

**TESTIMONY OF U.S. SECRETARY OF DEFENSE  
DONALD H. RUMSFELD  
2002 DEFENSE DEPARTMENT AMENDED BUDGET  
THURSDAY, JUNE 28, 2001**

**Introduction**

Mr. Chairman, members of the Committee, I am pleased to present the President's 2002 amended budget for the Department of Defense.

In discussing this budget, it is necessary to begin by confronting some less than pleasant, but important facts: The U.S. Armed Forces have been under funded in a number of respects over a sustained period of years. We have been living off of the substantial investments made during the 1970s and 1980s. Shortfalls exist in a number of vital areas including readiness, operations, procurement, maintenance, infrastructure, modernization and health care – shortfalls, I must say, that are considerably worse than I had previously understood.

The U.S. Armed Forces are the best-trained, best-equipped, most powerful military force on the face of the earth. Peace, prosperity and freedom across the world are underpinned by the stability and security these men and women provide.

I recently took the opportunity to visit our troops in Kosovo and in Turkey. They are dedicated men and women who are ready, willing and able to take on any mission their government may ask of them.

No force in the world can do what they do. Only the United States can quickly move large, effective combat forces across long distances, or conduct large-scale, all-weather precision strike operations.

The U.S. is unparalleled in conducting aerial operations at night, amphibious operations anywhere in the world, operating high endurance UAVs, or conducting corps sized expeditionary operations, and highly complex joint operations.

Our advantages in air-to-air combat and on the high seas have made it impractical for adversaries to use airplanes to attack us or send forces across oceans to threaten us.

So our country has many strengths. Indeed, in some ways, it is because our forces are so capable that we face the challenges we do. Over much of the 1990s, the U.S. has both under-funded and overused this force, and it has taken a toll. Asked to do more with less, they have saluted and done their best – but it has been at the cost of needed investment in infrastructure, maintenance, and procurement.

With the end of the Cold War, there was an appropriate draw down, but it went too far – overshooting the mark by a good margin. We are well past the time to take the necessary steps to arrest the declines and put the Armed Forces on a path to better health.

The problem goes well beyond op-tempo, and is more profound than I expected. For example:

- ?? Many facilities are dilapidated and in urgent need of repair and replacement.
- ?? Health care costs are rising at a much greater rate than the funds provided.
- ?? Outdated management and acquisition systems and processes add millions to the department's costs each year.
- ?? Due to shortfalls in spare parts, flying hours, training and personnel, Navy non-deployed force readiness is 43% -- down from 63% in 1991.
- ?? Only 69% of the Air Force's total combat units are mission ready, down from 91% in 1996.
- ?? 75% of the Army's major air and ground combat systems are beyond their half-life, and Army aviation "safety of flight" messages have increased 222% in the past four years.
- ?? Sixty percent of all military housing is substandard.
- ?? Force protection capabilities have been under funded and are in need of investments.
- ?? Financial management systems are so poor that the Department can't get a clean audit.
- ?? While DoD was using its equipment at increased tempos, procurement of new equipment fell significantly below the levels necessary to sustain existing forces – leading to steady increases in the average age of equipment. It was called a "procurement holiday." Some holiday!
- ?? Basic research funding has declined by 11% since 1992, and RDT&E funding levels have declined 7.4% in the same period.

Clearly, we need to arrest this deterioration and to do a better job of balancing the risks we face.

The first responsibility of the Federal government is to defend the American people. That job is done by brave men and women, who wake up each morning and voluntarily put their lives at risk, so that the rest of us can go about our days in peace and freedom.

We have an obligation to make certain these men and women have the proper equipment, training, facilities, and the most advanced technology available to them.

The current condition of U.S. Armed Forces didn't happen overnight. Each individual action that caused this situation was hardly noticed -- a little less procurement here, some purchases and repairs put off there -- until one day, the

cumulative total shortfalls amount to tens of billions of dollars.

Even the best built, best-engineered car in the world will eventually break down if you put off regular maintenance and repairs. And a Ferrari on blocks will get beaten by an Edsel every time.

We have the best Armed Forces in the world. But we cannot allow them to deteriorate any further.

We are about to face new, emerging threats of the post-Cold War world. They are real, they are dangerous, and they are just over the horizon. If we are to meet them, we need to invest now to begin transforming our Armed Forces for the challenges of the 21<sup>st</sup> Century.

But we cannot build a 21<sup>st</sup> Century force quite yet... because the 20<sup>th</sup> Century force we have is in serious need of repair.

We need to get on a path to correct the most serious deficiencies; we need to stabilize the force and begin needed modernization; we need to restore DoD infrastructure; and we need to make progress toward transformation -- so that our forces are ready for the new and different threats of the new century.

### **The President's budget**

The President's 2002 defense budget adds urgently needed funds to begin stabilizing the force.

Using the 2001 enacted budget of \$296.3 billion as a baseline, the President earlier this year issued a budget blueprint that outlined a 2002 baseline budget of \$310.5 billion.

This included \$4.4 billion in proposed new money for Presidential initiatives, including:

- ?? \$1.4 billion to increase military pay,
- ?? \$400 million to improve military housing,
- ?? \$2.6 billion for research and development.

The request before you proposes to raise that investment still further to a total of \$328.9 billion -- \$18.4 billion more than the President's February budget blueprint.

Taken together, these increases amount to \$22.8 billion in proposed new money for the Department in 2002.

I am told that this represents the largest peacetime increase in defense spending since the mid-1980s. So, if Congress approves this budget, by historical standards, it would represent a significant investment of the taxpayer's money.

But let's be clear: This increase, while significant, does not get us well. The systematic under-investment went far too long – the gap is too great. There is no way it could be fixed in one year, or very likely, even six.

Mr. Chairman, allow me to provide an idea of the depth of the hole we are in. To get well by 2007 – to meet existing standards and steady state requirements in areas like readiness levels with proper flying time, training, and maintenance; replacement of buildings and facilities that are falling apart; fixing family housing and restoring quality of life for the men and women of our Armed Forces – all of this together would cost the American taxpayers many tens of billions of dollars. And that would do little with respect for the investment needed to transform the force for the future.

So, yes, \$22.8 billion is a large increase by historical standards. And, it is a huge commitment of the American people's hard earned tax dollars. We need every cent of it, but it only begins to make a dent in the leftover problems we face today.

### **What the budget will and won't do**

I want to be very straightforward about what this budget will do – and what it won't do.

- ?? This budget will put us on the path to recovery in some categories such as military pay, housing allowances, readiness training, and health care;
- ?? It will start an improvement but leave us short of our goal in others such as defense-related science and technology, maintenance of weapons systems and reaching best standards for facilities replacement;
- ?? And, in still other categories there will be continued shortfalls such as backlogs in property maintenance requirements.

Here are a few specific cases to illustrate the pattern. Take, for example, the Defense health program:

- ?? Today, overall health care costs are increasing at an annual rate of 13%.
- ?? The 2001 budget provided \$12.1 billion -- falling short of what was needed to cover that rate of increase by \$1.4 billion.
- ?? The 2002 amended budget proposes \$17.9 billion for defense health – a \$5.8

billion increase – that will allow us to cover a 12% growth in the costs of medical care and a 15% growth in the cost of pharmacy purchases.

So, for the first time in years, the 2002 budget should fund a realistic estimate of military health care costs. This is an area where we are getting well.

We are not getting as well, however, when it comes to the state of DoD facilities. Consider:

- ?? In the private sector, the standard for overall facility replacement 57 years. DoD's target is 67 years.
- ?? Here is the reality: Under the 2001 enacted budget, DoD was replacing facilities at an unbelievably poor average rate of 192 years.
- ?? The 2002 budget which proposes to increase funding for facilities from \$3.9 billion to \$5.9 billion gets us closer. It would allow us to replace facilities at an average rate of 101 years – an improvement, but still well off the acceptable target of 67 years.
- ?? We could do better. With a round of base closings and adjustments that reduced unneeded facilities by, for example, 25%, we could focus the funds on facilities we actually need and get the replacement rate down to 76 years at the 2002 budget level.
- ?? Without base closings, to achieve the target 67-year replacement rate would require an additional \$7 billion annually for a period of 9 years or a total of \$63 billion. That is simply not going to happen. We will need to close unneeded bases.

So, by putting off needed spending on facilities replacement, DoD is now in a deep hole. This budget improves the situation -- but leaves us short of our goal

Or, take an example where things are continuing to decline -- shipbuilding:

- ?? The current standard based on the 1997 Quadrennial Defense Review is to maintain a steady state of 310 ships.
- ?? Here is the reality: Under the 2001 enacted budget, DoD is building 6 ships a year at a cost of \$11.5 billion -- which puts us on course to reduce the size of the U.S. Navy to a clearly unacceptable steady state of 230 ships by 2030.
- ?? The 2002 budget, by providing for six ships at a cost of about \$9.3 billion will keep the Navy on the same course toward a 230-ship steady-state Navy. We need to begin to turn this trend up.

?? This puts us in a worse situation than in 2001 because the cost of reversing the decline and “catching up” to the 310 ship steady-state increases by \$3.0 billion every year we put it off.

?? To meet the target of 310 ships would require building at least 9 ships each year, at a cost of about \$12 billion.

Or consider the aging of Navy aircraft:

?? The desirable average age for Navy aircraft is pegged at 11 years. Given the impact of continued low procurement, that average age has grown steadily to 18 years.

?? Here is the reality: Today, with the current strategy, the Navy has a requirement for a total of 4200 aircraft, which allows them maintain an average age of 18 years.

?? To meet this steady-state requirement, the Navy needs 180 to 200 new aircraft per year at a cost of \$11 billion.

?? The 2001 budget amendment would provide for 97 aircraft at a cost of \$8.4 billion.

?? The 2002 budget would provide for 88 aircraft at a cost of \$8.3 billion.

?? Even at the rate of 122 aircraft a year, the cost of reversing the decline and “catching up” to the 4200 plane steady-state increases by \$4 billion every year we put off the decision to do so.

Facility repair and maintenance:

?? The deferred maintenance for DoD facilities – the cumulative amount that has not been funded from year to year – currently stands at least \$11 billion.

?? The 2001 budget included \$4.9 billion for facility maintenance.

?? The 2002 amended budget would increase the facility maintenance budget by \$0.9 billion for a total of \$5.8 billion – an increase of 18.4%.

?? But this increase only funds facility maintenance at 89% of the requirement.

?? At this rate, because of years of under funding, it would take 20 years to catch up and eliminate the cumulative deferred maintenance.

There are some of the difficulties facing the U.S. Armed Forces today. Despite a

proposed increase in defense spending unmatched by any President since the mid 1980s, this budget still cannot not fix the problems we face as a result of a decade of a mismatch between requirements and appropriations.

It is an indication of the depth of the hole we are in today that a \$22.8 billion increase in defense spending makes just a good start in meeting the shortfalls our Armed Forces are facing.

And that is just the tip of the iceberg. Today, we are proposing a \$328.9 billion defense budget. But to keep the department going next year on a straight-line – no improvements, just covering the costs of inflation and realistic budgeting – we will need a budget \$347.2. billion. That is a \$18.3 billion increase.

So where do we find money for the rest of our pressing needs? We simply must achieve cost savings.

### **Finding Cost Savings**

We have an obligation to taxpayers to spend their money wisely. Today, we're not doing that. DoD:

- ?? Has overhead that has grown to the point where it is estimated by some that as little as 14% of DoD manpower may be directly related to combat operations.
- ?? Despite some 128 acquisition reform studies, DoD has an acquisition system that since 1975 has doubled the time it takes to produce a weapon system -- while the pace for new generations of technology has shortened from years to 18 months. This guarantees that DoD's newest weapons will be one or more technology generations old the day they are fielded, and DoD has processes and regulations so onerous that many commercial businesses developing needed military technologies simply refuse to do business with the Department.

But the Department needs greater freedom to manage so we can save the taxpayers money in areas such as:

- ?? **Rationalization and restructuring of DoD infrastructure.** A 20-25% reduction in excess military bases and facilities could generate savings of several billion dollars annually. Legislation authorizing a new round of facilities rationalization will be transmitted later this year.
- ?? **Increasing the thresholds in Davis-Bacon.** If we could change the threshold for contracts subject to Davis-Bacon wage requirements from \$2,000 to \$1,000,000, it would permit the Department to achieve savings of

**\$190 million** in FY 2002 alone. We need that money for shipbuilding, for modernizing our aircraft fleets and for modernization.

?? **Contracting out commissaries, housing and other services** that are not core military competencies and that can be performed more efficiently in the private sector.

In FY 2002, the Department proposes a pilot program with the Army and Marine Corps to contract out certain commissaries, and another pilot program with the Navy to contract out refueling support including tanker aircraft.

Mr. Chairman, I have never seen an organization, in the private or public sector, that could not, by better management, operate at least 5% more efficiently if given the freedom to do so.

5% of the DoD budget is over \$15 billion! With those savings, we could do many of the following:

- ?? Increase ship procurement from six to nine ships a year, maintaining a steady state 310 ship Navy and protecting needed job at Navy shipyards \$3 billion annually;
- ?? Procure several hundred additional aircraft annually, rather than 189, to help meet reach the steady state requirements for Navy, Air Force, and Army aircraft \$16 billion annually; \$82 billion from FY03-07;
- ?? Meet the target of a 67-year facility replacement rate \$7 billion annually for 9 years;
- ?? Fund 100% of base operations requirements \$1.4 billion annually;
- ?? Increase defense-related science and technology funding from 2.7% to 3% of the DoD budget \$1.2 billion annually;
- ?? Purchase needed UH-60 helicopters \$50 million;
- ?? Replenish precision munitions such as JSOW, JDAM and ATACMS \$200 million;
- ?? Buy three additional C-17 aircraft \$600 million, replenish Army trucks \$100 million; Buy HMMWVs \$50 million; Bomber upgrades \$730 million; purchase high-speed sealift \$122 million.

But today there is no real incentive to save a nickel. To the contrary, the way the Department operates today, there are *disincentives* to saving money.

We need to ask ourselves: how should we be spending taxpayer dollars? Do we want to keep paying for excess infrastructure that provides no added value to our national security? Or we want to spend that money on new technologies that will help us extend peace and security into the new century? That is the choice before us.

We are doing two things:

- ?? First, we are not treating the taxpayers' dollars with respect -- and by not doing so, we risk losing their support, and
- ?? Second, we are depriving the men and women of our Armed Forces of the training, equipment and facilities they need to accomplish their missions. They deserve better.

## **V. Conclusion**

We have a big task ahead. It took years of coasting and overuse to get us where we are today. We can't dig out in a year.

Following the Cold War, we reduced forces and claimed a well-deserved peace dividend for the American taxpayers. But in the mid-1990s, we began to overdraw on that account. We kept reducing our forces, despite the fact that op-tempo increased.

As a result, we have a 30% smaller force doing 165% more missions. In short, we have been asking the Armed Forces to do more and more, with fewer resources.

The President's budget proposes a large increase by any standard. It will allow us to make significant improvements to the readiness, morale and condition of our military.

Would all services prefer to have more money to get well faster? Of course.

But at the same time, the taxpayers have a right to demand that we spend their money wisely. Today we can't tell the American people we are doing that. I know I cannot.

To have the support of the American people, we need to be able to make the case that we are fixing these systemic problems and achieving significant cost savings.

Fixing this problem is a joint responsibility. It will require a new partnership between Congress and the Executive Branch. It is a responsibility we have not

only to the men and women who serve in our Armed Forces today, but to future generations of Americans as well.

Because of the long lead times, most of the capabilities any President invests in during his tenure are not available during his service; rather they are available to his successors. The force that won the Gulf War was built on the decisions of presidents and congresses over the preceding three decades.

The Tomahawk cruise missile program, the F-15, F-18 and the F-16 aircraft flying today, were developed in the 1970s. And many other technologies, such as the current generation of space satellites that gave us dominant battle space awareness in Iraq, were developed in the 1980s.

The point is this: One generation bequeaths to the next generation the capabilities to ensure its security.

Today, we have the security of future generations of Americans in our hands. We have a responsibility to get it right.

Because of the long procurement holiday of the 1990s, we have been left a poor hand. We must resolve to leave a better hand to our successors.

I am anxious to work with you to achieve that goal. I know full well it will take the best of all of us.

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