

**SECRETARY OF DEFENSE CHUCK HAGEL  
SUBMITTED STATEMENT TO THE SENATE ARMED SERVICES  
COMMITTEE ON THE FY 2014 BUDGET REQUEST FOR THE  
DEPARTMENT OF DEFENSE  
WEDNESDAY, APRIL 17, 2013**

Chairman Levin, Senator Inhofe, members of the committee, thank you for this opportunity to discuss the President's Fiscal Year 2014 budget request for the Department of Defense.

Allow me to express my appreciation to this committee for its continued support of our men and women in uniform and our civilian workforce. They are doing tremendous work and making great sacrifices, along with their families, as they have for the more than 11 years our nation has been at war. Whether fighting in Afghanistan, patrolling the world's sea lanes, standing vigilant on the Korean peninsula, supplying our troops around the world, or supporting civil authorities when natural disasters strike, they are advancing America's interests at home and abroad. Their dedication and professionalism are the foundation of our military strength.

As we discuss numbers, budgets, and strategic priorities, we will not lose sight of these men and women serving across the globe. As you all know, their well-being depends on the decisions we make here in Washington.

**Fiscal and Strategic Context**

Today, the Department of Defense faces the significant challenge of conducting long-term planning and budgeting at a time of considerable uncertainty – both in terms of the security challenges we face around the world and the levels of defense spending we can expect here at home.

Even as the military emerges – and recovers – from more than a decade of sustained conflict in Iraq and Afghanistan, it confronts an array of complex threats of varying vintage and degrees of risk to the United States, to include:

- the persistence of violent extremism throughout weak states and ungoverned spaces in the Middle East and North Africa;
- the proliferation of dangerous weapons and materials;
- the rise of new powers competing for influence;
- the risk of regional conflicts which could draw in the United States;
- faceless, nameless, silent and destructive cyberattacks;
- the debilitating and dangerous curse of human despair and poverty, as well as the uncertain implications of environmental degradation.

Meanwhile, the frenetic pace of technological change and the spread of advanced military technology to state and non-state actors pose an increasing challenge to America's military.

This is the strategic environment facing the Department of Defense as it enters a third year of flat or declining budgets. The onset of these resource constraints has already led to significant and ongoing belt-tightening in military modernization, force structure, personnel costs, and overhead expenditures. It has also given us an opportunity to reshape the military and reform defense institutions to better reflect 21<sup>st</sup> century realities.

The process began under the leadership of Secretary Gates, who canceled or curtailed more than 30 modernization programs and trimmed overhead costs within the military services and across the defense enterprise. These efforts reduced the Department's topline by \$78 billion over a five year period, as detailed in the Department's FY 2012 budget plan.

The realignment continued under Secretary Panetta, who worked closely with the President and the Joint Chiefs of Staff to craft new defense strategic guidance and a FY 2013 defense budget plan which reduced the Department's topline by \$487 billion over the course of a decade. Even while restructuring the force to become smaller and leaner and once again targeting overhead savings, this budget made important investments in the new strategy – including rebalancing to Asia and increasing funding for critical capabilities such as cyber, special operations, global mobility, and unmanned systems.

The President's request of \$526.6 billion for the Department of Defense's base budget for FY 2014 continues to implement the President's defense strategic guidance and enhances the Department's efforts at institutional reform. Most critically, it sustains the quality of the all-volunteer force and the care we provide our service members and their families, which underpins everything we do as an organization.

### **Challenges in FY2013**

Before discussing the particulars of this budget request, however, allow me to address the profound budget problems facing the Department in FY 2013 and beyond as a result of sequester – because they have significantly disrupted operations for the current fiscal year and greatly complicated efforts to plan for the future. The Congress and the Department of Defense have a responsibility to find answers to these problems together – because we have a shared responsibility to protect our national security. DoD is going to need the help of Congress to manage through this uncertainty.

The FY 2013 DoD Appropriations bill enacted by the Congress last month addressed many urgent problems by allocating DoD funding more closely in line with the President's budget request than a continuing resolution would have, giving the Department authorities to start new programs, and allowing us to proceed with important military construction projects. Nonetheless, the bill still left in place the deep and abrupt cuts associated with sequester – as much as \$41 billion in spending reductions over the next six months. With military pay and benefits exempt from the sequester, and our internal decision to shift the impact of sequestration away from those serving in harm's way and spread them to the rest of the force where possible, the cuts fall heavily on DoD's operations, maintenance and modernization accounts that we use to train and equip those who will deploy in the future.

Furthermore, the military is experiencing higher operating tempos, and higher transportation costs than expected when the budget request was formulated more than a year ago. As a result of all these factors, the Department is now facing a shortfall in our operation and maintenance accounts for FY 2013 of at least \$22 billion in our base budget for active forces.

In response, the Department has reduced official travel, cut back sharply on facilities maintenance, imposed hiring freezes, and halted many other important but lower-priority activities. However, we will have to do more. We will soon send to Congress a large reprogramming request designed to offset some of our shortfalls, especially shortfalls in wartime funding, and we ask your help with its speedy review and approval. This reprogramming will be limited by ceilings on transfer authority and so can only solve part of our problem.

We will have to continue to consider furloughing civilian personnel in the months ahead. There will also be significant cuts in maintenance and training, which further erodes the readiness of the force and will be costly to regain in the future. As the Service Chiefs have said, we are consuming our readiness. Meanwhile, our investment accounts and the defense industrial base are not spared damage as we also take indiscriminate cuts across these areas of the budget. We will continue to need the strong partnership of this committee to help us address these shortfalls.

If the sequester-related provisions of the Budget Control Act of 2011 are not changed, FY 2014 funding for national defense programs will be subject to a steeply reduced cap, which would cut DoD funding by roughly \$52 billion further. And, if there is no action by the Congress, roughly \$500 billion in reductions to defense spending would be required over the next nine years.

As an alternative, the President's budget proposes some \$150 billion in additional defense savings (measured in terms of budget authority) over the next decade when compared with the budget plan submitted last year. These cuts are part of a balanced package of deficit reduction. Unlike sequester, these cuts are largely back-loaded – occurring mainly in the years beyond FY 2018 – which gives the Department time to plan and implement the reductions wisely, and responsibly, anchored by the President's defense strategic guidance.

### **FY2014 Budget Request**

The President's FY 2014 request continues to balance the compelling demands of supporting troops still very much at war in Afghanistan, protecting readiness, modernizing the military's aging weapons inventory in keeping with the president's strategic guidance, and sustaining the quality of the all-volunteer force.

The top-line budget request of \$526.6 billion for FY 2014 is essentially flat compared to the President's request for FY 2013, and roughly in line with what both the House and Senate have passed in their FY 2014 budget resolutions.

Today's budget request also contains a placeholder request for overseas contingency operations (OCO) at the FY 2013 level (\$88.5 billion). The submission does not include a formal OCO request because Afghanistan force level and deployment decisions for this year were delayed in order to provide commanders enough time to fully assess requirements. We will soon be submitting an OCO budget amendment with a revised level and account-level detail.

The following are the major components of the \$526.6 billion FY 2014 base budget request:

- Military pay and benefits (including Tricare and retirement costs) – \$170.2 billion (32% of the total base budget);
- Operating costs (including \$77.3 billion for civilian pay) – \$180.1 billion (34%);
- Acquisitions and other investments (Procurement, research, development, test and evaluation, and new facilities construction) – \$176.3 billion (33%)

The budget presented today, at its most basic level, consists of a series of choices that reinforce each of the following complementary goals:

- making more disciplined use of defense resources;
- implementing the President's defense strategic guidance;
- seeking to sustain the readiness and quality of the all-volunteer force;
- supporting troops deployed and fighting in Afghanistan.

Many of the reductions we are being forced to make in FY 2013 as a result of sequester run counter to these goals.

### **1. Making more disciplined use of defense resources**

In developing the FY2014 budget, the Department identified about \$34 billion in savings over the current Future Years Defense Program (FYDP), which covers FY 2014 to FY 2018. These savings were used to help pay the costs of implementing the new defense strategy and to accommodate budget reductions.

These efforts continue the Department's approach of the last several years to first target growing costs in areas of support, acquisition, and pay and benefits, before cutting military capabilities and force structure.

#### *Reducing Support Costs*

In order to maintain balance and readiness, the Department of Defense must be able to eliminate excess infrastructure as it reduces force structure. DoD has been shedding infrastructure in Europe for several years and we are undertaking a review of our European footprint this year, but we also need to look at our domestic footprint. Therefore, the President's FY 2014 budget requests authorization for one round of Base Realignment and Closure (BRAC) in 2015. While the commission would meet in 2015, the actual closing of any bases would involve a multiyear process that would not begin until 2016.

BRAC is a comprehensive and fair tool that allows communities a role in re-use decisions for the property and provides redevelopment assistance. There are up-front costs for BRAC, and this FYDP adds \$2.4 billion to pay them, but in the long-term there are significant savings. The previous five rounds of BRAC are now saving a total of \$12 billion annually.

We are also taking other important steps to cut back on support costs. We will institute a study of our Military Treatment Facilities, including many hospitals and clinics that are currently underutilized. By the end of this year we will have a plan in place that suggests how to reduce that underutilization while still providing high-quality medical care. This restructuring, coupled with a BRAC round and other changes, would permits us to plan on a cut in our civilian workforce that will comply with Congressional direction.

We are also continuing our successful efforts to hold down military health system costs. With the Department's proposed TRICARE benefit changes, our projected costs for FY 2014 are about four percent lower than those costs in FY 2012, a significant turnaround compared to health care trends over the past decade. We continue efforts to slow the growth of medical care costs through actions such as re-phasing military construction, making full use of past changes in provider costs, and taking advantage of the slowing of growth in medical costs in the private sector.

Another important initiative is our effort to improve the Department's financial management and achieve auditable financial statements. We need auditable statements, both to improve the quality of our financial information and to reassure the public, and the Congress, that we are good stewards of public funds. We have a focused plan and are making progress. Our next goal is audit-ready budget statements by the end of 2014. We are working hard to achieve this goal, though the current budget turmoil is hampering our efforts. I strongly support this initiative and will do everything I can to fulfill this commitment.

These and many other changes led to total savings of about \$34 billion in FY 2014-2018, including \$5.5 billion in FY 2014. However, we are concerned that these savings from more

disciplined use of resources could be eroded by sequester, as we are forced to make inefficient choices that drive up costs. Today, for example, we are being forced to engage in shorter and less efficient contracts and sharp cuts in unit buy sizes that will increase the unit costs of weapons.

*Restructuring and Terminations of Weapons Programs*

The Department continues to streamline its acquisition programs and processes, and over the past four years we have realized significant cost savings as a result of reforms implemented by the Weapon Systems and Acquisition Reform Act of 2009 sponsored by Senators Levin and McCain. In this budget, the Department has shifted priorities within its modernization portfolios and achieved \$8.2 billion in savings from weapons program terminations and restructuring.

For example, by revising the acquisition strategy for the Army's Ground Combat Vehicle (GCV) program, the Department will save over \$2 billion in development costs.

In other cases the Department used evolutionary approaches to develop new capabilities instead of relying on leap-ahead gains in technology.

For example, the Department:

- Realigned investment funding and restructured the SM-3 IIB interceptor – a high-risk, high-cost system – to improve the capabilities of existing missile defense systems, resulting in savings of about \$2.1 billion during the Future Year Defense Program (FYDP);
- Cancelled the Precision Tracking Space Satellite system – another high-risk project – saving \$1.9 billion during the FYDP; the Department invested a portion of these savings in technology upgrades to existing ground-based radars and sensors.

To lessen the potential impact on local communities from the reductions in defense procurement, the Department is requesting an additional \$36 million in support of the Defense Industry Adjustment program.

The Department is continuing to take steps to tighten the contract terms and reduce risk in our largest acquisition program, the F-35 Joint Strike Fighter. The FY 2014 budget request includes \$8.4 billion for the Joint Strike Fighter.

*Military Pay and Benefits*

The costs of military pay and benefits are another significant driver of spending growth that must be addressed in the current fiscal environment. In this budget, the Department is submitting a new package of military compensation proposals that take into consideration Congressional concerns associated with those from FY 2013. These changes save about \$1.4 billion in FY 2014 and a total of \$12.8 billion in FY 2014-2018

This package includes a modest slowing of the growth of military pay by implementing a one percent pay raise for service members in 2014. The Department is also seeking additional changes to the TRICARE program in the FY 2014 budget to bring the beneficiary's cost share closer to the levels envisioned when the program was implemented – particularly for working age retirees. Today military retirees contribute less than 11 percent of their total health care costs, compared to an average of 27 percent when TRICARE was first fully implemented in 1996.

The proposed TRICARE changes include:

- For retirees, modest increases in TRICARE Prime enrollment fees, instituting an enrollment fee for TRICARE Standard/Extra, and increasing Standard/Extra deductibles.
- Implementation of an enrollment fee for new TRICARE-for-Life beneficiaries, while grandfathering in those already Medicare-eligible at enactment.
- Increases in pharmacy co-pays and, where appropriate, mandatory use of mail order delivery of pharmaceuticals.
- Indexing of fees, deductibles, co-pays and the catastrophic cap to the growth in annual retiree cost-of-living adjustment.

Survivors of military members who died on active duty or medically retired members would be excluded from all TRICARE increases. Even after the proposed changes in fees, TRICARE will remain a substantial benefit.

These adjustments to pay and benefits were among the most carefully considered and difficult choices in the budget. They were made with the strong support of the Joint Chiefs of Staff and Senior Enlisted Leadership, in recognition that in order to sustain these benefits over the long term without dramatically reducing the size or readiness of the force, these rising costs need to be brought under control.

## **2. Implementing and deepening our commitment to the President's defense strategic guidance**

Spending reductions on the scale of the current drawdown cannot be implemented through improving efficiency and reducing overhead alone. Cuts and changes to capabilities – force structure and modernization programs – will also be required. The strategic guidance issued in January 2012 set the priorities and parameters that informed those choices, and the FY 2014 budget submission further implements and deepens program alignment to this strategic guidance.

The new strategy calls for a smaller and leaner force. Last year we proposed reductions of about 100,000 in military end strength between FY 2012 and FY 2017. Most of those reductions occur in the ground forces and are consistent with a decision not to size U.S. ground forces to accomplish prolonged stability operations, while maintaining adequate capability should such activities again be required. By the end of FY 2014 we will have completed almost two thirds of the drawdown of our ground forces, and the drawdown should be fully complete by FY 2017.

Last year DoD submitted proposals for changes in Air Force and Navy force structure; some were rejected by Congress. We continue to believe, however, that these reductions are consistent with our defense strategy and the need to hold down costs. Therefore, DoD is resubmitting several proposals from its FY 2013 budget submission that were not supported by Congress, including the retirement of seven Aegis cruisers and two amphibious ships at the beginning of FY 2015. Despite the growing importance of the Asia-Pacific – a mostly maritime theater – the high costs of maintaining these older ships relative to their capabilities argues strongly for their retirement.

The FY 2014 budget continues implementation of the Air Force total force proposal included in the FY 2013 National Defense Authorization Act. In response to state and congressional concerns about proposed reductions to the Air National Guard that DoD made in the original FY 2013 budget, the Department added back 44 aircraft to the Guard, 30 aircraft to the Air Force Reserve, and is taking away 31 aircraft from the active Air Force.

## AS PREPARED – EMBARGOED UNTIL DELIVERY

These shifts were forced primarily by political realities, not strategy or analysis. While this active-reserve compromise allows the Air Force to move forward with prior year retirements and transfers, and approved mission changes for many reserve units, it does require the Department to retain excess aircraft capacity. The Department's position continues to be that retaining excess air capacity in the reserve component is an unnecessary expenditure of government funds that detracts from more pressing military priorities outlined in the defense strategic guidance.

Increased emphasis on the Asia-Pacific and Middle East represents another key tenet of the new defense strategic guidance. This budget continues to put a premium on rapidly deployable, self-sustaining forces – such as submarines, long-range bombers, and carrier strike groups – that can project power over great distance and carry out a variety of missions.

As part of the rebalance to the Asia-Pacific, the Department is expanding the Marine Corps presence in the region, including rotational deployments of Marine units to Australia. We continue to develop Guam as a strategic hub where we maintain a rotational bomber presence among other capabilities. The Department will stage its most capable forces in the region, including an F-22 squadron at Kadena Air Force Base in Japan. The Navy has deployed a Littoral Combat Ship to Singapore and is increasing and more widely distributing port visits in the Western Pacific.

Additional enhancements and key capabilities supporting the Asia-Pacific rebalance in the FY 2014 budget include:

- Protecting investments for new ship construction, enabling the Navy to procure eight new ships in FY 2014 – including two Virginia class submarines (\$10.9 billion);
- Continuing investments to develop a new penetrating bomber (\$379 million);
- Investing in new maritime patrol aircraft (\$3.8 billion);
- Continuing investments to maintain and expand undersea dominance, including increasing the cruise missile capacity of the future Virginia class subs and developing new unmanned undersea vehicles (\$223.9 million);
- Continuing to fund development of an unmanned carrier launched UAV (\$427 million);
- Adding electronic attack EA-18Gs to offset the loss of retired Marine Corps EA-6B (Prowler) squadrons (\$2.0 billion);
- Investing in a new suite of anti-surface warfare weapons (\$160 million);
- Increasing the number of attack submarines forward deployed to Guam to four (\$78 million);
- Funding airfield resiliency measures such as dispersal, rapid runway repair, and hardening in the Western Pacific (\$440 million);
- The Army is investing in upgraded missile defense capabilities in the region (\$40 million);
- Increasing funding for joint exercises in the PACOM region (\$14 million).

Another tenet of the strategy is to support efforts to build partner capacity through innovative mechanisms based on lessons learned over the past decade of war. To that end, the FY 2014 request builds on our Section 1206 program by including \$75 million in dedicated funding for the new Global Security Contingency Fund, a pooled resource between the Department of Defense and Department of State that supports common efforts to boost the security capacity of partners in regions like Africa. This represents the first time dedicated funds have been requested for this new authority.

## AS PREPARED – EMBARGOED UNTIL DELIVERY

This new strategy not only recognizes the changing character of the conflicts in which the U.S. must prevail, but also leverages new concepts of operation enabled by advances in space, cyberspace, special operations, global mobility, precision-strike, missile defense, and other capabilities. By making difficult trade-offs in lower priority areas, the FY 2014 budget protects or increases key investments in these critical capabilities, including:

- Cyberspace operations, including the recruitment and retention of world-class cyber personnel (\$4.7 billion for FY2014, an increase of \$800 million over FY2013 enacted levels).
- Space operations – to maintain our superiority in space, the Air Force continues to modernize the GPS program and is investing in improved space surveillance capabilities and a new generation of communications satellites (\$10.1 billion).
- Airborne intelligence, surveillance, and reconnaissance (ISR) – the Department is investing in both sea-based and extended range, land-based ISR platforms (\$2.5 billion).
- Rapid Global Mobility – to maintain our ability to rapidly deliver and sustain our forces around the globe, the Air Force is upgrading its C-5, C-17, and C-130 transport aircraft – replacing the oldest aircraft and modernizing the fleet – and building the new KC-46 aerial refueling tanker (\$5.0 billion);
- Missile Defense – to protect against ballistic missile threats from Asia-Pacific and the Middle East, the Department is increasing its fleet of Ground Based Interceptors (GBI), continuing the conversion of Aegis ships to provide ballistic missile defense capability, and procuring additional Terminal High Altitude Area Defense (THAAD) interceptors and Patriot PAC-3 missiles (\$9.2 billion);
- Special Operations/counterterrorism – to ensure our special operations forces maintain the highest levels of readiness and to expand the global special operations force network (\$7.7 billion).

### **3. Seeking to sustain the readiness and quality of the all-volunteer force**

The high-quality of our all-volunteer force continues to be the foundation of our military strength. This budget seeks to ensure that our troops receive the training and equipment they need for military readiness, and the world-class support programs they and their families have earned. However, as in other areas of the budget, the steep and abrupt cuts of sequester would harm these programs. The remainder of this discussion outlines the goals of the FY 2014 budget, but they would be significantly impacted by the persistence of sequester-level cuts.

#### *Readiness Investments*

Even with flat and declining defense budgets, this budget seeks to press ahead with the transition from a counterinsurgency-focused force to a force ready and capable of operating across a full range of operations across the globe. The service budgets all fund initiatives that seek to return to full-spectrum training and preparation for missions beyond current operations in Afghanistan:

- The Army would prepare for a rotational presence in multiple regions and has begun training in “decisive action” scenarios and is transitioning to training in combined arms conventional warfare;



## AS PREPARED – EMBARGOED UNTIL DELIVERY

- The Marine Corps would return to a sea-going posture, its traditional role in between major conflicts;
- The Navy would invest in ship maintenance and measures to alleviate the stress on personnel from prolonged and extended deployments required by current operations;
- The Air Force would re-focus on high-end capabilities required to confront the advanced air forces and air defense systems of other nations.

The Department continues its work to understand and quantify readiness activities as we seek to maximize our preparedness for real-world missions. We do not yet know the costs of fixing the readiness of the force following the six months of sequester cuts to training in this fiscal year. Therefore these costs are not included in the FY 2014 budget. However, the President's Budget includes balanced deficit reduction proposals that are more than sufficient to allow Congress to replace and repeal the sequester-related reductions required by the Budget Control Act.

### *Family Support Programs*

The Department's budget submission makes clear that people are central to everything we do. While sequester cuts would unfortunately counter many of these initiatives, especially for our civilian workforce, the initiatives remain important statements of the intent in this budget.

The Department continues to support key programs in FY 2014 that support service members and their families, spending \$8.5 billion on initiatives that include:

- Transition Assistance and Veteran's Employment Assurance – the Department continues to support the Transition Assistance Program (TAP) to ensure every service member receives training, education, and credentials needed to successfully transition to the civilian workforce.
- Family Readiness – the Department continues to ensure that family support is a high priority by redesigning and boosting family support in a number of ways.

The Department is also providing support to our people with a number of other important initiatives, including:

- Behavioral Health – the Department maintains funding for psychological health programs and expands those programs that are most effective, such as Embedded Behavioral Health, to provide improved access to care, improved continuity of care, and enhanced behavioral health provider communication.
- Suicide Prevention – the Department continues to implement recommendations from the Suicide Prevention Task Force and act on other findings from think tanks, the National Action Alliance's National Suicide Prevention Strategy, and DoD and Department of Veteran's Affairs (VA) Integrated Mental Health Strategy (IMHS).

Another area of focus has been Sexual Assault Prevention and Response. The Department has implemented a number of initiatives to change the way it prevents and responds to the crime of sexual assault, along five lines of effort:

- Prevention – the military services have launched a wide range of enhanced training programs, which are now being taught in multiple professional military education and training courses, to include DoD-wide pre-command and senior NCO training courses.
- Investigation – Consistent with the FY 2012 and FY 2013 National Defense Authorization Acts, DoD has established new policies to retain investigative

documentation for 50 years for unrestricted reports, and is developing policy for Special Victim Capability.

- Advocacy – DoD has implemented a Safe helpline to give victims 24/7 global access to crisis support staff, implemented an expedited transfer policy for victims requesting transfer to a new unit, and expanded emergency care and services to DoD civilians stationed abroad.
- Assessment – DoD has added sexual assault questions to DoD Command Climate Surveys and implemented policy to conduct assessments within 120 days for new commanders and annually thereafter, consistent with the FY 13 NDAA.
- Accountability – on April 8, I directed DoD’s Acting General Counsel to propose to the Congress changes to Article 60 of the Uniform Code of Military Justice (UCMJ) that would eliminate the ability of a convening authority to change findings in courts-martial, except for certain minor offenses. These changes would also require the convening authority to explain in writing any changes made to court-martial sentences, as well as any changes to findings involving minor offenses. These changes, if enacted, would help ensure that our military justice system works fairly, ensures due process, and is accountable.

I am currently reviewing other options and actions to strengthen the Department’s prevention and response efforts, and will announce those decisions and actions soon. Consistent with the 2013 National Defense Authorization Act, I will soon be naming individuals to sit on independent panels to review and assess the systems used to investigate, prosecute, and adjudicate crimes involving sexual assault, and judicial proceedings of sexual assault cases. I will closely review their recommendations when complete.

#### **4. Supporting troops deployed and fighting overseas**

As I said earlier, this budget request includes a placeholder request for OCO funding at the FY 2013 level (\$88.5 billion) – we expect to submit an OCO budget amendment with a revised level and account-level detail later this Spring. I would note that OCO funding is essential in FY 2014 to support troops deployed and fighting in, and coming home from, Afghanistan, and the cost of transporting and resetting equipment returning from theater. OCO costs should decrease as our military presence in Afghanistan decreases, but even after the conclusion of combat operations we will face war-related costs that must be addressed.

#### **The Way Ahead: Strategic Choices and Management Review**

The FY2014 budget is a reflection of DoD’s best efforts to match ends, ways, and means during a period of intense fiscal uncertainty. It is a balanced plan that would address some of the Department’s structural costs and internal budget imbalances while implementing the President’s defense strategic guidance and keeping faith with our men and women in uniform and their families.

It is obvious that significant changes to the Department’s top-line spending would require changes to this budget plan. The Department must plan for any additional reductions to the defense budget that might result from Congress and the Administration agreeing on a deficit reduction plan, and it must be prepared in the event that sequester-level cuts persist for another year or over the long-term.

Consequently, I directed a Strategic Choices and Management Review in order to assess the potential impact of further reductions up to the level of full sequester. The purpose of this Strategic Choices and Management Review is to re-assess the basic assumptions that drive the Department's investment and force structure decisions.

The review will identify the strategic choices and further institutional reforms that may be required – including those reforms which should be pursued regardless of fiscal pressures. It is designed to help understand the challenges, articulate the risks, and look for opportunities for reform and efficiencies presented by resource constraints. Everything will be on the table during this review – roles and missions, planning, business practices, force structure, personnel and compensation, acquisition and modernization investments, how we operate, and how we measure and maintain readiness.

This review is being conducted by Deputy Secretary Carter working with General Dempsey. The Service Secretaries and Service Chiefs, Office of the Secretary of Defense Principals, and Combatant Commanders will serve as essential participants. Our aim is to conclude this review by May 31, 2013. The results will inform our FY 2015 budget request and will be the foundation for the Quadrennial Defense Review due to Congress in February 2014.

It is already clear to me that achieving significant additional budget savings without unacceptable risk to national security will require not just tweaking or chipping away at existing structures and practices but, if necessary, fashioning entirely new ones that better reflect 21<sup>st</sup> century realities. And that will require the partnership of Congress.

The FY2014 budget and the ones before it have made hard choices. In many cases, modest reforms to personnel and benefits, along with efforts to reduce infrastructure and restructure acquisition programs, met fierce political resistance and were not implemented.

We are now in a different fiscal environment dealing with new realities that will force us to more fully confront these tough and painful choices, and to make the reforms we need to put this Department on a path to sustain our military strength for the 21<sup>st</sup> century. But in order to do that we will need flexibility, time, and some budget certainty.

We will also need to fund the military capabilities that are necessary for the complex security threats of the 21<sup>st</sup> century. I believe the President's budget does that. With the partnership of Congress, the Defense Department can continue to find new ways to operate more affordably, efficiently, and effectively. However, multiple reviews and analyses show that additional major cuts – especially those on the scale and timeline of sequestration – would require dramatic reductions in core military capabilities or the scope of our activities around the world.

As the executive and legislative branches of government, we have a shared responsibility to ensure that we protect national security and America's strategic interests. Doing so requires that we make every decision on the basis of enduring national interests and make sure every policy is worthy of the service and sacrifice of our service members and their families.

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