

Statement
of
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Deputy Secretary of Defense
before the
Senate Budget Committee

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Mr. Chairman and members of the Committee, thank you for this opportunity to discuss the budget proposal for the Department of Defense for Fiscal Year 2012.

It is a privilege for me to testify this morning along with the Deputy Secretary of State. Our testimony this morning demonstrates the strong and growing partnership between our two Departments, which is rooted in the belief that adequately funding foreign policy operations is crucial to the national security mission of the Armed Forces.

Partnership with Department of State

The ability of the United States to promote stability and responsible governance in other nations is critical to our security. The foreign aid, diplomatic engagement, and security assistance we provide to our partners and allies helps to combat irregular threats and to head off brewing crises before they explode into conflicts that require costly intervention. Providing the full range of assistance to other nations requires a mix of competencies that extend beyond a single department or agency. The Department of State, Department of Defense, and USAID have each cultivated specific expertise. Only by partnering closely together are we able to advance U.S. security goals most effectively. This close collaboration is already occurring and will increase under our FY 2012 budget request.

Carefully coordinated assistance is especially critical in the crises we currently face. In Afghanistan, State, DoD, and USAID are already collaborating on many fronts, particularly with regard to counter-narcotics, border management, and the support and training of Afghan law enforcement organizations.

The Ike Skelton National Defense Authorization Act for FY 2011 provides an important new tool, the Afghanistan Infrastructure Program. Under this program the Departments of State and Defense work together to improve the infrastructure in Afghanistan in ways that support the needs of our military campaign plans while also recognizing long-term development of Afghan society.

In addition to our growing budgetary and operational coordination in overseas contingency operations, we are also working to enhance our joint delivery of security sector assistance. Over the past several years, spanning two Administrations, a number of cooperative, “dual-key” authorities have also been created, most notably the Pakistan Counterinsurgency Capability Fund and the “1206 authority” to train and equip the military forces of partner nations. Last year, the largest of the 1206 coalition programs was for Georgia, which has committed to deploy an infantry battalion to conduct counterinsurgency operations with our own U.S. Marines in Helmand Province, Afghanistan.

We are also requesting \$524 million in this year’s budget for a key component of our joint mission in Iraq -- the Office of Security Cooperation – Iraq (OSC-I), which will assist in executing foreign military sales and supporting military-to-military efforts to advise, train, and assist Iraq’s security forces. OSC-I is funded by both DoD and State. To provide timely assistance and help with a timely transition to a civilian-led mission in Iraq, we need to begin funding OSC-I initiatives this fiscal year, and we need to receive full funding in FY 2012. DoD also needs legislative authority to stand up the OSC-I, and we ask Congress to provide this authority in the appropriation bill for this fiscal year.

Although our “dual key” initiatives and joint programs in Iraq, Afghanistan, and Pakistan are top Department of State and Defense priorities, we are also working together in other parts of the world where U.S. interests are at stake. Our support of Mexico’s fight against transnational criminal organizations is notable in this regard. DoD supports the State-led Merida Initiative to improve Mexico’s capabilities in surveillance, interdiction, air and maritime operations, and planning. We are significantly increasing DoD training, equipping, information sharing, and exchanges of expertise, especially as they relate to safeguarding human rights as the military supports law enforcement activities. The Defense Department also executes the International Military Education and Training (IMET) program that is funded by the Department of State. In FY 2010 alone, IMET provided professional training to more than 7,000 foreign military students from over 130 countries.

The Global Peace Operations Initiative (GPOI), which helps train, equip, and build countries' capabilities to support peacekeeping missions, is another productive collaboration between our two departments. GPOI is funded in the Department of State's peacekeeping account; policy and funding decisions are made jointly by State and DoD. Since it was initiated in 2004, GPOI has helped facilitate the deployment of more than 110,000 personnel from 31 countries to 19 operations around the world, and to support 28 national and regional peacekeeping training centers. To cite only one example, through GPOI we recently trained and equipped a Thai detachment that will fill a vital peacekeeping role in Darfur.

For FY 2012, the State and Defense Departments have proposed an important new tool, the Global Security Contingency Fund, also known as the "pooled fund." This fund would allow us to provide assistance for security forces and institutions and rule of law and stabilization programs in key nations. One of the unique aspects of this proposal is that it would allow us to provide targeted assistance within the budget cycle whenever we have a strategic opportunity or see a threat emerge. This fund is based on a new model of interagency coordination, one that emphasizes the links between defense, diplomacy, and development, and enables our departments -- in close consultation with Congress -- to respond jointly and effectively to a broad range of transnational challenges. Initial funding of \$50 million has been requested for the State Department together with authority for State or Defense to provide additional funds. I ask your support for this proposal.

As our increasing partnership with the Department of State illustrates, our whole concept of security assistance is changing. DoD views this activity as a vital instrument that can prevent or attenuate instabilities that might otherwise draw the United States into new conflicts. Security assistance can over the long term reshape the threat environment we face, allowing us to address regional instabilities before they become problems that could require armed interventions. With many of the future challenges, security assistance properly applied in a timely manner is likely to be more decisive and less costly than direct military intervention after a problem has become a crisis.

For all these reasons our cooperation with the State Department is an important component of our national defense. Virtually every complex foreign policy issue requires coordinated interagency analysis and response. While budgets are only part of our interagency cooperation, they are also an important statement of our national priorities. In Iraq, Afghanistan, Pakistan, and so many other places around the globe, the Department of Defense needs a strong, robustly funded State Department as our partner.

Overseas contingency operations are among the most complex missions our government will undertake. I believe a new budgeting approach being proposed by the State Department will significantly enhance clarity and accountability for these contingency operations. In FY 2012, for the first time, State identifies its wartime funding requirements as Overseas Contingency Operations (OCO) funds – just as Defense has been doing for several years. We believe this approach promotes transparency by clearly identifying the portions of the State Department budget that are directly associated with wartime efforts. We strongly support State’s use of an OCO budget.

More broadly, the President’s budget requests for FY 2012 and 2011 recognize the importance of this partnership for national security by exempting both the Departments of State and Defense and related agencies from the five-year discretionary spending freeze that will affect other, non-security agencies. The President recognizes that providing for the common defense is a fundamental constitutional obligation. In the interest of maintaining our national security, I urge the Committee to support the full budget requests made by the Department of State and the Department of Defense, which will enable our two departments to continue and to expand our work together.

Budget Proposal for FY 2012

Turning now to FY 2012: Our budget request was submitted to Congress last month. The Department is asking for about \$671 billion of discretionary budget authority to support our mission next year — including \$553.1 billion to fund base defense programs and \$117.8 billion to support Overseas Contingency Operations, primarily in Afghanistan and Iraq. Compared

with funding for FY 2011, this proposal will result in a decline in the total defense spending of between \$15 billion (if DoD remains under a year-long CR throughout FY 2011) and \$37 billion (if DoD received the funding for FY 2011 requested by the President).

In our judgment, this budget is prudent, in that it meets national security needs, and responsible, in that it supports the Administration's plan to hold down deficits. Our request is built around several broad themes:

- The proposed budget takes care of our people. That is our top priority, since the all-volunteer force is America's greatest security asset. We propose a military pay raise of 1.6 percent. We are also asking for \$8.3 billion for family support programs, a sum that fully supports the President's Military Families Initiative. For military healthcare, we are asking for \$52.5 billion, including \$677 million for research and support for traumatic brain injury and psychological health care, and more than \$400 million to continue medical research on behalf of wounded, ill, and injured Service Members.
- The proposed budget also continues to rebalance the U.S. defense posture to provide the capabilities needed to fight current wars while also building capability for potential future conflicts. To support current war efforts, we plan substantial investment (\$4.8 billion) in intelligence, surveillance, and reconnaissance capabilities, including various unmanned aircraft, which are in high demand by Combatant Commanders. We are also proposing to invest \$10.6 billion in rotary wing aircraft. In addition we are requesting increased funding for key cyber activities as well as substantial funding for chemical and biological defenses and security assistance programs that build up the capabilities of our allies.
- To prepare our forces for potential future conflicts, our budget proposal for FY 2012 invests in advanced capabilities such as the Joint Strike Fighter (JSF) program. We will instill discipline in this major program by imposing a two-year "probation" period for the STOVL (Short Take Off and Vertical Landing) variant

while we seek to resolve design issues. Meanwhile, we plan to buy additional F/A-18 aircraft as an operational and competitive hedge. We also plan an aggressive shipbuilding program of 11 ships in FY 2012 and 56 over the next five years. We are investing in a family of long-range strike options, including a new long-range bomber program and \$900 million for the KC-X tanker program. We have a new family of armored vehicles in the works. And we are requesting \$10.7 billion for ballistic missile defenses.

- The proposed budget provides our deployed forces with everything they need to carry out their mission. It includes expenditures for reset of damaged and destroyed equipment, for purchases of force protection equipment, for high priority infrastructure projects in Afghanistan that support counterinsurgency objectives, for the Commander's Emergency Response Program (CERP)—a valuable tool in theater—and for funding to establish the Office of Security Cooperation in Iraq.

In addition to supporting these broad objectives, our proposed budget continues the Secretary's reform agenda. Reforms began in FY 2010 and 2011, with a focus on the restructuring and termination of a number of weapons programs. Some programs, such as the F-22 and the C-17, were cancelled because we had already acquired enough of the capabilities they provide. Other programs, like the VH-71 Presidential helicopter, were terminated because of cost overruns or development problems, or because they would have provided what Secretary Gates has termed "exquisite" capabilities that are not central to our current security challenges.

Secretary Gates has continued his reform agenda in FY2012-16 by streamlining business operations. Guided by his Efficiencies Initiative, the Services have identified \$100 billion in savings and reinvested those savings into high-priority programs that strengthen warfighting capability. These savings will be realized through better business practices, by reorganizations, and by terminating or restructuring weapons programs. Examples of proposed changes include the elimination of unneeded task forces, combining of air operations centers, consolidation of e-

mail servers, and cutting back on lower-priority tasks associated with facilities sustainment and construction. The Services also propose terminating programs such as the Non-Line of Sight Launch System and the Marine Expeditionary Fighting Vehicle (EFV).

The Services also continue to seek improvements in the way they acquire weapons. The Air Force, for example, has proposed a new approach to buying two satellite programs. We call it EASE, the Evolutionary Acquisition for Space Efficiency program. EASE features block buys of satellites, which will help to preserve stability for the manufacturer and curb our own tendency to make expensive design changes. It also includes stable research funding and fixed-price contracts. Overall we believe that EASE will significantly reduce costs. For these two satellite programs to be fully funded, EASE requires the use of advance appropriations in the Air Force procurement accounts, and we request the Committee's support for these advance appropriations.

In addition to the \$100 billion in savings by the Services, our budget identifies \$78 billion in further defense-wide efficiencies in FY 2012 through 2016. These efficiencies allow the defense topline to be reduced in support of the Administration's deficit-reduction efforts, beginning with a \$13 billion reduction in FY 2012.

This topline reduction was largely achieved through changes in the portion of our budget less directly related to warfighting capability. We are proposing revisions in military health care, alterations in the economic assumptions that underlie the budget, and defense-wide personnel changes, including a freeze on most civilian pay and personnel levels through FY 2013 and a reduction in the number of contractors who augment government staffs.

DoD medical costs have shot up from \$19 billion in FY 2001 to \$52.5 billion in FY 2012. Our objective is to slow the growth in these costs, while continuing to provide high-quality military health care for the troops and their families. For FY 2012, we propose changes in pharmacy co-pays designed to increase the use of generic drugs and mail-order delivery. We are also proposing a modest increase in TRICARE enrollment fees for working-age retirees—the first such increase since the mid 1990s—and indexing of those fees to a medical deflator. And

we intend to phase out subsidies for a number of non-military hospitals where the Department pays higher claims rates. Enactment of some of these military health care proposals requires changes in the Department's mandatory spending, which have been submitted in the budget and we ask you to support.

The FY 2012 budget also proposes a conditions-based decrease in the permanent end strength of the Army and Marine Corps starting in FY 2015. In one of his first acts upon becoming Secretary of Defense four years ago, and in the midst of our engagements in Iraq and Afghanistan, Secretary Gates increased permanent end strength for the Army by 65,000 and 27,000 for the Marines. By 2012 we will have completed the military mission in Iraq and by FY 2014 we will have largely shifted the security mission in Afghanistan from allied to Afghan forces. As a result, we believe that, in FY 2015 and 2016, we can reduce active duty end strength by 27,000 within the Army and by 15,000 to 20,000 in the Marine Corps with minimal risk. If our assumptions about Iraq and Afghanistan prove incorrect or global conditions change for the worse, there will be ample time to adjust the size and schedule of this change, or reverse it altogether.

Mr. Chairman, we believe that the budget levels proposed in the FY 2012 Defense request represent the funding required to carry out our national security mission properly. This budget also makes tough choices – terminating lower-priority programs, streamlining others, and disestablishing unneeded organizations – to ensure that every defense dollar is spent wisely.

Need for an FY 2011 Appropriations Bill

Even as we start the debate over the FY 2012 budget, there is unfinished business that concerns us greatly. The Department still needs an appropriation for FY 2011. As members of this Committee are aware, the Department of Defense has been operating under a Continuing Resolution (CR) for more than five months.

If the current CR continues throughout the year, it will cause further harm for three reasons. First, a year-long CR would reduce the Department's funding by \$23 billion compared with the request, leaving us with inadequate funding to carry out our national security commitments properly. Second, a year-long CR would leave the funding that we do get in the wrong places. Because we would be required to execute at FY 2010 levels, we would not, for example, have adequate dollars to pay for the increased costs associated with the military pay raise and the growth in military health care costs. In the wartime portion of our budget, there would be too much funding for MRAP vehicles, for which the buy was finished in FY 2010, but not enough for the Afghanistan National Security Forces, where costs are increasing. To correct these mismatches, we would be forced into extensive reprogramming actions that would result in further delays and shortfalls. The third problem associated with a year-long CR is lack of flexibility. A year-long CR would prohibit us from starting new weapons and major construction programs or increasing production rates of existing ones. This would affect dozens of acquisition programs and hundreds of construction projects. A year-long Continuing Resolution would leave inadequate funding and management flexibility to meet warfighter needs.

Adverse effects from operating under a CR are already occurring. The Army and Marine Corps have temporarily stopped hiring civilian employees, which means key support billets are going unfilled. The Navy has reduced advance notice of moves for military personnel, an action that puts added strain on military families. Investment activities are also being harmed. The Army recently was forced to issue a stop work order on a contract for the Stryker weapons programs, delaying needed improvements. The Navy has been unable to issue a contract for the second Virginia-class submarine and is struggling to avoid a work stoppage at the shipyard. Together the Services have 75 major military construction projects on hold, delaying needed improvements to everything from maintenance hangars to barracks.

Problems like these will increase substantially in number and severity if the CR continues for the rest of the fiscal year. We will be forced to cut back on maintenance for weapons and on exercises for non-deployed units, both of which will directly harm readiness. Facilities sustainment will likely be cut sharply. We will experience more and more cutbacks and work stoppages in our acquisition programs.

Finally, there will be harmful management consequences associated with a year-long CR, many of them difficult to notice from inside the Beltway. Program managers will delay contracting actions out of necessity, only to be required to act hastily at a later time in an effort to catch up. In the face of uncertainty, other managers will resort to short-term contracts that add cost to taxpayers and instability to the industrial base.

In short, a year-long CR will damage national security. It presents the Department – and the nation – with what Secretary Gates has aptly described as “a crisis at our doorstep.” We strongly urge Congress to enact a Defense appropriation bill for FY 2011 and to provide funding for the government as a whole.

Mr. Chairman, we look forward to working with this Committee and the Congress as you consider our request. It is our hope that Congress will support our FY 2012 request and enact an appropriations bill for FY 2011 as soon as possible. This concludes my prepared remarks. I welcome the Committee’s questions.