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PROSPECTS AND PERILS

(KEYNOTE)

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PARTICIPANTS:

Introduction:

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Keynote Speaker:

THE HONORABLE KELLY AYOTTE (R-NH)
United States Senate

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P R O C E E D I N G S

MR. O'HANLON: Good afternoon, everyone. Welcome to Brookings. On behalf of myself, Michael O'Hanlon, as well as Peter Singer, and all of us at the 21st Century Defense Initiative, we're very happy to have you here today for our event on the prospects and perils of sequestration. And for those of you who think that's a funny Washington word that you can ignore if you don't live inside the Beltway, think again because sequestration could be coming come January, and it could mean 15 percent budget cuts in much of the federal budget starting with, but hardly ending with defense. And that's what we're here to talk about today.

We will convene two panels to talk about this subject. But before doing so, I have the great honor of welcoming to Brookings Senator Kelly Ayotte of New Hampshire. Senator Ayotte was elected to the U.S. Senate in 2010. So she joined the Tea Party, in one sense, probably a term that she deserves more than most because she's from New Hampshire and could claim a little New England prerogative over that term. But I think as you'll find today, her thinking is unpredictable in many ways, except that it's centered on trying to resolve our current fiscal plight and the challenges of sequestration.

She has important committee assignments on Armed Services as well as Budget, which are both directly applicable, of course, to the defense budget, but also on Small Business and Commerce, which make her acutely aware of the challenges facing American business, which is a big part of the theme of our discussion today as well, because of the consequences that sequestration would cause to American business and the economy.

Senator Ayotte has already become a major voice in our country's debate over fiscal policy, over national security policy, and how to make Washington

work better. And I'll think you'll get a lot of insight and inspiration from hearing her this afternoon.

Her background is in law and law enforcement. She was born in Nashua, New Hampshire. That's where she still lives. That's where her family lives all the time. Prior to becoming a U.S. senator, she was the attorney general in New Hampshire under both Democratic and Republican governors. And prior to that, had built a reputation as a formidable prosecutor, helping New Hampshire to its enviable status as the "safest state in the country."

And before giving her the podium, and she'll make remarks and then take a couple of questions before we convene our first panel at 2:00, I want to also extend a word of thanks to your family, Senator, because as much as I admire your sacrifice, I also admire theirs. I know that your husband, Joe Daley, up in New Hampshire with your two children are sharing their wife and mother with the rest of us. And we need her, so thank you. And thank you very much, Senator, for being here. We look forward to your comments.

SENATOR AYOTTE: Oh, thank you. Thanks. Let me just -- thank you so much, Michael. I deeply appreciate being invited here today to be in front of the Brookings Institute [sic] and I appreciate all of you who have come to participate in this. And I'm really thrilled to see the two panels that are following me on this because it's a great array of national security experts, Department of Defense officials, and members of our defense industrial base that I'm sure will give you even greater insight than I'll provide today.

But what I'd like to do is provide the context of where we are with respect to this issue of sequestration because our country is facing a grave threat to our national security, and the grave threat was created by Congress in the debt ceiling deal that we

did last summer. I am one who voted against that deal because, frankly, I didn't like the way this was set up from the beginning in terms of where it put our national security.

And also, I would have liked to have seen us just do what we should do in terms of the fiscal state of the country, and put together a strong responsible fiscal plan for our country that takes into account the big picture, which obviously is not just defense spending, not just non-defense discretionary spending, but also the 60 percent plus of our budget that includes mandatory spending. And until we do that, we're not going to get our fiscal house in order in the way that we need to get our country on the right track.

But today, we're here to talk about this threat to our national security. And I want to put it in perspective because I'm not someone -- I serve on the Senate Armed Services Committee and also I'm the ranking Republican on the Readiness Subcommittee. And I'm not someone who says that we shouldn't cut anything from our Department of Defense, but we have to put into perspective where we are with our Department of Defense right now, because in addition to this issue of sequestration, the President's proposed 2013 budget that has come forward has already been taken up by the Senate Armed Services Committee and the House Committee as well in terms of the authorizing committees.

That will be a cut of \$487 billion of spending reductions over the next 10 years. And there are some pretty tough choices in those initial spending reductions. But our defense leaders and Secretary Panetta have testified before the Senate Armed Services Committee about the choices made in those reductions, and they're difficult but doable. What we're here talking about today is an additional \$500- to \$600 billion in across-the-board fashion that will come in January of 2013 because of the supercommittee's failure to come up with savings. And it hits both defense and non-defense. My focus today will be on the defense end.

But that additional \$500 billion -- it gets close to \$600 billion when you include interest -- it's done in across-the-board fashion, so essentially everything gets cut. There's no strategic thinking to the way it would be implemented, and, therefore, we do everything insufficiently. And if you listen to what our military leaders say about it, starting with Secretary Panetta, he has said we would be shooting ourselves in the head to allow sequestration to go forward in January. He's described it as devastating, catastrophic; it would inflict severe damage to our national security for generations.

And to understand why our military leaders are so concerned about this, again, I said I'm the ranking Republican on the Readiness Subcommittee, and I've been particularly focused on making sure that we maintain the readiness of our forces to prevail in the conflicts that we're involved in today. We still remain in a conflict in Afghanistan, and to deter tomorrow's conflicts. And when that deterrence fails to defeat our enemies decisively, that's why our national security exists.

And we now have one of the most competent and battle-hardened military forces in the history of our country. I know many in this room have met our men and women who are serving right now. The training that they have, the courage that they've shown is phenomenal, and they are the very, very best. And we cannot at this time, in this moment in the history of our country, gut our first-class forces or break faith with our troops. If you hear what our Chairman of the Joint Chiefs of Staff has said recently, it's pretty shocking. Chairman Dempsey has said that if sequestration goes forward, that our advantages over potential adversaries will diminish, it will diminish deterrence, and "increase the likelihood of conflict," and none of us wants to see that happen.

And if you look at other times in the history of our country where we have reduced defense spending, let's go back to the early '90s. At that point, we had ended a

conflict, we had thought that we were going to take a peace dividend at that point, and, of course, coming from -- we eventually had 9-11. But at that point, there was a feeling in the country that we could scale back on defense spending, and here's where we are today. We're not in the same position at all. We are in a position where according to Secretary Panetta, just last month, he said that the threats to our country have not receded.

Our troops remain engaged in the conflict in Afghanistan. We continue to confront a real terrorist threat emanating from Somalia, Yemen, Pakistan, and North Africa. And as Secretary Panetta has said, we continue to see the proliferation of weapons of mass destruction, threats from Iran and North Korea, and turmoil in the Middle East. We also see what is happening, the rising power of China and the investment they're making in their military in the Asia-Pacific region. And of course, we have other conflicts, like the conflict happening right now in Syria.

The course of where we are right now in our national security, this is not a time for us to make decisions that will undermine our ability to confront these challenges that we face right now. And let me talk briefly what this means and what we know so far will be the impact of sequestration on our various forces.

With respect to the Army, I told you that the initial \$487 billion in reductions, that's going to result in approximately a 72,000 reduction in our Army. Now everyone who's looked at this would agree with getting out of Iraq and a gradual decline in the level of forces in Afghanistan that we were going to do some downsizing of our ground forces. So the initial reduction of 72,000 to our Army is happening. But with sequestration, General Odierno has testified that we would be facing an additional 100,000 reduction in our army if we allowed sequestration to go forward, with 50 percent of that reduction coming from the Guard and Reserve. And I think this is an issue that

governors aren't aware of fully yet, although elected officials at all levels in this country are becoming aware of it. In fact, the Council of Mayors recently issued a resolution on the effects of sequestration, urging Congress to come to an agreement on it. But think about; 100,000 -- 50,000 from the Guard and Reserve -- and the function that our Guard and Reserve play. We couldn't have fought in Iraq or Afghanistan without the Guard or Reserve, and they also play a very important Homeland function for our security as well as responding to natural disasters for our governors.

Now let's talk about the Marine Corps. Under the initial reductions that are likely to happen, the Marine Corps is going to be reduced at this point by 20,000. If sequestration goes forward, the Marine Corps will face, according to the Assistant Commandant, an additional 18,000 in reduction in our Marine Corps. But here's the thing that keeps me up at night. The Assistant Commandant for the Marine Corps came before the Readiness Subcommittee. I asked him about the impacts of sequestration, and he said this; sequestration would render the Marines incapable of conducting a single major contingency operation. Think about it -- our Marine Corps. That to me is a shocking statement and one that cries out for us on a bipartisan basis to resolve this issue. And if the Department of Defense chooses to protect manpower accounts, when the Army and Marine Corps would have to cut even more deeply than into training, maintenance, and modernization funds which, of course, would have a negative impact on industry, which we're going to talk about in a minute.

Secretary Panetta has said that sequestration would result in us having a Navy bringing us back to 1915, ground forces back to 1940 where we were before World War II, and the smallest Air Force in the history of our country. We would have to potentially undermine contracts and agreements that we have, including the Joint Strike Fighter, the KC-46A Supertanker, and many of our modernization efforts that are

underway right now that are very, very important to making sure that our men and women in uniform have the very best equipment to protect our country.

But in conjunction with this, no one would say that the Department of Defense is an area where it's a jobs program. But the reality is that sequestration not only undermines our national security, it will hurt our economy, and it could fundamentally tear our defense industrial base. And that is of deep concern not only to my membership on the Senate Armed Services Committee, but as a member of the Small Business Committee.

Often with our essential weapons system, it's not just the large defense contractors that will certainly be impacted by the sequestration cuts, but they rely many times on very small contractors. And in some areas, there's one contractor, a small company who's producing the component where you have a sole supplier. And when these businesses go out of business or they decide to do something else because they cannot deal with the uncertainty of where we are right now or they cannot address or keep their bottom line in a sustainable way because of the cuts that are coming, they go out of business and they don't come back. And it's not easy for us to recreate that capacity so quickly if we suddenly find ourselves in a situation where we need that type of equipment, when we need that part. And that just doesn't happen overnight and that's of deep concern, not only for our large defense contractors, but for many small businesses throughout this country that serve those contractors.

So we're not just talking about the jobs issue, which is, of course, of concern to anyone who serves in Congress. We're talking about lost lives if we don't give our men and women the equipment that they need, the very best, and we don't stay on the cutting edge of technology when it comes to areas like ISR and other areas where we need valuable information to protect America.

There have been several reports about this, which I think will probably be talked about today with the Panel. The National Association of Manufacturers issued a report last week that studied the impacts of sequestration. The Bipartisan Policy Center and the Center for Security Policy have also looked at this issue. The George Mason University has done a study to look state by state to see what the impacts on jobs are if we go forward with sequestration. And here's what the NAM Report says: "More than a million private-sector jobs, including 130,000 manufacturing jobs, will be lost in 2014 if we just continue to sit on our hands in Congress. Total job losses will increase unemployment by .7 percent, and GDP could be impacted by almost 1 percent lower in 2014." Think about it. Where are we nationally with our unemployment? Over 40 weeks plus of over 8 percent unemployment. And so not only do we undermine our national security, but a lot of people will be out of work if we continue on this path. Just a couple of numbers: The neighboring state of Virginia is estimated to lose approximately 123,000 jobs; Ohio, 18,000 jobs; Connecticut, 34,000 jobs. I could go through every state in the nation. My own home state of New Hampshire: 3,300 jobs. We're a small state. I can tell you 3,300 jobs matter very, very much to our state, but we're one of the smaller impacts if you look around the country.

And some people may believe around here in Congress -- when I say here, not here in this room -- but collectively in Congress that this is an issue that we can wait until the lame duck session to address. But the problem is this: The Department of Defense and the Pentagon, they're already paralyzed by sequestration. They don't know if it's coming. They worry that we have the political will to resolve this. And so they're holding on right now in terms of action or inaction, and our contractors are already feeling the impact of it. In fact, Bob Stevens, as CEO of Lockheed Martin, talked about this paralyzing effect of where we are right now with sequestration. And he said, "The very

prospect of sequestration is already having a chilling effect on the industry. We're not going to hire. We're not going to make speculative investments. We're not going to invest in incremental training because the uncertainties associated with \$53 billion of reductions in the first fiscal quarter of next year are a huge disruption to our business." And yesterday Bob Stevens came forward and talked about the fact that they are likely -- Lockheed Martin is going to have to issue what's called the WARN Act notice. Our large defense contractors have a duty under federal law prior, before 60 to 90 days, before a potential layoff occurs. They have to notify their employees that they may be laid off. And so there are potentially hundreds of thousands of WARN Act notices that could be issued before the November election, which I don't know if that's not a wakeup to members of Congress that this is an issue that needs to be addressed now, I don't know what is. And the bottom line is that our defense industrial base, they report to their Boards of Directors. They have responsibilities to their employees. They can't wait until December to take the actions that need to be taken. And so we will feel the impacts of sequestration before the lame duck session. And it's one of the compelling reasons why this is an issue that I hope will be addressed on a bipartisan basis before the election. We owe that to the American people because our foremost responsibility in this government is to make sure that they're safe and protected. And let's not forget that without protection and safety, our economy cannot thrive and grow. We all saw what happened on September 11. Not only the loss of human life, but also the devastating impact on our economy of an event like that. And so there is a relationship not only in keeping us safe, but in making sure that we can continue to prosper as a nation.

So where are we and what's next? There are three proposals that have been out on the table. They are Republican proposals mainly. And one is one that I'm cosponsoring along with Senator Kyl, Senator McCain, and several other Republicans in

the Senate that would deal with the first year of sequestration. To deal with year one, it's about \$109 billion. And it addresses both defense and nondefense sequestration because we appreciate that members may come to this to resolve it for different reasons, some may come because they're concerned about the nondefense reductions, and some may come, like me, because we're concerned about the impact on our security.

In order to do that, basically what we did was Simpson-Bowles recommended for our federal workforce for every three positions that came open, that you would only fill one. Our bill would say for every three positions that come open, you can fill two out of three, and we would keep a federal pay freeze in through 2014. That covers us for year one of sequestration.

The House -- Chairman McKeon in the House has a similar proposal. His is just implementing the Simpson-Bowles for every three positions that come open, that you can only fill one. And then, of course, Congressman Ryan and the House have actually passed a reconciliation; have passed a bill that would address sequestration. And what I would say is my hope is what will happen is that we will see a bipartisan group get together before this election, because this is too important to kick the can down the road to the lame duck session for the reasons I just described. And I also don't believe that this should be used as some kind of chip in the lame duck session where we have the tax rates, we have the "doc fix," we have -- you name it, it's going to be up in the lame duck session, and our national security should not be put at risk with that.

Now, here's the issue of where we are. You know, some have said that they would not -- I think on the Democratic end particularly Harry Reid has said without tax increases to our tax rates, then we're not going to resolve sequestration. And I think that's a false choice. There are those of us that have already said on the Republican end we're willing to work with you on revenue, but we're not going to further hurt our economy

by increasing tax rates, but there were areas of revenue that the Supercommittee came up with that we're willing to sit down and talk with you about to resolve this issue before the election. And so I would hope that members of both sides of the aisle would see this is an area where we need to find common ground on behalf of our national security, and not only about that but this is not a time to further hurt our economy by devastating our defense industrial base. And that's pretty much where we are.

I appreciate all of you being here today. And the reason that I became so incensed about this issue is because I don't know how we can look the American people in the eye and say we are not going to put that foremost responsibility of protecting our country and making sure that we fulfill that responsibility, and we should not allow our lack of courage on the big picture fiscal issues to stop us. And that's what worries me around here -- that we all have to show some courage and make sure that we look and address the debt. There's no question that it has to be addressed. But we also shouldn't create the national security crisis on top of our current fiscal crisis to do that.

So, I appreciate you all being here today and look forward to answering your questions. Thanks.

MR. O'HANLON: Thank you, Senator, very much. We'll take just a couple of questions, and I'll free to recognize anybody who has one, and then please wait for a microphone, because you're speaking in front of the whole audience and the whole country via C-SPAN. Please identify yourself and ask a question, one question, please, for the senator.

So, we'll start here in the fourth row.

MR. MEYER: Ken Meyer, Court World Docs. I'm just confused by all the talk of austerity and sequestration and reduction in defense spending and what I see our military doing around the world. We opened a new base in Australia. We're talking about

returning to our bases in Thailand and the Philippines even, Vietnam. We're still in Central Asia. Talking about stationing 13,000 troops in Kuwait. We're beefing up our forces in the Persian Gulf in anticipation of contention with Iran. We're talking about possibly intervening in Syria. We've already intervened in Libya. We have Special Forces all over East and West Africa. We're talking about opening missile bases in Eastern Europe. In Latin America we've reactivated the Fourth Fleet. We're talking about opening new bases in Panama, Colombia, and Peru. It just seems like a disconnect between this talk of military spending reduction and what I see as an expansion of the American military presence around the world, which I'm tempted to add -- which is in line with the increase in our national debt -- but I'll resist that temptation. Is my perception wrong?

SENATOR AYOTTE: I think I would respectfully disagree with your perception in this sense -- let's start with the administration's new national security strategy, which is a shift in focus to the Asia-Pacific region because of the investment that China is certainly making in its navy and its military and that being a very important part of the world in terms of our economy and the entire world's economy. In conjunction with that, the administration has said that they are going to keep the focus also on the Middle East, and rightly so. If you look at what's happening right now with Iran making efforts to acquire the capability of producing a nuclear weapon, the presence we have right now in the Straits of Hormuz is very, very important in terms of our protection, the protection of our allies. So, if we want -- and I think we need to do -- have the presence we have, we also see other areas in the world where we have dealt great blows to al Qaeda, but they're also continuing to thrive in areas of Africa, and to me there are grave risks that exist around the world that need to be addressed. And I think the one premise that I would disagree with the terms of how you framed it is defense spending is being reduced.

I think there's bipartisan agreement, although difficult choices, on the rough number of the initial reductions. What we're talking about is let's not be irresponsible given the risks that exist around the world of the additional cuts that are coming across in a meat-ax approach coming in January between 500 and 600 billion. I agree with the administration's shift of focus to the Asia-Pacific region, so long as we keep our eye, importantly, on the Middle East. And I don't think the world is any safer that we should suddenly be withdrawing from it and/or significantly diminishing our capability. And let's not forget that the strength of the world economy -- there is a direct relationship between not only the thriving economy of America, our relationship with economies around the world, and our strength and keeping security for our country.

MR. O'HANLON: Let's see, one more question.

SENATOR AYOTTE: Yes, ma'am.

MS. RAFFEL: Helen Raffel, Resources for the Future. If you flatly reject any kind of tax revenue increases, what kinds of revenue increases do you have in mind that you would be happy to talk about?

SENATOR AYOTTE: Here's what I flatly reject. I think we have a broken -- now, these are two separate policy areas, but I think we have a broken tax code. I don't think that you should, that there's no question that on a bipartisan basis we have to do a large fiscal agreement for the country that would not only include a tax reform -- I think there's some bipartisan support around here for simplifying our code -- and also eliminating loopholes, deductions, how you want to look at it, and making it a simpler, fairer code. I think that in the context of that, we can look at -- the Supercommittee, in fact, did some examination of areas of revenue that aren't adding -- increasing our tax rates but areas where we could find revenue whether it's eliminating loopholes or whether it's other areas of revenue that don't further hurt our economy.

That's something I think Republicans would be willing to talk about. What we aren't willing to talk about is to take our broken tax code and say we're going to just increase tax rates on individuals to do this, because I think that's the wrong way for us to go for America.

SPEAKER: (off mic)

SENATOR AYOTTE: I can't hear in this setting. I mean, the Supercommittee did look at a whole host of revenue raisers. I'll give you an example. I'll give you an example that wouldn't apply in this context, but last year I voted to eliminate the ethanol subsidy, for example. It expired on its own, even though the Senate had voted to eliminate it. But that's an example where maybe could find some common ground within the tax code of loop holes, that perhaps we could apply that to deal with sequestration. And the Supercommittee looked at a whole host of issues like that. We're saying let's bring that back up. Let's sit around the table. You didn't do the job the first time. Let's get it resolved on behalf of our country. And there is some common ground there that I think we could see a way forward with. But to take our broken tax code to increase tax rates, that's not something I see a core group of Republicans willing to do when the road forward to tax reform is going to be to simplify our broken tax code, and that -- no question -- needs to be done in, hopefully, a big deal where we also deal with entitlements, which, if you look at where we're spending our money in federal spending, the growth of the mandatory spending programs is going up dramatically. And so we could cut defense spending to the bone, to the absolute bone, and we will not get a hold of the fiscal crisis unless we take on the big picture of how we are -- what -- where our money is going and how we are handling things within our government.

MR. O'HANLON: Were going to go seamlessly into Panel 1, but as we do that, please join me in thanking Senator Ayotte.

SENATOR AYOTTE: Thank you.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

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