



January 24, 2017

# Defense Budget for Fiscal Year 2018 and Onwards

Committee on Armed Services, United States Senate, One Hundred  
Fifteenth Congress, First Session

---

## HEARING CONTENTS:

### Member Statements

John McCain (R-Arizona)  
Chairman  
Committee on Armed Services  
[\[view pdf\]](#)

Jack Reed (D-Rhode Island)  
Ranking Member  
Committee on Armed Services  
[\[view pdf\]](#)

### Witnesses

Dakota L. Wood  
Senior Research Fellow for Defense Programs  
The Heritage Foundation  
[\[view pdf\]](#)

Thomas G. Mahnken  
President and Chief Executive Officer  
Center for Strategic and Budgetary Assessments  
[\[view pdf\]](#)

Lawrence J. Korb  
Senior Fellow  
Center for American Progress  
[\[view pdf\]](#)

*\* Please Note: External links included in this compilation were functional at the time of its creation but are not maintained thereafter.*

---

*This hearing compilation was prepared by the Homeland Security Digital Library,  
Naval Postgraduate School, Center for Homeland Defense and Security.*

---



**Available Webcast(s)\*:**

[\*\[Watch Full Hearing\]\*](#)

**Compiled From\*:**

<http://www.armed-services.senate.gov/hearings/17-01-24-defense-budget-for-fiscal-year-2018-and-onwards>

*\* Please Note: External links included in this compilation were functional at the time of its creation but are not maintained thereafter.*

---

*This hearing compilation was prepared by the Homeland Security Digital Library,  
Naval Postgraduate School, Center for Homeland Defense and Security.*

---

**Opening Statement on the Defense Budget for FY2018 and Beyond**  
**Chairman John McCain**  
**January 24, 2017**

The Armed Services Committee meets this morning to receive testimony on the defense budget for fiscal year 2018 and beyond. I'd like to welcome our witnesses:

- Dakota Wood, Senior Research Fellow for Defense Programs at the Heritage Foundation;
- Dr. Thomas Mahnken, President and CEO of the Center for Strategic and Budgetary Assessments; and
- Dr. Lawrence Korb, Senior Fellow at the Center for American Progress.

As Donald Trump assumes the awesome responsibilities of the presidency, he has inherited a world on fire and a U.S. military weakened by years of senseless budget cuts. I am encouraged that he recognizes these problems. In fact, the White House website now features President Trump's promise to "end the defense sequester" and "rebuild our military." I know the President will find many allies on this committee who share these goals.

The world order that America has led for seven decades—which has benefited our people most of all—is now under unprecedented strain. We have entered a new era of great power competition, even as we continue to face an enduring global conflict against violent Islamist extremist groups.

Too many Americans seem to have forgotten that our world order is not self-sustaining. Too many have forgotten that, while the threats we face may not have purely military solutions, they all have military dimensions. In short, too many have forgotten that hard power matters. It is what gives our nation leverage to deter aggression and achieve peace through strength.

The epitome of this forgetfulness is the *Budget Control Act of 2011*, which cut and arbitrarily capped defense spending for a decade. At a time of growing threats, this law led to a 21 percent reduction to the defense budget from 2010 to 2014. Across the board, the military got smaller and, worse, less capable. Critical investments in new technologies were deferred, which helped adversaries like Russia and China to close the gap. At the same time, the combination of rising threats, declining budgets, aging equipment, shrinking forces, and high operational tempo produced a military readiness crisis.

In other words, President Trump is now commander-in-chief of a military that is underfunded, undersized, and unready to meet the diverse and complex array of threats confronting our nation. That is why every member of the Joint Chiefs of Staff has testified to our committees that years of budget cuts have placed the lives of the men and women of our armed forces at greater risk.

Despite the damage done to our military over the last several years, there are still those that argue we should not be so concerned. They say America's military is still the greatest fighting force ever known, that our military capabilities are still "awesome," that we spend so much more than Russia or China, or that we spend roughly the same amount we did during the Cold War.

True as these statements may be, they say little to nothing about whether our military can achieve the missions assigned to them and at what cost. In fact, the testimony of our military leaders in open hearings and closed briefings leads me to believe there is real reason for concern. We don't fight wars by comparing budgets. That's why this kind of happy talk is not just unhelpful, it's dangerous. It breeds the kind of complacency we cannot afford with a world on fire.

It's time to change course on America's defense budget.

We have to invest in the modern capabilities necessary for the new realities of deterring conflict. Our adversaries have gone to school on the American way of war, and they are investing heavily in advanced capabilities to counter it. After years of taking our military advantage for granted, we are now at serious risk of losing it. We cannot just buy a bigger version of the military that won the Gulf War twenty-five years ago. We have to invest in the new technologies and capabilities that will allow our military to prevail in a conflict twenty-five years in the future.

We also have to regain capacity for our military. Put simply, our military today is too small. It does not have enough ships, aircraft, vehicles, munitions, equipment, and personnel to perform its current missions at acceptable levels of risk. Adding capacity alone is not the answer. And any capacity that we do add must be done deliberately and sustainably. But add we must.

Of course, rebuilding our military must be done smartly. We must seek to make our military better, not just bigger. We must continue our reform efforts to make the Department of Defense more effective and efficient, while cutting wasteful spending.

We must also be clear about the challenge of rebuilding America's military.

It will not be cheap. In my estimation, our military requires a base defense budget for fiscal year 2018, excluding current war costs, of \$640 billion, which is \$54 billion above current plans, and sustained growth for years thereafter.

It will not happen overnight. The harm done to our military over the past eight years will not be reversed quickly. The longer we wait, the worse it will get, and the longer it will take to fix.

And it will not be easy. Rebuilding America's military will require spending political capital and making policy tradeoffs. That's why national defense must be a political priority on par with repealing and replacing Obamacare, rebuilding infrastructure, and reforming the tax code—indeed, more so, because national defense is job one for the federal government.

None of these challenges should obscure the fact that rebuilding America's military is the right and necessary thing to do. I look forward to the testimony of our witnesses on the way forward.

**OPENING STATEMENT OF U.S. SENATOR JACK REED  
RANKING MEMBER, SENATE ARMED SERVICES COMMITTEE**

**SH-216  
HART SENATE OFFICE BUILDING  
Tuesday, January 24, 2017**

**To receive testimony on the defense budget for  
Fiscal Year 2018 and onwards**

Thank you, Mr. Chairman, for holding this hearing to consider funding levels for the Department of Defense and to maintain our nation's military. I welcome our distinguished witnesses this morning, and I look forward to their testimony.

Last week, Chairman McCain issued a white paper detailing his spending priorities for the new fiscal year and beyond. As this Committee begins its work on the annual defense authorization process, the Chairman's proposal includes many policy objectives that deserve careful consideration by this Committee.

In addition to the Chairman's budget proposal, this Committee will also consider the upcoming Fiscal Year 2018 budget request that will be submitted by the Trump Administration. President Trump has stated repeatedly that he will focus on "rebuilding" our nation's military, but there have been few specific details on what this will include.

Furthermore, as this Committee has done in the past, we will have several posture hearings with senior civilian and military leadership to hear directly from the Department regarding their resource requirements. Finally, like today, we will have hearings with outside defense experts that will help provide an alternate view for this Committee to consider.

I am proud that this Committee has always worked in a bipartisan fashion during this process, and I look forward to working with the Chairman and all the Committee members this year.

While there has been a change in Administrations and Administration priorities, this Committee is still governed by the funding constraints enacted under the Budget Control Act (BCA). President Trump has stated that he will end the “defense sequester,” but as my colleagues on this Committee are acutely aware, current law restricts both defense and non-defense spending.

Many of my colleagues will maintain that the defense bill is not a vehicle to discuss the fate of domestic spending. However, for the past several years, I have argued that when it comes to questions of adequate funding, we need to consider all the security responsibilities of our nation, not just those that are executed by the Department of Defense. For example, as numerous witnesses have testified over the years, our nation’s fight against ISIL consists of nine lines of effort, only two of which are controlled

by the Defense Department. Increasing the BCA caps for DOD alone will not support the State Department's diplomatic engagement with the Government of Iraq; it will not support State and USAID's delivery of humanitarian aid to refugees and displaced persons; it will not support the Treasury Department's disruption of ISIL's finances; and it will not support Department of Homeland Security, the FBI, and the Justice Department in their efforts to protect the homeland by thwarting terrorist threats.

I would further argue that protecting our country goes beyond funding our "national security agencies." Domestic agencies need funding to ensure the resiliency of our electrical grid, the safety of our food, water and medicine, and the protection of all our cyber networks – from those that regulate dams to those that are used during our elections.

One of the military and diplomatic tenets of combating extremism is to provide populations with security and basic needs. But while we help the Afghans build roads, schools, and clean drinking water systems for their villages, I believe we should do the same for American communities. While we are deploying troops to Poland and Eastern Europe to support our NATO allies against aggressive Russian actions, we also need to provide the funding necessary so that Americans feel safe in their neighborhoods and on their computers.

As we examine what funding requirements are necessary for the safety and security of our country, we need to look at our federal budget in a much broader context, recognizing that our strength also depends on the health of our economy, the reliability of civil institutions, our scientific preeminence, and the health and education of our citizens. The BCA's delineation between "defense" and "non-defense" spending has had the unfortunate effect of pitting each category of funding against the other. Instead, we would be better served if we consider the needs of our nation holistically.

I would also like to note that President Trump has not provided many details on what our defense posture will be under his Administration. He has stated that eliminating ISIL is his top national security priority, which is a continuation of present policy. However, other public statements, from calling NATO obsolete to developing closer relations with Russia, could counteract that goal and suggest that critical programs, such as the European Reassurance Initiative, may be rolled back or eliminated. Such policy changes will have an effect on strategy, force structure and funding. Therefore, as our witnesses discuss their recommendations for military funding, I hope they frame their proposals first in the larger context

of what they believe America's strategy should be, and second, what force structure will be necessary to achieve the specific goals of that strategy.

Finally, like Chairman McCain, I believe it is time to repeal the BCA's arbitrary spending caps. The BCA has not made this country safer, and it has not resolved our fiscal challenges. Likewise, I am deeply concerned that the Trump Administration plans to pursue massive tax cuts for corporations and the well-off, while simultaneously seeking to increase military spending without working to develop the new revenue we need to invest in our people and our economy.

Let me be clear, I am not opposed to increased military spending. But it is the duty of this Committee to carefully review the budget proposals presented by the President, to ensure the men and women we send into harm's way have the resources necessary to complete their mission and return home safely. This is a duty I take very seriously.

But I also believe we have to act responsibly for all of our nation's needs, and to ensure the fiscal health of this country. I look forward to our witnesses' testimony today and to continuing this important discussion.

# **U.S. Defense Budget for Fiscal Year 2018**

**Testimony before the Senate Armed Services Committee**

**January 24, 2017**

**by**

**Dakota L. Wood**

**Senior Research Fellow, Defense Programs  
The Heritage Foundation**

Chairman McCain, Ranking Member Reed, and distinguished members of the Committee, I deeply appreciate your invitation to appear before you today to discuss the defense budget for Fiscal Year 2018.

The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

This Committee has already fully explored the extent to which the US defense budget has been cut in real terms over the last several years, so I do not think it worth this Committee's important time for me to dwell on the details of that topic. The military service chiefs and senior members of their staffs have testified before you on numerous occasions, describing the condition of their services, how budget cuts—combined with sustained, high operational tempo—have affected them, the challenges of carrying out the tasks assigned to them in such a constrained budget environment, and their forecasts of the future condition of the services if current trends are not altered. To be fair, the military budget was certainly increased following the attacks of September 11, 2001, but those increases were immediately consumed by the operations in Afghanistan, Iraq, and elsewhere. What was not addressed was the baseline force and all the things that make it possible to organize, equip, train, deploy, and sustain combat power. That includes the institutional elements of the services: the physical infrastructure of bases, air stations, and maintenance facilities, training ranges, and so forth.

As Chairman McCain has noted in his just-released White Paper, the combined effects of nearly \$1.5 trillion in cuts over a decade—which includes Secretary of Defense Robert Gates' \$200 billion in "efficiency cuts" during roughly the same ten-year period—have been devastating to our military. I realize this may seem odd to the public and even to many in Congress, since we spend more than \$600 billion each year on defense, and the military appears to do that which is asked of it. But the military's dedication to accomplishing the current mission, their "can-do" spirit if you will, has come at a substantial cost that is less well known or understood. There is a growing and increasingly worrisome cost to the nation in strategic terms—a situation that perhaps is even less well known or understood. To sustain current operational readiness for deployed forces, all the services have sacrificed readiness and capability in all other areas of military affairs. This has taken a toll among programs to modernize their forces, to prepare for the future, and to maintain their physical infrastructure.

For reasons already well known to this Committee, Congress has been unwilling to make investing in the defense of the United States and its interests a high enough priority among the

many competing interests within the federal budget. Consequently, defense spending has steadily declined since the end of the Cold War to a point of historic lows for the modern era.

As mentioned, it is not worth the Committee's valuable time for me to rehash budgetary details it already knows so well. Rather, I would like to share some thoughts on what the FY '18 budget represents for the United States, its allies and friends, its competitors and enemies, and for countries "on the fence" somewhere between friend and foe.

The news has been awash in reports of degraded unit and material readiness:

- Ships unable to get underway, delayed getting out of the repair yards, or suffering engineering casualties while deployed;
- Aviation mishaps resulting from both equipment failures and pilot or crew error due to lack of adequate flight hours for training, aging planes; and
- Ground combat units that are understrength, at low levels of readiness, and so few that service-members (and their families) are being worn out as quickly as their equipment.

Both our friends and our enemies can count the number of units, squadrons, and ships the U.S. maintains abroad. They pay close attention to the service chiefs' testimony provided to Congress that has, for the last several years, increasingly highlighted growing risk in the military's ability to perform its functions. They read the same headlines and watch the same televised news programs we do, reporting the consistent message of a U.S. military understrength, aging, and challenged to defend U.S. interests at an acceptable level of risk. And they track the reports of canceled, truncated, and delayed acquisition and modernization programs stemming from problematic program management but also the now-routine shortage and variability of funds that has driven the military to be smaller, older, and less ready than at any time since the 1930s.

A robust investment in defense, via the fiscal year 2018 budget, will not only be an important first step in rebuilding the U.S. military to the size, modernity, and readiness essential for it to perform its function in protecting America and its interests, but it will also send a profoundly important message to the rest of the world that America is once again becoming serious about protecting itself and its interests, standing with those who choose to align with it in common cause and prepared to lead like-minded nations in the effort to preserve peace, enhance stability, and expand freedom and opportunity, and to serve as a bulwark against forces of disorder.

It isn't a matter of figuring out what problems need to be addressed or where additional funds can be best spent or savings obtained. Nor is it a matter of quantifying shortfalls and their impact on military operations. My personal observation is that the military services have done this analysis; they know what they need, and have prioritized those needs for every additional dollar they might be provided. They have analyzed their forces and institutional ability to generate and sustain those forces and how they would spend additional funding to generate near-term readiness and longer-term preparedness in a balanced manner. In my judgment, their analysis is, by and large, right on target.

What they fear is imbalance, usually driven by spending decisions imposed on them. They are concerned about having too many people and too little equipment or the reverse: too much

equipment and too few people. They understand the difficulty of generating new units, the time it takes not only for individuals and small units to become tactically proficient but also for a commander and his or her staff to become operationally competent.

They must balance repairing aging equipment to keep it in the fight (while awaiting replacement items) with buying new equipment that is critical to keeping the force relevant in future years. Rebuilding a force, especially one that has been depleted over so many years, must be done in a balanced way.

Stability over time is also essential to building and maintaining a healthy, diverse, and innovative industrial base that enables the government to leverage competition to get the best product at the best price. Highly constrained and unpredictable budgets inevitably lead to consolidation in the manufacturing sector, which results in fewer companies able to produce the tools needed by our military. Sometimes this leads to a single manufacturer—a government-driven monopoly—that effectively eliminates the government’s ability to compete a project for best price and innovation in design.

The point here is that the fiscal year 2018 budget represents an absolutely critical opportunity for the United States to tell itself and the world where its priorities are and can serve as a much needed first step toward rebuilding the military we need. It will put our potential adversaries on notice that the U.S. intends to operate from a position of strength, and it will give assurance to our allies that we will fulfill our commitments to them.

Once again, I thank you for this opportunity to speak about the health of our military and I look forward to answering your questions.

\*\*\*\*\*

The Heritage Foundation is a public policy, research, and educational organization recognized as exempt under section 501(c)(3) of the Internal Revenue Code. It is privately supported and receives no funds from any government at any level, nor does it perform any government or other contract work.

The Heritage Foundation is the most broadly supported think tank in the United States. During 2015, it had nearly 600,000 individual, foundation, and corporate supporters representing every state in the U.S. Its 2015 income came from the following sources:

Individuals 75%

Foundations 12%

Corporations 3%

Program revenue and other income 10%

The top five corporate givers provided The Heritage Foundation with 2% of its 2015 income. The Heritage Foundation's books are audited annually by the national accounting firm of McGladrey, LLP.

Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own and do not reflect an institutional position for The Heritage Foundation or its board of trustees.



Center for Strategic and Budgetary Assessments

## TESTIMONY

### STATEMENT BEFORE THE SENATE ARMED SERVICES COMMITTEE ON THE U.S. DEFENSE BUDGET FOR FISCAL YEAR 2018

January 24, 2017

**Statement by Thomas G. Mahnken  
President and CEO, Center for Strategic and Budgetary Assessments**

Chairman McCain, Ranking Member Reed, and distinguished members of the Committee, thank you for your invitation to appear before you today to discuss the defense budget for Fiscal Year 2018.

At the outset, I would like to commend you for *Restoring American Power*, which is a thoughtful and much needed contribution to the debate over defense strategy and resources. CSBA's diagnosis of the situation and recommendations accord with those detailed in the paper in many respects.

The bottom line is that the United States requires more resources for defense if we are to continue to safeguard America's national interests in an increasingly competitive environment. Specifically, in my view we need increased investment in both readiness and modernization.

I had the pleasure of serving on the staff both of the Congressionally-mandated 2010 Quadrennial Defense Review Independent Panel and the 2014 National Defense Panel. Both achieved a bipartisan consensus that the Department of Defense required additional resources. Seven years on from the first and three from the second, today's situation is even more dire.

First, additional resources are needed to restore the readiness of the U.S. armed forces. I need not detail the path that has gotten us here. Nor do I need to detail the corrosive impact that sequestration has had on the readiness of the U.S. armed forces. The members are well aware of that. It is worth emphasizing, however, that all this has

gone on while the United States has been at war – in Iraq, Afghanistan, and across the world – a situation that is historically unique, to put it mildly.

Second, there is a growing need to modernize U.S. conventional and nuclear forces. Eight years ago, when I last served in the Department of Defense, as the Deputy Assistant Secretary of Defense for Policy Planning, the risk calculus was that we could afford to take additional risk in preparing for a high-intensity war in order to focus on counterinsurgency. As Secretary of Defense Gates frequently put it, we needed to focus on the wars of the present rather than the possible wars of the future.

Eight years on, I believe that the risk calculation has fundamentally changed. Whereas we have spent the last fifteen years focused on counterinsurgency, we are now in a period characterized by the reality of great-power competition and the increasing possibility of great-power conflict. We see China and Russia acting aggressively both in their own regions as well as beyond them. China is busy remaking the geography of the Western Pacific, but is also increasingly active elsewhere. Russia not only has used force against Georgia and Ukraine and threatened other neighbors, but is also waging a high intensity military campaign in Syria. Moreover, both China and Russia have been investing in military capabilities that threaten America's long-standing dominance in high-end warfare.

In other words, the “wars of the future” may no longer lie that far in the future. Moreover, they are likely to differ considerably both from the great-power wars of the past as well as the campaigns that we have been waging since the turn of the millennium.

That is not to say that battling Radical Islamism will not continue to be a priority. However, it has been the focus of US investment over the last decade and a half. By contrast, we have neglected the capabilities needed to deter and if necessary wage high-end warfare.

That includes our nuclear deterrent. Historically, when the United States has drawn down its conventional forces, as it did in the 1950s and after the Vietnam War, it came to rely increasingly upon its nuclear deterrent. In recent years, by contrast, the United States has both drawn down both its conventional and nuclear forces. Now, both require modernization.

The tasks of improving readiness and modernizing the force will require additional resources beyond those permitted by the Budget Control Act.

In closing, as we seek to rebuild American military power, we need to keep a couple of things in mind.

First, the Defense Department's capacity to absorb an infusion of resources is limited. The Pentagon is like a person who has been slowly starving for years; there are limits to how effectively it can spend an infusion of cash.

Second, that which is available is not necessarily that which is necessary. Indeed, beyond an infusion of cash, the Defense Department requires a sustained increase in resources. To take but one example, achieving the 350-ship that President Trump has pledged to deliver – or the 355-ship fleet that the Navy now says it needs – or the 348-ship fleet that CSBA believes the nation needs – cannot be accomplished in four or eight years. Our analysis, using the Navy's own models, show that it is affordable, but making it a reality will require a sustained commitment on the part of the Executive and Legislative branches.

The capabilities that the United States needs to remain dominant on the land and in the air against great-power competitors will similarly take time to field. The modernization of the U.S. nuclear deterrent will require time years to accomplish as well. Maintaining U.S. military effectiveness over the long haul will thus require more than a quick (though much needed) infusion of cash in FY18; it will require sustained support for defense investment in the years that follow.

#### **About the Center for Strategic and Budgetary Assessments**

The Center for Strategic and Budgetary Assessments (CSBA) is an independent, nonpartisan policy research institute established to promote innovative thinking and debate about national security strategy and investment options. CSBA's analysis focuses on key questions related to existing and emerging threats to U.S. national security, and its goal is to enable policymakers to make informed decisions on matters of strategy, security policy, and resource allocation.

TESTIMONY OF LAWRENCE J. KORB  
BEFORE THE SENATE ARMED SERVICES COMMITTEE  
JANUARY 24, 2017

Chairman McCain, Ranking Member Reed, and members of the Senate Armed Services Committee, I appreciate the opportunity to appear before you, with the other distinguished panelists, to discuss the appropriate size and distribution of the defense budget for FY 2018 and the defense program for the FY 2018-2022 period.

In my view this is the most critical national security issue facing the new administration and Congress because in defense, dollars are policy. In deciding how much of our scarce resources to allocate to national security it is important to keep several things in mind.

First, no matter how much this nation or any nation spends on defense, it cannot buy perfect security.

Second, the Department of Defense is not the only federal agency responsible for protecting our national security. The State Department, the Agency for International Development, and the Department of Homeland Security all play a vital role in protecting this country. If we provide so much of our limited resources to the Pentagon that we cannot fund these agencies adequately, our national security will suffer.

Third, we cannot be strong abroad if we are not strong at home. As presidents like Harry Truman and Dwight Eisenhower realized a strong economy at home is the basis for our military might abroad. Therefore, running up large deficits or not providing adequate funds for education, health, or infrastructure as a result of providing too many of our limited resources for defense will impact our national security negatively.

Fourth, whatever level of funding we provide for national security is not as important as having the appropriate strategy to deal with the current challenges facing the nation. Spending large sums of money to deal with threats from a bygone era will not enhance our national security. Just as sequester was a non-strategic and unwise way to limit a budget, increased funding that is not connected to a sound defense strategy for the demands we face today will be non-strategic, wasteful, and do more harm than good.

Fifth, in most cases the U.S. does not have to deal with threats to our national security by itself. Nor do we have to use military power as a first resort. Whether it is dealing with Russia, China, North Korea, Iran or ISIS, the United States can work most effectively with allies and partners. The U.S.-led sixty nation coalition fighting ISIS, the buildup of military forces by our NATO allies to combat aggressive moves by Russia, and the economic sanctions we and the European Union placed on Russia after its annexation of Ukraine, are examples of leveraging all the instruments of our own power and the contributions of our allies to protect our national security.

Despite the many contributions of our allies, Republicans and Democrats, including many of you on this Committee and all recent presidents, have expressed dismay about

inadequate defense spending by our partners, even calling them free-riders. That kind of behavior is enabled by profligate U.S. defense spending. We need to spend wisely as we call on friends to honor their side of our common-security bargain.

Many of those who advocate increasing the current level of defense expenditures substantially make two arguments. First, the Pentagon is not receiving a large enough share of the nation's gross domestic product (GDP). Second, our military is not prepared to deal with the current threats because of the limitations placed on all discretionary budgets, of which defense represents half, by the Budget Control Act (BCA) of 2011. But objective analysis demonstrates that these arguments are incomplete and somewhat misleading.

For FY 2017 the defense budget of about \$620 billion will account for 3.3% of the nation's GDP as opposed to the 4.7% it received in Obama's first year in office. But, this decline in the share of GDP devoted to defense is not a significant reduction in defense spending, but is mainly a result of the fact that Obama's economic policies have led to an economic recovery in the wake of national and global financial disaster. In fact, in real dollars the baseline for the non-war defense budget for FY 2017 is higher than it was when Obama took office. Giving defense a 4.7% share of our \$18 trillion GDP or even 4% would increase current defense spending by over \$100 billion. An arbitrary level of defense spending is just as non-strategic as sequester. What if we require more than 4% in a crisis or war? What if an economic boom makes 4% grossly excessive? The budget should be tied to the requirements, not to arbitrary numbers.

Moreover, analysis by experts, like General David Petraeus and Michael O'Hanlon of the Brookings Institution, makes it clear that the current state of our armed forces is "awesome," that we are not facing a readiness crisis and the current level of defense spending on readiness and procurement is more than adequate<sup>1</sup>. This does not mean that the new administration will not face challenges but the challenges are not as much monetary as they are management. Even with the limits placed upon the Pentagon under the BCA, the amount of funding for defense in the National Defense Authorization Act (NDAA), as recently signed by former President Obama, amounts to more in real terms than the U.S. spent on average in the cold war and more than we spent at the height of the Reagan build-up. This amount is three times more than our nearest competitor, the Chinese, will spend this year and accounts for more than one-third of the world's total military expenditures. In addition, our allies account for another one-third. In fact, for 2017, the top ten major powers will spend about \$1.33 trillion on defense. Of these ten countries, only China and Russia, which between them spend about \$230 billion, can be considered potential adversaries.

The BCA caps have not constrained defense spending as much as many assume. The Congress has provided about \$100 billion in relief from the BCA since FY 2013, and at least half the Overseas Contingency Operations (OCO) account, which is not subject to the BCA caps, has been used for enduring programs that have nothing to do with the wars in the Middle East or

---

<sup>1</sup> O'Hanlon, Michael and Petraeus, David. (2016, September/October). America's Awesome Military And How to Make It Even Better. *Foreign Affairs*. <https://www.foreignaffairs.com/articles/americas/2016-07-22/america-s-awesome-military>

Afghanistan. In other words a significant part of the OCO account is a slush fund that allows the Pentagon to get around the BCA limitations.

Before the new administration and the Congress adds significant funds to the FY 2018 budget, as recommended by President Trump and Chairman McCain, they need to take a close look at how the Pentagon is currently spending the large amount of funding it currently receives, especially in at least four areas.

First, as noted in a recent report by the Defense Business Board the Pentagon could save \$125 billion by cutting the size of its headquarters or administrative staff which has grown by 38% since 2001. However when this report, which was commissioned by the former administration, came out, rather than endorsing it, its leaders tried to bury it in no small part because they believed it would never get support from the Congress. Congress should be leading on finding savings, not just adding dollars to our defense budget.

Second, the Pentagon needs to curb the cost overruns on its major acquisition programs. In 2015, according to a report by Deloitte, the combined costs overruns for the major acquisition programs was \$468 billion, something Government Accountability Office (GAO) has been pointing out for years. Chairman McCain himself has called these overruns absolutely outrageous. Congress and the new Administration should take advantage of their unified political control of the government to get an actual audit of the Pentagon and begin a clear process of reform to improve acquisitions.

Third, the Pentagon should adopt some of the recommendations made by Senator McCain in his excellent report, "Restoring American Power." Specifically, the Pentagon should: develop a high-low mix of aircraft carriers by building smaller conventionally powered carriers rather than simply continuing to build only \$15 billion nuclear powered Ford class super carriers; cut the total number of Air Force F-35's from 1,732, a number Chairman McCain correctly points out is unrealistic; and get the Navy to stop production of the poorly conceived and managed Littoral Combat Ship (LCS) at 28, as opposed to the Navy's goal of 52. The Navy should also buy more F-A 18 Super Hornets and fewer F-35's.

Fourth, the Pentagon and Congress should adopt the proposals put forward by former Secretary of Defense, William Perry, and former Vice Chairman of the Joint Chiefs of Staff, General James Cartwright, and cancel the new land-based missile and air-launched cruise missile portions of the multi-billion dollar nuclear modernization the Pentagon is currently undertaking, something we endorsed in our report, "Setting National Priorities for Nuclear Modernization." These steps would be a good start toward improving the management and stewardship of our defense dollars and should be implemented before Congress approves major spending increases.

Thanks again for the invitation to once again appear before the Committee. I look forward to your questions as you deal with these critical issues.