

**Prepared Testimony Of U.S. Secretary Of Defense
Donald H. Rumsfeld
Senate Armed Services Committee
The President's 2005 Budget Request
For The Department Of Defense
February 3, 2004**

INTRODUCTION

Mr. Chairman, members of the Committee, I am pleased to be here today to discuss the progress in the global war on terrorism, our transformation efforts, and to discuss the President's 2005 budget request for the Department of Defense.

First, I want to commend the courageous men and women in uniform and the Department civilians who support them. They are remarkable – and what they have accomplished since our country was attacked 28 months ago is truly impressive. In less than 2½ years, they have:

- Overthrown two terrorist regimes, rescued two nations, and liberated some 50 million people;
- Captured or killed 45 of the 55 most wanted in Iraq– including Iraq's deposed dictator, Saddam Hussein;
- Hunted down thousands of terrorists and regime remnants in Iraq and Afghanistan;
- Captured or killed close to two-thirds of known senior al-Qaeda operatives;
- Disrupted terrorist cells on most continents; and
- Likely prevented a number of planned terrorist attacks.

Our forces are steadfast and determined. We value their service and sacrifice, and the sacrifice of their families, who also serve.

And we thank the members of this Committee for the support you have shown for the troops during the global war on terror. With your support, we have the finest Armed Forces on the face of the Earth.

We have a common challenge: to support the troops and to make sure they have what they will need to defend the nation in the years ahead.

We are working to do that in a number of ways:

- By giving them the tools they need to win the global war on terror;
- By transforming for the 21st century, so they will have the training and tools they need to prevail in the next wars our nation may have to fight – wars which could be notably different from today’s challenges;
- And by working to ensure that we manage the force properly – so we can continue to attract and retain the best and brightest, and sustain the quality of the all-volunteer force.

Each represents a significant challenge in its own right. Yet we must accomplish all of these critical tasks at once.

When this Administration took office three years ago, the President charged us with a mission – to challenge the status quo, and prepare the Department of Defense to meet the new threats our nation will face as the 21st century unfolds.

We have done a good deal to meet that charge. Consider just some of what has been accomplished:

- We have fashioned a new defense strategy, a new force sizing construct, and a new approach to balancing risks – one that takes into account not just the risks in immediate war plans, but also the risks to people and transformation.
- We have moved from a "threat-based" to a "capabilities-based" approach to defense planning, focusing not only on who might threaten us, or where, or when – but more on *how* we might be threatened, and what portfolio of capabilities we will need to deter and defend against those new threats.
- We have fashioned a new Unified Command Plan, with
 - A new Northern Command, that became fully operational last September, to better defend the homeland;
 - The Joint Forces Command focused on transformation; and
 - A new Strategic Command responsible for early warning of, and defense against, missile attack and the conduct of long-range attacks.
- We have also transformed the Special Operations Command, expanding its capabilities and its missions, so that it can not only support missions directed by the regional combatant commanders, but also plan and execute its own missions in the global war on terror, supported by other combatant commands.

- We have taken critical steps to attract and retain talent in our Armed Forces -- including targeted pay raises and quality of life improvements for the troops and their families.
- We have instituted realistic budgeting, so the Department now looks to emergency supplementals for the unknown costs of fighting wars, not to sustain readiness.
- We have reorganized the Department to better focus our space activities.
- Congress has established a new Under Secretary of Defense for Intelligence and an Assistant Secretary of Defense for Homeland Defense.
- We have completed the Nuclear Posture Review, and adopted a new approach to deterrence that will enhance our security, while permitting historic deep reductions in offensive nuclear weapons.
- We have pursued a new approach to developing military capabilities. Instead of developing a picture of the perfect system, and then building the system to meet that vision of perfection – however long it takes or costs – the new approach is to start with the basics, roll out early models faster, and then add capabilities to the basic system as they become available.
- We have reorganized and revitalized the missile defense research, development and testing program – and are on track to begin deployment of our nation’s first rudimentary ballistic missile defenses later this year.
- We have established new strategic relationships, that would have been unimaginable just a decade ago, with nations in Central Asia, the Caucasus, and other critical areas of the world.
- We have transformed the way the Department prepares its war plans – reducing the time it takes to develop those plans, increasing the frequency with which they are updated, and structuring our plans to be flexible and adaptable to changes in the security environment.
- We adopted a new “Lessons Learned” approach during Operation Iraqi Freedom, embedding a team with U.S. Central Command that not only studied lessons for future military campaigns, but provided real-time feedback that had an immediate impact on our success in Iraq.

- We made a number of key program decisions that are already having a favorable impact on the capability of the force. Among others:
 - We are converting 4 Trident nuclear SSBN subs into conventional SSGN subs capable of delivering special forces and cruise missiles into denied areas.
 - The Army has deployed its first Stryker brigade to Iraq, is completing conversion of the second, and is replacing the Crusader with a new family of precision artillery that is being developed for the Future Combat System.
 - We have revitalized the B-1 bomber fleet by reducing its size and using the savings to modernize the remaining aircraft with precision weapons and other critical upgrades.
- We have also undertaken a comprehensive review of our global force posture, so we can transform U.S. global capabilities from a structure driven by where the wars of the 20th century ended, to one that positions us to deal with the new threats of the 21st century security environment.
- Using authority granted us last year, we have established a new Joint National Training Capability, that will help us push joint operational concepts throughout the Department, so our forces train and prepare for war the way they will fight it – jointly.
- We have worked with our Allies to bring NATO into the 21st century – standing up a new NATO Response Force that can deploy in days and weeks instead of months or years, and transforming the NATO Command Structure – including the creation of a new NATO command to drive Alliance transformation.
- With the help of Congress last year, we are now establishing a new National Security Personnel System that should help us better manage our 746,000 civilian employees, and we are using the new authorities granted us last year to preserve military training ranges while keeping our commitment to responsible stewardship of the environment.

The scope and scale of what has been accomplished is remarkable. It will have an impact on the capability of our Armed Forces for many years to come.

We will need your continued support as we go into the critical year ahead.

Our challenge is to build on these successes, and continue the transformation efforts that are now underway. In 2004, our objectives are to:

- Successfully prosecute the global war on terror;
- Further strengthen our combined and joint war fighting capabilities;
- Continue transforming the joint force, making it lighter, more agile and more easily deployable, and instilling a culture that rewards innovation and intelligent risk-taking;
- Strengthen our intelligence capabilities, and refocus our intelligence efforts to support the new defense strategy and our contingency plans;
- Reverse the existing WMD capabilities of unfriendly states and non-state actors, and stop the global spread of WMD;
- Improve our management of the force;
- Refocus our overseas presence, further strengthen key alliances, and improve our security cooperation with nations that are likely partners in future contingencies;
- Continue improving and refining DoD's role in homeland security and homeland defense; and
- Further streamline DoD processes, continuing financial management reform and shortening acquisition cycle times.

So, we have an ambitious agenda. But none of these tasks can be put off.

Our task is to prepare now for the tomorrow's challenges, even as we fight today's war on terror.

MANAGING THE FORCE

One effect of the global war on terror has been a significant increase in operational tempo, which has resulted in an increased demand on the force. Managing the demand on the force is one of our top priorities. But to do so, we must be clear about the problem – so we can work together to fashion the appropriate solutions.

The increased demand on the force we are experiencing today is likely a “spike,” driven by the deployment of nearly 115,000 troops in Iraq. We hope and anticipate that that spike will be temporary. We do not expect to have 115,000 troops permanently deployed in any one campaign.

But for the moment, the increased demand is real – and we are taking a number of immediate actions. Among other things:

- We are increasing international military participation in Iraq.
 - As the President noted in his State of the Union address, 34 countries now have forces deployed in Iraq with U.S. forces and Iraqi security forces.
 - Japan began deploying its Self-Defense Forces to Iraq last month – the first time Japanese forces have been deployed outside their country since the end of World War II.
- As more international forces deploy, we have accelerated the training of Iraqi security forces – now more than 200,000-strong – to hasten the day when the Iraqis themselves will be able to take responsibility for the security and stability of their country, and all foreign forces can leave.
- And as we increase Iraq’s capability to defend itself, our forces are dealing aggressively with the threat – hunting down those who threaten Iraq’s stability and transition to self-reliance.

Another way to deal with the increased demand on the force is to add more people. *We have already done so.* Using the special powers granted by Congress, we have increased force levels by nearly **33,000** above the pre-emergency authorized end strength.

- The Army is up roughly 7,800 above authorized end strength;
- The Navy is up roughly 6,000;
- The Marine Corps is up some 2,000, and
- The Air Force is up about 17,000.

If the war on terror demands it, we will not hesitate to increase force levels even more using our emergency authorities. And because we are using emergency powers, we have the flexibility to reduce force levels in the period ahead, as the security situation permits, and as our transformation efficiencies bear fruit.

But it should give us pause that even a temporary increase in our force levels was, and remains, necessary. Think about it: At this moment we have a force of 2.6 million people, both active and reserve:

- 1.4 million active forces,
- 876,000 in the Selected Reserve – that is the guard and reserve forces in units;
- And an additional 287,000 in the Individual Ready Reserves.

Yet, despite these large numbers, the deployment of 115,000 troops in Iraq has required that we temporarily increase the size of the force by some 33,000.

That should tell us a great deal about how our forces are organized.

It suggests strongly that the real problem is not the size of the force, *per se*, but rather the way the force has been *managed*, and the mix of capabilities at our disposal. And it suggests that our challenge is considerably more complex than simply adding more troops.

General Pete Schoomaker, the Army Chief of Staff, compares the problem to a barrel of rainwater, on which the spigot is placed too high up. When you turn it on, it only draws water off the top, while the water at the bottom can't be used. The answer to this problem is most certainly not a bigger rain barrel; the answer is to move the spigot down, so that more of the water is accessible and can be used.

In other words, our challenge today is not simply one of increasing the size of the force. Rather, we must better manage the force we have -- to make sure we have enough people in the right skill sets and so that we take full advantage of the skills and talents of everyone who steps forward and volunteers to serve.

Consider another example: I keep hearing people talk about the stress on the Guard and Reserve – that we can't keep calling them up for repeated mobilizations. Well the fact is, since September 11, 2001, we have mobilized roughly 36% of the Selected Reserve – a little over one-third of the available forces -- and most of those mobilizations are concentrated in certain skill sets. For example:

- We have called up 86% of enlisted installation security forces
- 69% of enlisted law enforcement forces
- 67% of enlisted air crews
- 65% of enlisted special forces
- 56% of civil affairs officers
- 51% of military police officers
- 48% of intelligence officers

But, while certain skills are in demand, only a tiny fraction of the Guard and Reserve – just 7.15 percent -- have been called up more than once since 1990. And the vast majority of our Guard and Reserve forces – over 60% – have *not* been mobilized to fight the global war on terror. Indeed, I am told that a full 58% of the current Selected Reserve – or about 500,000 troops – have **not** been involuntarily mobilized in the past 10 years.

What does that tell us?

- First, it argues that we have too few Guard and Reserve forces with certain skill sets that are high demand – and too many Guard and Reserve with skills that are in little or no demand.
- Second, it indicates that we need to rebalance the skill sets within the reserve component, and between the active and reserve components, so we have enough of the right kinds of forces available to accomplish our missions.
- And third, it suggests that we need to do a far better job of managing the force. That requires that we focus not just on the number of troops available today – though that is important – but on transforming the forces for the future, making sure we continue to increase the capability of the force, and thus our ability to do more with fewer forces.

And we are working to do just that.

MASS VS. CAPABILITY

One thing we have learned in the global war on terror is that, in the 21st century, what is critical to success in military conflict is not necessarily mass as much as it is capability.

In Operation Iraqi Freedom, Coalition forces defeated a larger adversary. They did it not by bringing more troops to the fight, which we could have done, but by overmatching the enemy with superior speed, power, precision and agility.

To win the wars of the 21st century, the task is to make certain our forces are arranged in a way to ensure we can defeat any adversary – and conduct all of the operations necessary to achieve our strategic objectives.

In looking at our global force posture review, some observers have focused on the number of troops, tanks, or ships that we might add or remove in a given part of the world. I would submit that that may well not be the best measure.

If you have 10 of something – say ships, for the sake of argument – and you reduce the number by five, you end up with 50 percent fewer of them. But if you replace the remaining five ships with ships that have double the capability of those removed, then obviously you have not reduced capability even though the numbers have been reduced.

The same is true as we look at the overall size of the force. What is critical is the capability of the Armed Forces to project power quickly, precisely, and effectively anywhere in the world.

For example, today the Navy is reducing force levels. Yet because of the way they are arranging themselves, they will have more combat power available than they did when they had more people.

In Operation Iraqi Freedom, the Navy surged more than half the fleet to the Persian Gulf region for the fight. With the end of major combat operations, instead of keeping two or three carrier strike groups forward deployed, as has been traditional Navy practice, they quickly redeployed all their carrier strike groups to home base. By doing so, they reset their force in a way that will allow them to surge over 50% more combat power on short notice to deal with future contingencies.

The result? Today, six aircraft carrier strike groups are available to respond immediately to any crisis that might confront us. That capability, coupled with the application of new technologies, gives the Navy growing combat power and greater flexibility to deal with global crises – *all while the Navy is moderately reducing the size of its active force.*

The Army, by contrast, has put forward a plan that, by using emergency powers, will increase the size of its active force by roughly 6% or up to 30,000 troops above authorized end strength. But because of *the way* they will do it, General Schoomaker estimates the Army will be adding not 6%, but up to 30% more combat power.

This is possible because, instead of adding more divisions, the Army is moving away from the Napoleonic division structure designed in the 19th century, focusing instead on creating a 21st century “Modular Army” made up of self-contained, more self-sustaining brigades that are available to work for any division commander.

So, for example, in the event of a crisis, the 4th Infantry Division commander could gather two of his own brigades, and combine them with available brigades from, say, the 1st Armored Division and the National Guard, and deploy them together. The result of this approach is jointness within the service, as well as between the services. And that jointness – combined with other measures – means that 75% of the Army’s brigade structure should always be ready in the event of a crisis.

The Army’s plan would increase the number of active and reserve brigades significantly over the next four years. But because we will be using emergency powers, we will have the flexibility to reduce the number of troops if the security situation permits – so the Army would not be faced with the substantial cost of supporting a larger force as the security situation and the efficiencies permit.

Yet even if the security situation, and our progress in transformation, were to permit the Army to draw down the force, the new way they are arranging their forces will ensure the U.S. still has more ground combat power – more capability.

So we have two different approaches:

- In one case, the Navy is reducing force levels while increasing capability;
- In the other, the Army is increasing troop levels – but doing so in a way that will significantly increase its capability.

- And in both cases, the increase in capability of each service will be significant.

The point is: our focus needs to be on more than just numbers of troops. It should be on finding ways to better manage the forces we have, and by increasing the speed, agility, modularity, capability, and usability of those forces.

DoD INITIATIVES

Today, using authorities and flexibility Congress has provided, DoD has several dozen initiatives underway to improve management of the force, and increase its capability.

Among other things:

- We are investing in new information age technologies, precision weapons, unmanned air and sea vehicles, and other less manpower-intensive platforms and technologies.
- We are working to increase the jointness of our forces, creating power that exceeds the sum of individual services.
- We are using new flexibility under the Defense Transformation Act to take civilian tasks currently done by uniformed personnel and convert them into civilian jobs – freeing military personnel for military tasks.
 - This year, we will begin to move 10,000 military personnel out of civilian tasks and return them to the operational force – effectively increasing force levels by an additional 10,000 service members in 2004. An additional 10,000 conversions are planned for 2005.
- We have begun consultations with allies and friends about ways to transform our global force posture to further increase capability.

We are also working to rebalance the active and reserve components. We are taking skills that are now found almost exclusively in reserve components and moving them into the active force, so that we are not completely reliant on the Guard and Reserve for those needed skills. And in both the active and reserve components, we are moving forces out of low demand specialties, such as heavy artillery, and into high-demand capabilities such as military police, civil affairs, and special operations forces.

Already, in 2003, the services have rebalanced some 10,000 positions within and between the active and reserve components. For example, the Army is already transforming 18 Reserve field artillery batteries into military police. We intend to expand those efforts this year, with the Services rebalancing an additional 20,000 positions in 2004, and 20,000 more in 2005 – for a total of 50,000 rebalanced positions by the end of next year.

We are also working to establish a new approach to military force management called “Continuum of Service.” The idea is to create a bridge between the Active and Reserve Components – allowing both active and reserve forces greater flexibility to move back and forth between full-time and part-time status, and facilitating different levels of participation along that continuum.

Under this approach, a Reservist who normally trains 38 days a year could volunteer to move to full time service for a period of time – or some increased level of service between full-time and his normal reserve commitment, offering options for expanded service that do not require abandoning civilian life. Similarly, an active service member could request transfer into the Reserve component for a period of time, or some status in between, without jeopardizing his or her career and opportunity for promotion. And it would give military retirees with needed skills an opportunity to return to the service on a flexible basis – and create opportunities for others with specialized skills to serve, so we can take advantage of their experience when the country needs it.

For example, Coalition forces in Iraq need skilled linguists – so under the Continuum of Service approach we have recruited 164 Iraqi-Americans into a special Individual Ready Reserve program, and expect to deploy the first program graduates to Iraq this spring.

The “Continuum of Service” would allow the Armed Forces to better take advantage of the high-tech skills many Reservists have developed by virtue of their private sector experience – while at the same time creating opportunities for those in the Active force to acquire those kinds of skills and experiences. It encourages volunteerism, and improves our capability to manage the military workforce in a flexible manner, with options that currently exist only in the private sector.

We have also been working to fix the mobilization process. We have worked hard over the past year to add more refined planning tools to the process, and make it more respectful of the troops, their families, and their employers. Among other things:

- We have tried to provide earlier notifications, giving troops as much notice as possible before they are mobilized, so they can prepare and arrange their lives before being called up;
- We have worked to ensure that when they are called up, it is for something important and needed – and not to replace someone in task that could wait until a contingency is over;
- We’ve tried to ensure that the number of people who have been recently mobilized is as small as possible, and that as many of the forces as possible that are remobilized or extended are volunteers;

- We have tried to limit tours, and give the troops some certainty about the maximum length of their mobilization and when they can expect to resume civilian life. We are doing better, but in my opinion, the process is still not good enough.

And we are working each day to make the process better, and more respectful of the brave men and women who make up the Guard and Reserve.

As you can see, we have a number of initiatives underway that we are confident will improve the management and treatment of the Guard and Reserve forces.

The men and women who make up the Guard and Reserve are all volunteers. They signed up because they love their country, and want to serve when the country needs them.

A number of you on this Committee have served in the Guard and Reserve, as have I. Each of us knew when we signed up, it was not to serve one weekend a month and two weeks active duty. We signed up so that if war was visited upon our country, we would be ready to leave our work and family, and become part of the active duty force.

Well, on September 11th, war was visited on our country. Our nation was attacked – more than 3,000 innocent men, women, and children were killed in an instant. And at this moment, in caves and underground bunkers half-a-world away, dangerous adversaries are planning new attacks – attacks they hope will be even more deadly than the one on September 11th.

We are a nation at war. If we were not to call up the Guard and Reserves today, then why would we want to have them at all? Why were we asking them to sacrifice time with their families every month to train? And why are the taxpayers paying for postservice benefits, including healthcare and retirement pay, that add up to between \$250,000 and \$500,000 per reservist?

This is the purpose of the Guard and Reserve. It is what they signed up for. And I know that the vast majority are eager to be in the fight – a fact born out by the large number of those who stepped forward and volunteered to be mobilized for service in Iraq.

Our challenge – our responsibility -- is to do everything we can to see that they are treated respectfully, managed effectively, and that they have the tools they need to win today's war, and to deter future wars.

We are working to do just that -- to better manage the force, and to transform the force to make it more capable for the 21st century.

Today, with authority granted by Congress, DoD has the flexibility to adjust troop levels, as the security situation requires.

- We have authority to increase or decrease, as need arises.
- We are using that authority; and
- We are working on a number of new initiatives that will allow us to better manage and transform the force.

However, we believe that a statutory end strength increase would take away our current flexibility to manage the force:

- First, if the current increased demand turns out to be a spike and if we are successful in the transformation and rebalancing initiatives underway, the Department would face the substantial cost of supporting a larger force when it may no longer be needed – pay and benefits, such as lifetime healthcare, for each service member added, not to mention the additional costs in equipment, facilities, and force protection.
- Second, if we permanently increase statutory end strength, instead of using the already available emergency powers, we will have to *take the cost out of our top line*. That will require cuts in other parts of the defense budget -- crowding out investments in the very programs that will allow us to manage the force and make it more capable.

None of us has a crystal ball to see into the future. You have given us the authority to adjust the size of the force, and the flexibility to deal with unknowns. We have been using that authority over the past two plus years, even as we work to implement comprehensive measures to better manage the force. I urge Congress to not lock us into a force size and structure that may or may not be appropriate in the period ahead.

Instead, help us to support the Armed Services with the transformational initiatives they now have underway; help us rebalance the active and reserve force, and give the troops more options to contribute along an expanded continuum of service; help us add capability, and transform the force for the future.

2005 BUDGET

The President's 2005 budget requests the funds to do just that.

The President's first defense budgets were designed while our defense strategy review was still taking place. It was last year's budget – the 2004 request – that was the first to fully reflect the new defense strategies and policies.

One of the key budget reforms we implemented last year is the establishment of a 2-year budgeting process in the Department of Defense – so that the hundreds of people who invest time and energy to rebuild major programs every year can be freed up and not be required to do so on an annual basis, and can focus more effectively on implementation.

The 2005 budget before you is, in a real sense, a request for the second installment of funding for the priorities set out in the President's 2004 request.

We did not rebuild every program. We made changes to just 5% of the Department's planned 2005 budget, and then only on high-interest and must-fix issues – and *then* only when the costs incurred to mitigate risks could be matched by savings elsewhere in the budget.

The President's 2005 budget requests continued investments to support the six transformational goals we identified in our 2001 defense review:

- First, we must be able to defend the U.S. homeland and bases of operation overseas;
- Second, we must be able to project and sustain forces in distant theaters;
- Third, we must be able to deny enemies sanctuary;
- Fourth, we must improve our space capabilities and maintain unhindered access to space;
- Fifth, we must harness our advantages in information technology to link up different kinds of U.S. forces, so they can fight jointly; and
- Sixth, we must be able to protect U.S. information networks from attack -- and to disable the information networks of our adversaries.

In all, in 2005, we have requested \$29 billion for investments in transforming military capabilities that will support each of these critical objectives.

The President's 2005 budget requests \$10.3 billion for missile defense, including:

- \$9.2 billion for the Missile Defense Agency – an increase of \$1.5 billion above the President's 2004 request; and
- \$1 billion for Patriot Advanced Capability-3, the Medium Extended Air Defense System, and other short and medium range capabilities;

The budget also includes \$239 million in funding for accelerated development of Cruise Missile Defense, with the goal of fielding an initial capability in 2008;

The 2005 budget request includes critical funds for Army Transformation, including:

- \$3.2 billion to support continued development of the Future Combat Systems -- an increase of \$1.5 billion over the 2004 budget; and
- \$1.0 billion to fund continued deployment of the new Stryker Brigade Combat Teams, such as the one now serving in Iraq.

We have also requested additional funds to strengthen intelligence, including critical funds to increase DoD human intelligence (HUMINT) capabilities, persistent surveillance, as well as technical analysis and information sharing to help us better “connect the dots.”

To enhance our communications and intelligence activities, we are requesting:

- \$408 million to continue development of the Space Based Radar (SBR) which will bring potent and transformational capabilities to joint warfighting -- the ability to monitor both fixed and mobile targets, deep behind enemy lines and over denied areas, in any kind of weather. SBR is the only system that can provide such capability.
- \$775 million for the Transformational Communications Satellite (TSAT) which will provide the joint warfighter with unprecedented communication capability. To give you an idea of the speed and situational awareness the TSAT will provide, consider: transmitting a Global Hawk image over a current Milstar II, as we do today, takes over 12 minutes -- with TSAT it will take less than a second.
- \$600 million for the Joint Tactical Radio System, to provide wireless internet capability to enable information exchange among joint warfighters; and

The budget also requests \$700 million for Joint Unmanned Combat Air Systems (J-UCAS) – a program that consolidates all the various unmanned combat air vehicle programs, and focuses on developing a common operating system.

The budget requests \$14.1 billion for major tactical aircraft programs, including:

- \$4.6 billion for the restructured Joint Strike Fighter (JSF) program;
- \$4.7 billion to continue procurement of the F/A-22;
- \$3.1 billion to continue procurement of the F/A-18E/F; and
- \$1.7 billion to support development and procurement of 11 V-22 aircraft.

The budget requests funds for Navy fleet transformation, including \$1 billion to continue funding the new CVN-21 aircraft carrier, and \$1.6 billion to continue development of a family of 21st century surface combatants including the DDX destroyer, the littoral combat ship, and the CG(X) cruiser.

We have requested \$11.1 billion to support procurement of 9 ships in 2005. Fiscal 2005 begins a period of transition and transformation for shipbuilding as the last DDG 51 destroyers are built, and the first DD(X) destroyer and Littoral Combat Ship are procured. This increased commitment is further shown in the average shipbuilding rate

for fiscal 2005-2009 of 9.6 ships per year. This will sustain the current force level and significantly add to Navy capabilities.

In all, the President has requested \$75 billion for procurement in 2005 and \$69 billion for Research, Development, Testing and Evaluation – funds that are vital to our transformation efforts.

Another area critical to transformation is joint training. Last year, Congress approved funding to establish a new Joint National Training Capability (JNTC), an important initiative that will fundamentally change the way our Armed Forces train for 21st century combat.

We saw the power of joint war fighting in Operation Iraqi Freedom. Our challenge is to bring that kind of joint war fighting experience to the rest of the forces, through both live and virtual joint training and exercises. Thanks to the funds authorized in the 2004 budget, the JNTC's initial operating capability is scheduled to come online in October of this year. We have requested \$191 million to continue and expand the JNTC in 2005.

With your help, we have put a stop to the past practice of raiding investment accounts to pay for the immediate operation and maintenance needs. The 2005 request continues that practice. We have requested full funding for the military's readiness accounts, providing \$140.6 billion for Operation and Maintenance (O&M) including \$43 billion for training and operations. These funds are critical to transformation – because they allow us to pay today's urgent bills without robbing the future to do so.

We have also requested funds to support pay and quality of life improvements for the troops -- including a 3.5 percent military base pay raise. We have requested funds in the 2005 budget that will also help the Department keep its commitment to eliminate 90% of inadequate military family housing units by 2007, with complete elimination projected for 2009. And we have requested funds to complete the elimination of out-of-pocket housing costs for military personnel living in private housing. Before 2001, the average service member had to absorb over 18 percent of these costs. By the end of FY 2005, it will be zero. These investments are important to the troops, and also to their families, who also serve – and deserve to live in decent and affordable housing.

I am also appointing a commission to conduct a comprehensive review of military compensation and benefits, with a view toward simplifying and improving them. Today, we have too many pay categories that serve overlapping purposes, or do not provide incentives where they are most needed. Before making major changes, I urge you to allow the Department to first develop a comprehensive and integrated set of compensation proposals, which we will submit to you next year.

We are also making progress in getting our facilities replacement and recapitalization rate in proper alignment. When we arrived in 2001, the Department was replacing its buildings at a totally unacceptable average of once every 192 years. Today, we have moved the rate down for the third straight year, though it is still too high – to an average

of 107 years. The 2005 budget requests \$4.3 billion for facilities recapitalization, keeping us on track toward reaching our target rate of 67 years by 2008. And we have funded 95 percent of facilities maintenance requirements – up from 93 percent in FY 2004.

The budget also supports our continuing efforts to transform the way DoD does business. With the passage of the Defense Transformation Act last year, we now have the needed authority to establish a new National Security Personnel System, so we can better manage DoD's civilian personnel. Initial implementation will begin this year, and cover roughly 300,000 of DoD's 746,000 civilian employees.

Yet, while progress has been made, the Defense Department still remains bogged down by bureaucratic processes of the industrial age, not the information age. We are working to change that. To help us do so, we have requested funds for a Business Management Modernization Program that will help us overhaul DoD management processes and the information technology systems that support them.

We have also requested that Congress nearly double Department's General Transfer Authority, from the current limit of \$2.1 billion to \$4 billion, or roughly 1% of the DoD budget. In an age when terrorists move information at the speed of an email, money at the speed of a wire transfer, and people at the speed of a commercial jetliner, it is critical that we have the ability to shift funds between priorities.

We also need your continuing support for two initiatives that are critical to 21st century transformation: the Global Posture Review, and the Base Realignment and Closure (BRAC) Commission round scheduled for 2005.

Mr. Chairman, I cannot overemphasize the importance of proceeding with both of these initiatives.

We need BRAC to rationalize our infrastructure with the new defense strategy, and to eliminate unneeded bases and facilities that are costing the taxpayers billions of dollars to support.

And we need the global posture review to help us reposition our forces around the world – so they are stationed not simply where the wars of the 20th century ended, but rather are arranged in a way that will allow them to deter, and as necessary, defeat potential adversaries who might threaten our security, or that of our friends and allies, in the 21st century.

These two efforts are inextricably linked.

It is critical that we move forward with both BRAC and the Global Posture Review – so we can rationalize our foreign and domestic force posture. We appreciate Congress' decision to authorize a BRAC round in 2005 – and will continue to consult with you as we proceed with the global posture review.

CONCLUSION

Mr. Chairman, the President has asked Congress for a total of \$401.7 billion for fiscal year 2005 -- an increase over last year's budget. Let there be no doubt: it is a large amount of the taxpayer's hard-earned money. Such investments will likely be required for a number of years to come -- because our nation is engaged in a struggle that could well go on for a number of years to come.

Our objective is to ensure that our Armed Forces remain the best trained, best equipped fighting force in the world -- and that we treat the volunteers who make up the force with respect commensurate with their service, their sacrifice, and their dedication.

Their task is not easy: they must fight and win a global war on terror that is different from any our nation as fought before. And they must do it, while at the same time preparing to fight the wars of 2010 and beyond -- wars which may be as different from today's conflict, as the global war on terror is from the conflicts of the 20th century.

So much is at stake.

Opportunity and prosperity are not possible without the security and stability that our Armed Forces provide.

The United States can afford whatever is necessary to provide for the security of our people and stability in the world. We can continue to live as free people because the industriousness and ingenuity of the American people have provided the resources to build the most powerful and capable Armed Forces in human history -- and because we have been blessed with the finest young men and women in uniform -- volunteers all -- that the world has known.

They are courageous, they are selfless, and they are determined. They stand between this nation and our adversaries, those who wish to visit still further violence on our cities, our homes and our places of work. The men and women of the Armed Forces are hunting the enemies of freedom down -- capturing or killing them in the far corners of the world, so they will not kill still more innocent men, women, and children here at home.

We are grateful to them and proud of them. We stand ready to work with you to ensure they are treated with the dignity they deserve, and the respect they earn every day.

Thank you, Mr. Chairman. I'd be pleased to respond to questions.

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