I mentioned earlier, it's very stupid. But right now the Congress does not

drive the building in the sense of focusing on the most important issues because it doesn't have time. It's on a budgetary whirlwind.

MR. GREENSTONE: I think it there were roughly to be saying to hear the other side of testifying from --

ADMIRAL ROUGHEAD: I would submit that I think one of the problems that has been faced by the Department and, you know, Michèle and I overlapped for quite a bit of time during the time that I served. And I'm not sure that we ever had a budget process that was defined. It has broken apart from what the Senator has described and we're either operating on CRs, threats of sequestration.

And so, there is no process that is taking the nation's military through an assessment of what is the environment? What is our strategy? And are we resourcing it properly? That has completely broken down. And that's what we're suffering from right now.

MR. NUNN: Yeah. The process right now, there's an old quote. I don't remember who said it.

But it's the difference between stupidity and genius is that genius has its limits. I don't know whether it was Einstein or John Deutch. One of them said it. But right now we're on the stupid track and that's pretty unfortunate.

MR. GREENSTONE: I think unfortunately we could probably be here for another two hours. But I think we're running out of time. Let me just say we have these panels on a variety of topics, probably five or six times a year. I have to say this is, to my mind, been the most stimulating that I've been involved with. And maybe everyone can join me in thanking this fabulous panel.

* * * * *

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ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190