

THE BROOKINGS INSTITUTION
FALK AUDITORIUM

THE IMPACTS OF SEQUESTRATION ON THE U.S. MILITARY

Washington, D.C.
Friday, November 8, 2013

Moderator:

MICHAEL O'HANLON
Senior Fellow and Director of Research, Foreign Policy
The Brookings Institution

Panel 1:

COMMANDER ROBERT DeBUSE
Federal Executive Fellow (Navy)
The Brookings Institution

COMMANDER THOMAS KING
Federal Executive Fellow (Coast Guard)
The Brookings Institution

COLONEL KENNETH EKMAN
Federal Executive Fellow (Air Force)
The Brookings Institution

LIEUTENANT COLONEL AARON MARX
Federal Executive Fellow (Marines)
The Brookings Institution

COLONEL JOHNNIE JOHNSON
Federal Executive Fellow (Army)
The Brookings Institution

Panel 2:

JAY DeFRANK
Vice President, Communications and Government Relations
Pratt & Whitney

JACK MAYER
Executive Vice President
Booz Allen Hamilton

* * * * *

P R O C E E D I N G S

MR. O'HANLON: Good afternoon, everyone. Welcome to Brookings. I'm Mike O'Hanlon. Delighted to have you here. I'm part of the Center on 21st Century Security and Intelligence and Brookings and delighted to have two panels today to talk about the defense budget, defense strategy, the effects of sequestration, and what, if anything, should replace sequestration and the associated budget cuts as congressional negotiators again sit down in what you might call Supercommittee II to try to figure out if there could be a plan to replace the existing trajectory that we're now on.

As you know, we're only two months away from yet another sequester, an automatic cut, more or less proportionate until Congress perhaps changes the rules on the entire defense budget as well as the domestic discretionary accounts in the U.S. federal budget. And we've got today with us on our first panel five gentlemen who have, until recently, been in the field, although in different places and some of them have been in the field in planning headquarters or at war colleges, but all of them really having their finger on the pulse of what's going on with their military services as we're now about 10 months into the sequestration process and much longer than that, of course, into the broader process of bringing down the defense budget and doing it largely through this process of ongoing continuing resolutions. So one topic today.

Before I introduce them I'll just remind you one of the things we have to work to keep straight today and in general is the distinction between the effects of sequestration, which is one particular legal and budgetary tool that has been built into the 2011 Budget Control Act, but all the other things going on in the defense budget in terms of gradual downsizing of the overall magnitude of

U.S. military spending and then the way in which these continuing resolutions rather than normal full-year appropriations are complicating things additionally. I'm not necessarily going to ask each of these five to spend a lot of time on that. Panel 2 with Jack Mayer and Jay DeFrank and myself will largely get into those broader interpretive issues. But what we want to do really today is begin with, again, a view from the field, loosely defined, with these five gentlemen.

Basically we have lieutenant colonels, colonels, and commanders on this panel. Let me briefly introduce them to you and then we're going to go down the row, one after the other, giving you each about a five-minute snapshot on what's been going on either within their service or maybe even more specifically at the base or unit from which they most recently came as little as two or three months ago.

So the idea here, and I'll just say one more word of introduction to the subject before I introduce them, the idea, as you're all aware, I'm sure, is that in the sequestration debate about the defense budget last was the period of time during which the basic message from the Pentagon was if sequestration happens, the sky is going to fall. In other words, the administration was so adamant that sequestration must be avoided that only the first round of cuts from the 2011 Budget Control Act were tolerable, the second round were not; that we really needed to have everyone on message saying that if there's another dime taken out of the defense budget it could be catastrophic for our national military preparedness. Well, unfortunately -- or fortunately, depending on your vantage point -- sequestration has happened and the sky hasn't fallen.

From my own point it's unfortunate that sequestration did happen, but it's a relief that, so far at least, the sky appears not to have fallen. A number

of defense industries are, by last report, still making a profit. They may have downsized quite a bit, but they're still getting by. The military services have adapted. And a lot of times they didn't let people train, certain units had to be essentially stood down for the summer or what have you; weapons systems had to be put on hold of various types or another. But the overall impression now is perhaps swinging to the other side, not that the sky would fall if sequestration happened, but that sequestration, to some people's eyes at least, would appear to be no big deal at all. And what we're trying to do is to assess what's really happening.

And, again, it's a snapshot in time from five individuals who have five particular experiences. But I find this kind of reporting, frankly, at least as useful as the top level testimonies from the service chiefs and the Secretary of Defense and others who try to combine all the statistics in a way that's often a little bit mind-numbing and a little hard to really get analytical traction with.

So that's the basic idea of where we're coming from today. I want to thank you all for being here on a Friday afternoon before a long weekend. I want to wish all of our veterans a Happy Veterans Day. I also want to wish the Marine Corps a Happy Birthday. We have a lot to celebrate and a lot to commemorate on this weekend.

Beginning with Aaron Marx, who is our Marine Corps fellow this year, we will hear from him about his experiences. He spent last year at the Eisenhower College on National Defense Economics here in town, but before that, he was in the field in a unit in Florida the year before, and certainly has kept up with that unit and other parts of the Marine Corps subsequently.

Ken Ekman, our Air Force fellow this year, was at Holloman Air

Force Base last year in New Mexico as the vice commander, as the number two, at that facility and has a lot of experience, therefore, in understanding what had to happen at a specific base with a specific number of units as sequestration kicked in on top of these other budget cuts that were already underway. And so, again, you'll hear from Ken -- or you could ask questions if you don't hear in his opening -- everything from could you cut the grass? Could you buy jerseys for the softball team? Could you fly your fighter jets? Could you fix your roads? Could you fix your equipment? Anything like that is fair game and I know he'll give some of that in his opening thoughts.

Johnnie Johnson next to him is our Army fellow this year, an Army colonel, who last year was commanding the 3rd Brigade Combat Team in Georgia, of the 3rd Infantry Division, and, therefore, has a very good view of one of the most important Army response units in the entire U.S. military. He was in charge of it. He had to wrestle with all the implications of these budget cuts. He had to think about how this unit might be sent into combat. And prior to that year in Georgia, he had been deployed himself, as have many of our fellows. And so they're aware, again, of the stakes here and the kinds of things they needed to do to keep their forces ready, even as they also had to find a way to cut 10 percent from their budget on top of the previous reductions that were already in the works.

Robert DeBuse is our Navy fellow. He spent last year as a planner working on broader issues in the Navy budget and so his vantage point is a little broader, but also a very nice complement to individuals who have had positions in unit command.

And then finally, last and definitely not least, our fifth military

service -- and I think you all know what it is -- the U.S. Coast Guard, Commander Tom King is here to speak of how he saw things unfolding with the U.S. Coast Guard. He was also in a somewhat central planning position last year, but one of the things in a previous discussion that really wowed me that I heard from Tom was all the specific implications of budget cuts and sequestration for all the things the Coast Guard does of a national security nature and also a law enforcement nature and an environmental protection nature, and the implications of the budget cuts that we're seeing for what's been happening this year and last year compared with previous years.

So thank you for your patience with my long introduction. Without further ado, I'd like to start with Aaron.

LIEUTENANT COLONEL MARX: Thanks, Mike. Your Marine Corps is designed to respond to crises anywhere around the globe at a moment's notice, and readiness is the critical measure of the ability to do that: readiness of the people, equipment, resources, and training levels. Sequestration is affecting readiness. The primary effect on short-term readiness will be felt in FY '14, but the long-term effects of sequestration are much more disturbing.

The Commandant of the Marine Corps recently testified that sequestration is causing a Catch-22, forfeiting long-term priorities to fund near-term readiness. Money that should be available for procuring new equipment is being rerouted into maintenance on legacy equipment. As sequestration takes effect, the Marine Corps will be forced to reduce necessary maintenance on equipment returning from theater; reduced fuel, ammunition, and other support necessary for required training.

When we talk training readiness, we talk in terms of readiness

levels and we assign T ratings, T1 through T4, T1 being most ready, T4 being least ready. The Marine Corps units are funded to a T2.0 level to meet operational commitments as a force in readiness. And that's written into the Joint Combat Capability Assessment provided by the Chairman of the Joint Chiefs of Staff. Decreased readiness will compound in 2014 and beyond.

I want to reference aviation for a moment. That's my background and I'm most familiar with it. As of July of 2013, 72 percent of Marine squadrons met the minimum deployable readiness training levels. As sequestration takes effect, takes hold, and prediction models run based upon a 10 percent reduction in flight hours per year. If sequestration continues on that track, by 2015, only 63 percent of the aviation units will meet minimum deployable training levels; in 2017, 50 percent; in 2021, only 25 percent of the aviation units will meet the minimum deployable training levels.

The long-term sequestration effects imposed on squadron and battalion commanders at my level forces them into a Catch-22 scenario as well. They have to choose between maintaining proficiency and current pilots in current qualifications or investing in the next generation of new pilots, but they can't do both.

We maintain a level of proficiency now and what is known is that it's much cheaper to maintain the proficiency level of the crews that we have now than it would be to let those proficiency levels erode and have to replace them in the future. Lieutenant General Whistler recently was quoted, "We'll be down to around 10 hours per crew, per type model series, per month. Statistics show that if you fly less than 15 hours a month, you become a safety hazard. We run the very real risk of killing pilots and destroying airplanes."

I couldn't agree with him more. I have about 14 years of experience as a Marine Corps aviator under my belt, primarily flying the Cobra Attack Helicopter. Over the course of my career I averaged about 25 hours per months, give or take. My own personal safety gauge required me to fly about 20 hours per month to retain my desired skill level.

On the sequestration slope we're heading towards bare minimum numbers. The bare minimum for Marine Corps aviators to stay on flight status and earn satisfactory years is eight hours per month. At eight hours per month I would have felt like a stranger in my own cockpit. It's not enough. At that level a seasoned aviator can regain top proficiency with a few months of above-average flying; new aviators cannot. As less and less money becomes available for sustainment training, we're headed towards what Lieutenant General Whistler discussed: less and less training could lead to injury of people and damage of equipment. So when viewed through a long-term lens sequestration is absolutely causing irreversible impacts on our readiness.

MR. O'HANLON: Thank you very much. Ken, over to you.

COLONEL EKMAN: Well, Mike, thanks for the introduction and my comments today will focus on sequestration impacts that I experienced while I was the vice wing commander of the 49th Wing at Holloman Air Force Base, New Mexico.

You know, so in that role I have kind of a fairly broad view of what happens at the installation, both in the units directly assigned to our wing and also the tenants that we enable. And also, because of our downtown partnership, I do have a feel for how sequestration impacted our relationship with our downtown neighbors.

I think with Holloman, based on the missions that we had, sequestration has been a mixed bag to date: some positive, I'd say, and then some negative, as you might expect. I'll start with missions.

Our two prior missions within the 49th Wing consisted of training, doing all active duty aircrew training for NQ1 and NQ9 UAS or drone operators. Okay? Sequestration had no impact on that training through the end of FY '13, so we continue to train the full complement of students. And by the end of FY '13, we trained 668 pilots and sensor operators who often flew their next sorties in combat in AORs around the world. I think that kind of points to the fact that we remained fully funded in that area points to the priority that the Air Force places on, one, meeting the needs of the combatant commanders, but also in continuing to expand that critical mission area.

The other mission that was fully funded was our single combat-coded F-22 squadron. We had about 20 percent of the overall combat coded F-22s for the Air Force, and that's not many. And while 13 combat-coded squadrons in the Air Force were grounded and they were part of an overall 31 that had at least reduced resources thrown in their direction, our F-22s flew at the same rate through the entire fiscal year despite sequestration. The rationale for that was actually quite simple: because other squadrons were standing down, we were appointed to be the Western United States air sovereignty squadron. And at the beginning of June, we actually flew armed F-22s for three days straight over the top of Los Angeles while Chinese President Xi Jinping and President Obama had their session out there in L.A. And so fully funding our F-22s allowed us to do that. So really, from a flying mission perspective, we fared better than some Air Force squadrons.

From training our people and keeping our people ready, I think we fared less well. The latter half of FY '13 imposed huge travel restrictions on our military personnel. And go figure, for our people to train oftentimes they have to travel. And unless that training was mission-critical, we simply couldn't send them anywhere.

Well, within a military organization, when our people basically year-to-year go to different jobs as they advance, as they gain skills, what we found is that the training that was associated with those job moves simply couldn't get done because it had to be done elsewhere. What that created at Holloman was a huge bow wave of training from which I don't think we'll really recover for training, spanning everything from our civil engineers to our aircraft maintainers to what I'll call kind of ancillary training, like safety training. And so from the installation level, the way I kind of saw that is we were doing the same kinds of operations, but at a significantly increased risk level simply because our people weren't fully trained to do what they were expected to do.

You know, that bow wave of training, I'll also extend to how we maintain some of our equipment. So just as an anecdote, all of our government vehicles that we keep on the installation, for the second half of FY '13, we ceased all maintenance. So, again, that's a bow wave that we probably won't get over as we get into FY '14.

Finally, for the furlough, there are probably people in this room who are personally familiar with the furlough and how it impacted their lives. I'm looking at a couple people I know for sure that it impacted, you know. So what I saw at the installation level, as it impacted 950 government civilians around our based, was a tremendous amount of anxiety and uncertainty, you know, real

economic impacts on critical members of our team. And I agree with the Chief of Staff General Welsh when he said we have truly broken faith with part of our workforce. Now, as it happens, those 22 days of furlough eroded to being just 6. However, we underperformed in some installation-wide activities because members of our civilian workforce simply weren't available one day a week for the last six weeks of FY '13. And while some of these areas might seem discretionary, I would submit that things like legal assistance to our members, financial management of the overall installation, particularly at the end of the fiscal year, our community support coordinators, our chapel staffs, and our wing plans, readiness, and inspection folks, those folks simple didn't show up 20 percent of the time to get that installation-enabling work done.

You know, we did get a little bit of relief, and I was particularly happy about this. One of my roles as a vice wing commander is I worked very closely, and you'll get this given the current news, I worked very closely with our sexual assault response team at Holloman. In the end, right as the furlough was coming due, the Air Force made, I think, smart choice to keep that staff available so that they could do 24/7/365 work that's required to meet our members' needs when they're in crisis.

The last kind of break of faith that I wanted to highlight real quick deals with the surrounding community. At the installations we're really at the point of contact with America, right, the small towns that are adjacent to our bases. And that sort of relationship doesn't just happen, it takes effort and it takes giving even at the fairly small kind of resource levels. So as an example, we had an open house scheduled for the 18th of April, which was after the sequestration effects were invoked in the military. Even though we weren't going

to fly airplanes, all we were going to do was open our gates, put out our equipment and our airmen, and embrace our community members. We weren't able to do that simply because Porta Potties and buses cost real money. Again, it was minor, probably \$10,000 or less, but our inability to embrace the people who own the shops where we do our shopping, who run our schools, who run our churches, and who are literally our neighbors for half of our base that lives downtown, that was a break of faith or break of relationship that I don't know how we necessarily get over.

Anyway, thanks for the opportunity to address you and I look forward to your questions.

MR. O'HANLON: Thank you very much, Ken. And over to you, Johnnie.

COLONEL JOHNSON: Thanks, Mike. I want to start my comments by just, first of all, provide some context. So I commanded a Brigade Combat Team at Fort Benning and so I wanted to kind of share with you the structure of the organization so you understand how complex it is and how the impacts of sequestration can really bring the readiness levels down.

All right. So the Brigade Combat Team that I commanded consisted of two combined arms battalions and their main equipment is tanks and Bradleys. They also have mortar platoons and scout platoons as well. A cavalry -- armored reconnaissance squadron, which is a cavalry unit, they're mainly equipped with Bradley cavalry vehicles and they provide the eyes and the surveillance for the Brigade Combat Team, a very key capability to provide to the brigade.

We also have a field artillery battalion with two batteries of

Paladins, and they are what we call "our steel rain," so they're providing direct fires to the Brigade Combat Team as well.

We also have a sustainment battalion. They provide all the logistical support for the brigade, which is very robust, you know, from fuel to ammunition to repair parts to food, Class 1. We call it Class 1. So again, another very important organization.

And then finally, we have our special troops battalion, which consists of our really -- our low-density, but very critical-skilled soldiers and leaders. So it contains or consists of a signal company, an MI company -- military intelligence company -- and an engineering company. And then, of course, at the battalion brigade level we have our staffs that provide all the planning and operational support to the Brigade Combat Team.

So it's a very robust organization and very complex. And so as a commander, I have to synchronize all these capabilities into the fight, into whatever mission that we have. So I wanted to provide that context for you, first of all.

Now, as of 2006, the Army implemented what we called "Army Force integration," which allowed the Army to build readiness to support the fight both in Afghanistan and Iraq. And so what this allowed us to do was to put every unit through a very structured system to where they would build readiness almost from scratch in some cases. So a unit would go through the reset phase. The reset phase lasted about six months. And over that six-month period you'd have soldiers that are coming in and out of the unit because soldiers, obviously they -- we move quite frequently in the military, every two or three years on average you'll have soldiers that are PCS'ing to different installations and different units.

So during the reset phase of ARFORGEN you have a lot of personnel turbulence of, again, soldiers moving in and out of the unit. Upwards of 50 percent of the unit will turn over over that timeframe. And so we focus primarily on individual training tasks during that phase because with so much turbulence you really can't focus on what -- the unit level skills that you're trying to build upon.

And so, also, during that phase our equipment has gone through reset, so, you know, we have tanks, Bradleys, Paladins, and a host of wheeled vehicles and systems that go through reset as well. And in some case, you're fielding new equipment and you go through new equipment training. So that also takes place during that six-month period.

And so you're also trying to reestablish your SOPs and your systems so that you can operate as you start going into training. You can kind of synchronize operations as well. So that all occurs during the reset phase.

And then after the reset phase, again six months, you go into the train-and-ready phase. So the train-and-ready phase is when you're really starting to build your unit. You graduate from individual-level collective training and now you're trying to build your teams from the squad, (inaudible) squad, up to the Brigade Combat Team. And so there's a lot of field training that takes place, a lot of gunnery exercises where we go and qualify our crews and our platoons and our companies on their collective tasks. So you have a lot of field training taking place during that next 12 months or so.

And so, again, it's a lot of repetition. You go to the field more than once. It's not just a one-time event. It's in and out of the field, on and off of ranges. And again, we're honing our skills, but also building capability across the

formation.

And then finally, towards the end of that 12-month period we have really what we call our capstone event or culminating event, which is a CTC rotation, combat training center rotation, at either the National Training Center at Fort Irwin, California, or at the JRTC, the Joint Readiness Training Center, at Fort Polk, Louisiana, if you're an infantryman. And so that one event, which is really -- it allows the Brigade Combat Team to fight in a really near combat-like scenario at the NTC. It is the next best thing, in my opinion, you know, to replicating combat itself. It really stretches the organization, it stretches your systems, it stretches you mentally, physically, in every way. Your unit's put through a very rigorous training exercise against a very competent and capable opposing force.

So the 11th Armored Cavalry Regiment, they're the opposing force at the National Training Center. And so they prepare for all the brigades that go there to train and so they get a chance to refine their TTPs or their procedures. So whenever a unit shows up there, they have a pretty hard time fighting against the op forces, they're so well trained.

So at the end of that 12-month period, again, CTC rotation and then following that is a deployment if you're earmarked to deploy, whether it's to Iraq -- well, not Iraq anymore, but to Afghanistan. So you have units going to Afghanistan as we still are fighting there.

And so my unit, after completing the ARFORGEN cycle, we deployed to Kuwait, where we were the theater reserve for RSAT. So our basic mission there was to partner with the countries of the Gulf Coalition Council and other countries in the region as well to build our capacity. So this kind of lends

itself to regionally aligned forces that you hear about today as one of those potential missions. Actually it's a current mission as we have a brigade that's deployed to Africa right now that's providing those types of capabilities to the AFRICOM commander.

But we partner with the local countries. Kuwaitis were our primary partner, but also the Omanis in Oman; UAE, we partner with them as well; and also units in Jordan. So we were spread throughout the region training and preparing ourselves for employment, but also the countries that we partnered with, trying to increase their capacity to secure themselves as well.

And so it brings us now to the impacts of sequestration on my unit. So as we were redeployed back to Fort Benning, the biggest challenge for us was the funds were cut off for training. So we did not go into a reset phase as we did previously because the unit was not going to be prepared for another deployment. However, we still had to hone our skills for future contingencies. So we lost our funding initially, so the impact of that was not tactical training. We could not roll any of our tactical vehicles out of the motor pool to the field. We could only roll vehicles out to do road testing for our services that -- our maintenance that we do on our vehicles. So if a vehicle was repaired, you could move it in order to make sure it operates properly, but then it goes back into the motor pool. So that was the extent of our ability to, again, move equipment out of the motor pool to the field to do any type of training.

Another impact on our training was we had to rely on simulations, obviously, that next three to four months. But the impact, at least in my view, was you can get the repetitions from simulations, but you cannot replicate that tactical environment that you need to train in. So that was the biggest challenge

for us was trying to replicate that tactical environment.

And so the impact to a unit, and this is really, I think, not just now, but going to the future, is on our leader development. So our business is developing leaders. That's what we do and it starts from when a soldier first arrives to the unit, in that first three years, their first tour, and it continues as they move to different assignments. So leader development, if we have generations of soldiers who have not deployed to the field with their equipment and trained tactically to hone their skills -- and it's a different environment tactically. There's a lot of talk out there about simulations, you know, you can do fine with simulations. Well, in certain specialties you can, but for a combat unit simulations can only take you so far. You have to get out there in the mud, in the dirt, in the sand because that's what it's like when we're deployed in combat. Those are the conditions that we have to be accustomed to training in and comfortable with as soldiers, as units. So that's a key -- you know, one of the big takeaways from sequestration.

I spoke with one of my colleagues down at Fort Benning recently and we talked about the impact to some of our officers that are going through training down there, so the Captain's Career Course at Fort Benning, Georgia. So all the maneuver officers at that captain's rank, they go to Fort Benning for about six months and go through this course. It's a very rigorous course. And so I asked him, all right, so was he seeing any impacts to some of these officers that are coming in or do you see any degradation of knowledge or skills from these officers that are preparing to go through this training? And to date, as of yesterday, he says no, because the course, the current course, started about six months ago, and so those officers were fresh out of deployments and they were

very well prepared for the school environment. But he believes that the next class, the next two classes, as you get officers who arrive that have not gone to the field before, you'll start seeing some officers who are not very comfortable with learning, you know, their skills in that classroom environment.

So I'll end there. So, hopefully, you'll have some questions for me and I can get into more detail if necessary.

MR. O'HANLON: Excellent. Thank you very much. Robert, over to you.

COMMANDER DeBUSE: Thank you, Michael. My name's Rob DeBuse. I'm the Navy FEF and my previous job was I was a resource sponsor at the Navy staff in the OPNAV N95 shop, which is the expeditionary warfare requirements. What I wanted to do is just real quickly talk about my experience there and how that affected the programs that I was responsible for.

Just recently, the CNO went over and discussed the -- at the Senate Armed Services Committee as well as just recently, today, at the -- over at another think tank, what his requirements were for the Navy. And the two requirements he had were: we need to be able to provide sea-based strategic deterrence to support the Defense Strategic Guidance as well as provide presence at various levels, whether that's on station ready in a surge capacity or in a contingency capacity waiting back at home so we can provide the support that's required in the Defense Strategic Guidance that was signed off on January 2011. With that he pretty much ended that as. "We have to be ready to respond where and when the nation requires us to be." And that's the value of what the Navy brings to the fight.

So in my capacity as a resource sponsor, I was the expeditionary

warfare combat -- Expeditionary Combat Branch head and I had about a \$2 billion budget every year, an annual \$2 billion budget, to resource the explosive ordinance disposal, Navy CBs -- construction battalions, if you will -- maritime security forces, and a couple other smaller expeditionary forces. So contrary to the big Navy, when you think big Navy you think ships, you think aircraft, you think submarines, I was doing all the stuff that doesn't quite fit into that realm.

That quantity was about -- when I started it was about 29,000 personnel and, again, I said about \$2 billion in all appropriations. By the time I left it was down to 20,000 because we were taking so many personnel cuts based on normal contractions of the budget. So what I wanted to talk about, real quick, what is the environment? Michael kind of alluded to it.

There are a whole bunch of things going on in the planning, programming, budgeting, and execution of the Navy's budget. But when I got to the Navy staff we were doing a couple things. Number one is we realigned the staff. We didn't like the way we had it set up where we had the operations and maintenance fund underneath the N4, the admin fund underneath the N1, and then all of the procurement was underneath the N8 at the time. So we've created N9, pulled all the money from procurement and manpower and put it underneath what we call the N9, which did one thing, put one big bellybutton. I can control an entire organization, so I saw all the problems from manpower, investment, and operations and maintenance. That's one thing.

Additionally, we cut the staff by about 25 percent. If you looked across the Navy staff in 2011 and now in 2013, it's significantly different. We've reduced the amount of contractors that are on the staff and we've reduced the -- and we increased the number of government civilians. But overall, a significant

cut to the number in manpower. For instance, on my staff alone, we started off with 6 military, 1 civilian, and 18 contractors. We ended up cutting 2 of the military, we added on 3 more civilians, and we cut 14 of the contractors. We were trying to make sure that we had, again, with the budget -- this has nothing to do with sequestration, this has to do with just normal cuts and reductions in the budget.

Then you throw on what we've already talked about with the continuing resolution where we're -- we have -- we have to work with last year's budget. For instance, in 2013, we got the National Defense Authorization Act passed sometime in -- but we didn't really get money for that until June. So June we get the money. We really have until the end of September to spend the money and obligate it all, so you've got 2-1/2 months to do what normally takes about 10-1/2 to 12 months to get done, depending on when you get the money from Congress.

So we shrunk it down. We've reduced the amount of oversight and obligation of -- the obligation executive oversight that you have from the staff and you're really running up against tight timelines to meet it. And you don't have until September, by the way. You got till the end of August because the end of August, you got to be done. In September, they're clearing the books. So that's another issue there.

And then in May, we sent over -- we already sent over our budget to the Congress sometime in March. We got it back and they had already put the sequester cuts in there. Remember, with sequestration the Budget Control Authority and the President set that 10 percent cut across all appropriations. Well, we left the manpower off, so now here's where you get to the cuts. Instead

of having a 10 percent cut across all three of those different lines I talked about -- the appropriations -- I'm sorry, the procurement or investment money, the manpower, and the operations and maintenance -- you really have a 14 percent cut because you've protected manpower. Manpower was not allowed to be cut in sequestration.

So the CNO did a pretty good job in identifying what those cuts were and what they did to the Navy. In general, we basically had to delay or cancel deployments for ships. The *USS Miami*, which was damaged in dry dock back earlier in the year, was no longer able to be repaired. There was a large fire, significant cost to fix it. Instead of fixing it, we just inactivated it, so you lost a ship right there. The *USS Miami* was gone.

Additionally, we had a six-day furlough for the Navy. It originally was designed to an 11-day furlough across the Department of Defense; we ended up doing 6 days. I'll get to that in a little bit because that's really where it had an effect on the staff.

And then we had reduced base operations funds, which you can talk to both -- Ken and Johnnie talked about how they were affected by the inability for the bases to support units out there in the Navy.

And then one last thing is we ended up cancelling the Blue Angels Flight Demonstration Team for the last part of 2013.

So I want to talk about furloughs real quick, and this is what goes back to the break in trust that Ken was talking about. In the Navy staff, a significant portion of the Navy staff is civilian. When we took those six days to furlough our civilian personnel, we all took them on Fridays. So if you went over to the Pentagon on a Friday during July or in the first part of August, it was a

ghost town. You could see tumbleweeds blowing around.

Remember, we also talked about the continuing resolution, the fact that we didn't get money until June. So now you're got money that's got to get spent and you don't have anybody working on Fridays for six Fridays in a row. It put a lot of pressure on the staff.

Additionally, most of those folks that were furloughed were GS-14, 15s, or the senior executive service folks. Those people don't put in 40 hours a week, we all understand that. They're in management positions. They're usually putting in -- I can put in my -- most of the folks who work with me will put in 60 hours a week. Now we've cut them back down to instead of 40 hours a week, now they've got to be 32 hours a week and we're telling them very specifically you will not come in one minute past that and it's illegal to work from home, et cetera, et cetera. So you take a person who is giving you 60 hours of work a week and really only getting paid for 40 and cut them back to 32. And now, once you get done with that, we gave them five days of their furlough that we were expecting to get to furlough, we gave that back to them.

The reluctance to come back in and work for the full 60 hours that we were giving you is pretty high, so there's a morale issue that comes from having -- just furloughing folks. And you've got to compound that with not only that, they haven't had a pay raise in many years and we haven't had the -- we had the government shutdown that came about in October. So all these things compounded, you've got a morale issues with the folks that are out there dealing with your headquarters staff as well as all the other civilians that are working, and it's a team. It's a military, contractor, and civilian team that works to get the Department of Defense out the door. We can't forget that.

In summary, real quick, the Navy has had -- you know, in addition to the furlough, we had that delay in -- in order to pay for all of our operations, we took maintenance money and moved that into operations because it's all in the same fund. So as we took a sequester hit across we're not able to make the cuts that we need to because we don't have the authorizations to move money around. We don't have the above-threshold or below-threshold -- we do have the below-threshold authorizations, but the above-threshold authorizations that Congress allows us were not authorized to us, so we couldn't move money from one pot of money to another to shore it up, so we basically had to cut straight across. It's very mechanical. It's like using a sledgehammer on the budget and it's very difficult to have a well-programmed budget for five years, let alone have a program that you're wanting to grow in the future.

So we have the potential for fewer ships, longer deployments, less maintenance, and now you've got a problem that's coming to a head. While we were able to do it in FY '13 and actually meet the sequestration and it doesn't look so bad, as you continue to go on you're just deferring that maintenance for ships that need to get the maintenance and you're reducing the number of ships that you can buy, so you're going to have fewer ships that go out on rotation, and you won't be able to have that presence that the CNO wants.

So, in summary, I would say that if we continue to have sequestration enacted because we do not meet our budget controls, then we will have to go back and relook at the Defense Strategic Guidance that came out. Otherwise, we're going to continue to try to meet an unacceptable gold standard of the Defense Strategic Guidance that we're not given the amount of money to fund and resource.

MR. O'HANLON: Thank you, Rob. Tom, over to you.

COMMANDER KING: Thanks, Mike. Good afternoon, everybody.

As Mike mentioned, my previous tour was not an operational tour, but as a program reviewer in our budget formulation shop. And I'll be real brief on a quick overview of the Coast Guard that'll link back to how the Coast Guard implemented their sequestration plans.

So the Coast Guard's strategic mission is to ensure the safety, security, and stewardship of the nation's waters, and that's safety to protect those on the sea, security to protect the nation from the threats delivered by the sea, and stewardship to protect the sea itself. And we use those categories to perform all our missions. And we do that by a layered security, in-depth prevent-and-respond type of concept in maintaining that persistent presence throughout the maritime domain.

Now, the Coast Guard comprised of about 43,000 active duty personnel and 9,000 civilian personnel, which, again, that'll link in together to our sequestration plan. And those personnel, along with the cutters, the small boats, our aircraft, all those units are structured to be able to respond into any of those mission areas. They're not single-focused mission-capable. So once you get a cutter underway or not, they can perform any of those missions and they have to be able to do those.

So in Fiscal Year '13, the Coast Guard's budget was approximately -- their total budget was just under \$11 billion. And with the sequestration rules the sequestration baseline was about 5.6 billion, resulting in a \$293 million sequestration amount. So the Coast Guard, unlike some of the other services, their stance was to not do any furloughs, so there were no civilian

furloughs implemented. And the decision was to cut the mission -- reduce our plan in air and surface operations by 25 percent with targeted reduction in certain mission activities.

We also did a reduction in mission support activities. And similar to some of the other services, that was a reduction in virtually all non-operational travel, reduced facility support operations, putting a lower priority -- cancelling lower priority training to ensure that we had our mission essential training done. And also, as Rob mentioned, we did similar, we deferred a lot of our depot-level maintenance to our cutters, aircraft, and our shore infrastructure, and also replacement of spare parts inventories.

So the objective of all that was to preserve the ability to meet the highest priority mission activities -- such as search and rescue and all that, and critical security operations and emergency response to any disasters -- resulting in giving our field commanders that were responsible for enacting all those mission area responses with the assets they have, we gave the field commanders the flexibility to manage the risk and the reductions required by sequestration that may censor the area of operations. Because throughout the United States and the different overseas areas that the Coast Guard operates in, each area has certain mission-specific activities that take a higher priority than others. You know, in the Los Angeles/Long Beach area you would have a higher maritime security area, port inspections, whereas in Cape Code in Massachusetts there might be more fisheries law enforcement, and then in the southern part of the United States migrant and drug interdictions.

And just as some of the other services indicated, the Coast Guard was also -- we're going to be impacted by our readiness to conduct future

missions. It's going to be degraded. In combination of reducing a lot of those mission support training activities, the reduction in operations, also, will impact our future ability to conduct -- respond to any operations.

And there are a lot of performance metrics. I mean, we reduced our planned air and surface operations by 25 percent. That's going to impact the amount of narcotics that are seized, the amount of days that our cutters are out patrolling. It's just natural that we're going to have that reduction. And a lot of those figures are being calculated right now to capture what the actual impact is, but, as you would expect, if you cut your operations by 20, 25 percent, you're going to get lower numbers, significant lower numbers.

MR. O'HANLON: Thank you. So we've got about 12 minutes before we change panels. And I'm going to invite you to prepare your questions and then we go to you in just a moment. I want to ask just one question and ask everyone to respond, if you're willing. And you can do this -- this is a little bit of a notional question. I'm going to ask you to sort of score readiness, just to give you a little bit of a heads-up as to the question I'm about to pose.

But what I mean, of course, this is unanswerable at some level. I know that your services all have a lot of detailed metrics on how they evaluate individual parts of readiness. And I think it was Aaron, you mentioned a couple of specific examples on aircraft squadrons for the Marine Corps, for example. So you've already essentially answered the question, if you like.

But what I want to do is not hold you to anything formal or official, but get some notional, either from the unit that you were most recently associated with or your perception of your service as a whole. And let's say that we can use as a standard on a 1 to 10 scale that readiness has been sort of

around a 9 for most of the last decade. You may not agree with that, but let's just use that as a rough benchmark for the period before the steep budget cuts, continuing resolutions, and sequestration. If we were basically at a 9 where are we right now and where do you think we're headed, let's say by the end of this fiscal year, if sequestration again kicks in?

So for each person I'm asking for two numbers. One would be your recent unit's readiness right now. And again, this is notional, it's not official, but combining everything in your head about readiness, not long-term modernization, but immediate readiness, preparedness of individual troops and their equipment for whatever missions they could be assigned to carry out. So, where are we right now? And where do you think we'd be head by the end of the fiscal year? If that makes sense, Aaron.

LIEUTENANT COLONEL MARX: I'd say the Marine Corps is a 9 and will stay a 9 by the end of this fiscal year just because the resident knowledge is still there. And what we have been doing the last really 12 years straight, the cycle's not going to run itself any different in what we'd be able to accomplish by the end of the year. And I liked the words Johnnie used, you can simulate, but you can't replicate. I think we're -- we haven't gotten to the point where we need to simulate everything, and so there's a lot of resident knowledge. Nine and nine.

MR. O'HANLON: Okay, optimistic from the Marine Corps. Let's see --

LIEUTENANT COLONEL MARX: For the next 12 months.

MR. O'HANLON: Let's see where the Air Force comes in.

COLONEL EKMAN: Since I deal with Holloman, I'm going to give

you four numbers if that works.

MR. O'HANLON: Sure.

COLONEL EKMAN: So right now I think from our combat units, your F-22 squadron and our UAS training operation, those have been fully funded and remain that way, at least in the near term, so I'll put them at a 9. Because the Air Force continues to put a priority on its fifth generation fighters and on training its RPA crews, I don't see a reason for that to reduce.

The installation, which the platform from which all that occurs, I'm a little bit more concerned about. You know, in FY '12 it was popular to take risk in infrastructure. FY '13 budget cut it even more. So I think the installation as an enabler of that, I would put us at a 6 or a 7 on our way to a 4 or a 5. And how that will impact the 9 that the flying mission continues to achieve, I'm not so sure, but the trend is probably not in a positive direction.

MR. O'HANLON: Great, thank you. Johnnie.

COLONEL JOHNSON: All right, so for the next year, obviously units that are rotating into and out of Afghanistan will be at the highest level of readiness, so those units will not be impacted. Units that are not earmarked for deployments will be drastically impacted. If you heard the testimony yesterday from General Odierno and his comments about how much of the force that we can have ready in the future, he threw -- he said seven brigades. Seven brigades total. So that's two armored brigade combat teams, two infantry brigade combat teams, two strikers, and then one aviation brigade. So those seven units will have full funding. In other words, they can go out and do all the training I talked about earlier, and that's about 30 percent of the force. The rest of the Army will not be trained. All right? So you're talking 70 percent of the

Army, at some point in the future, will not have the funds to train. All right. So you can understand the impacts of that, just with those numbers.

MR. O'HANLON: Okay, thank you. Robert.

COMMANDER DeBUSE: So for four deployed naval forces and for the forces that are deployed, that have gone through the work-up cycle and deployed, I give them probably about an 8 or 9. And for the forces that are not deploying or are back home stationed, not scheduled to be deployed, they're going to be down in the 4 or 5 range, and getting worse as we continue to defer maintenance.

MR. O'HANLON: Thank you. Tom.

COMMANDER KING: Similar to other comments, the routine operations that the Coast Guard conducts, we'll continue to be ready to do those. It's the disaster ones, the prolonged ones, that'll take its toll on our readiness when we need to replace that initial response with backup and all that if there's a prolonged disaster. We saw how long the oil spill in the Gulf took. Any kind of prolonged natural disaster, that'll degrade us. That readiness will come out and be evident.

MR. O'HANLON: Does that mean your numbers would be sort of like Rob's 9 and 5? Okay, well, thanks for playing that game with me, although, unfortunately, it's no game, but I think it helps bring a lot of the ideas to a head even if the numbers are notional. And please don't hold these guys accountable with their service chiefs or anybody else for those numbers. That was a personal sense of where things stand.

Over to you. Please identify yourself. And we'll start with the gentleman in the white sweater.

MR. BRUNO: Hi. Thanks for this. I'm Michael Bruno with Aviation Week & Space Technology.

The Pentagon leadership seems to be doubling down on procuring new technology in the future. But, at the same time, the chief of staff of the Air Force just yesterday talked about running into fighter pilots and airmen who are getting bored and thinking about dropping out. One of the great evolutions of the all-volunteer professional force has been a force that's been able to use high-technology weapons. Can you talk about these two things, where some of the people that you manage could be looking to leave, at the same time the technology they'll be asked to use in four to eight years could be even more complex?

MR. O'HANLON: What I'm going to do is take two more questions. We'll just make this a single round of questions. And then you all can decide which, if any, of the questions you want to individually respond to. Obviously every one of the services has aviation involved with it, so you guys can decide who wants to respond to that question in a moment, but we'll go to this woman over here, please, first.

QUESTIONER: Gentlemen, thanks for coming to speak today. This question is directed at Colonel Johnson sort of specifically. I'm an Army officer and I go to SAIS across the street for graduate school.

Would you say, sir, that for the largest of the branches of the armed forces, the Army, maybe sequestration was a good thing in that it was a wake-up call that we were a little bloated in our formations and needed to really rethink what a lethal and maintainable force looked like?

MR. O'HANLON: Thank you. And now let's see if we have one

last question and then we'll just wrap up with going down the line here. Anybody else want to weigh in? The gentleman over here.

QUESTIONER: Thank you all, gentlemen. I'm a pilot for a contractor working for TRANSCOM in Afghanistan, and we didn't see much impact at all during both the sequestration and the government shutdown. But I had an Army chaplain as a passenger during the government shutdown who was a bit discouraged because he had just come -- we were talking him back from performing a ceremony for four fallen heroes. And those four families did not get their death gratuity payment from the government, and a private organization had stepped in to make that payment. And I was wondering if, as they look at dealing with similar occurrences, budgetary drawbacks in the future, is there any thought to how possibly reprioritizing where some of these cuts come from so that they're not coming from things like death payments to families that have just lost soldiers?

MR. O'HANLON: Thank you. Unless there's a last question I'm just going to go to the panel for their responses. So we'll start over here with you, Aaron.

LIEUTENANT COLONEL MARX: I would say to the gentleman in the white sweater, I think we're going to have retention issues, but they're not because people are bored. And if you want a book, read Tim Kane, *Bleeding Talent*.

You know, when you're flying, you're anything but bored, I don't care what mission you're flying. I don't see that the weapons getting too technologically advanced that they're going to bore people. That's my opinion.

COLONEL EKMAN: Yes, I'll also address Michael Bruno's

comment as well, and thanks for your question. I don't necessarily relate advancing technology to the boredom issue. Certainly when we cut a -- we took significant number of flying hours out of only a portion of a fiscal year. That's what caused the grounding of 12 combat-coded squadrons. I think now that we have the opportunity to be more deliberate with the sequestration cuts as it relates to FY '14 and beyond, what you're going to see is a mild -- and I think the Air Force put a number of 15 percent as a possibility reduction in flying hours for FY '14. I think that's something that an organization can deal with, right? I mean, creative commanders, creative unit members will find ways to maximize readiness given the flying hours and resources that they have available. I think everybody also gets it that some level of reduced flying is necessary to recapitalize the force.

So I share the concern that you have your root, how do we retain talent? But what I find is the day-to-day Air Force ops, even at lower levels of flying, tend to be a draw for the talented folks that we need.

And then for the gentleman who's a contract pilot, the only thing I'd kind of say to address the death gratuity issue is that, you know, things -- we're going to continue to trip over unintended consequences of sequestration cuts like that one, you know, for the next couple of years as we truly come to terms with what sequestration means. Obviously that was a very painful consequence. No one ever would have intended to do that, to deny the families those benefits. But, unfortunately, this is a new game and we're still learning about how it goes.

MR. O'HANLON: Thank you. Johnnie.

COLONEL JOHNSON: Okay, I'll just take the last question first

about the death gratuities.

I mean, that was obviously a very stressful, you know, moment for the families who did not receive those benefits. And I'm hopeful that we will avoid a situation like that in the future because it's not only just bad for those families, but it sends the wrong message for Americans, for all of us, not just us in uniform. It sends the wrong message that we have families who have sacrificed that much that are not being taken care. So my comments on that.

The technical skill question, I mean, obviously as an aviator those are critical skills. And having those repetitions on aircraft, even as they increase the technology, is very, very important. But that also applies to other technical skills or technical branches in the military as well.

So we're going to modernize the force. That is a priority, I believe, obviously within Army, but I think it's a DOD priority as well. So we're going to have new technologies that will be fielded consistently in the years to come. So we need to have that talent, those soldiers and those airmen and Marines, the Navy and the Coast guard folks. Everyone's got to have that talent to be able to use an apply that technology.

And I think we'll be fine, at least in the near term. As long as the economy stays the way it is, we'll be able to, you know, glean our share of talent from the civilian sector. But we'll have to keep a pulse on that going into the future.

And the last question about the bloated Army, we are in transition right now. I wouldn't say we're bloated as we speak. I think our strategic priorities have shifted and we have to adjust to those new priorities. But I'll tell you that the number of forces we've had in our ranks for the past 12 years has at

least been enough to accomplish those tasks and missions that we were given, you know, by our Commander in Chief.

But what the forces were assigned to do and what they're designed to do will always come into play. And I think we're at a point in our history now that we're looking at how our forces, our units are designed and determining whether or not that's going to be practical or sufficient for the future, and so we're in that gray area right now. And I think over the next couple years or so we'll figure what the force should look like and then make sure that we resource it properly to accomplish those tasks and missions that we're going to ask them to do in the future.

MR. O'HANLON: Thank you. Rob.

COMMANDER DeBUSE: Well, I have two points. I'll go on the bloated Army question and then I'll go to (inaudible).

MR. O'HANLON: That one was just too tempting to leave alone, yeah.

COMMANDER DeBUSE: Yeah, I was going to (inaudible) that one.

QUESTIONER: Jump on that one.

COMMANDER DeBUSE: First, I don't think the Army was ever -- I mean, maybe in certain areas they might have too much force structure, but I'll tell you from my perspective the explosive ordinance disposal perspective and the civil engineering perspective, they didn't have enough. So some of the key components that you're going to have to have going forward in the future fight, you know, maybe a reshuffling and reprioritization because I know we had to provide, both the Air Force and the Navy had to provide, ground forces for the

Army and the Marine Corps to provide -- you know, to meet this counter-IED threat and the requirement to keep access open or open the roads and keep logistics flowing through Iraq and Afghanistan, and that's going to be the future problem. So maybe a reshuffling and I think Army's going through that right now as a restructure.

And the last thing I'll say is that readiness is still going to be an issue into the future for the Navy and it'll probably be a huge compounded problem here. Just quoting the CNO today, I gave you three reasons why we got to have the Navy besides the strategic deterrence. That's to have the presence, a presence either -- whether it's forward deployed, whether it's surge capable, or whether it's in a contingency ready to go in a little bit longer notice.

When asked if we could do any unplanned events, such as an HADR, you know, some sort of response to a tsunami like we had after -- the Japanese tsunami or the one in Sri Lanka, the CNO specifically said he could not meet that requirement today. If he had to go and push ships and forces to go support an unplanned event, we're stretching the current force. We don't have enough ships. We don't have enough manpower to go get that load of jobs done.

So it's going to be an issue. Readiness is going to be a problem because we don't have that surge -- not because we don't get guys -- the force forward because they're planned and we're meeting that requirement, but we don't have the surge to come behind them and we don't have the ships -- enough ships to fill the capacity as required. And that goes for aircraft as well.

MR. O'HANLON: Tom, last thoughts over to you.

COMMANDER KING: You know, a lot of the things that the

Navy's experiencing in all that is still going to be reflected that Coast Guards are experiencing on a different scale. And the deferred maintenance and the ability to back up the initial response to any disaster is going to be critical. You know, personnel will do their best to get things running and get things to respond, but a lack of deferred -- or deferred maintenance, lack of parts, older vessels, older aircraft just takes its toll in a disaster.

MR. O'HANLON: Thank you. We're not going to take a break. We're going to move seamlessly from one panel to the next, but as we do that, of course, you're always invited now or later to get a quick cup of coffee and come back. We're glad you're here. Please stay, but please join me in thanking this distinguished group of Americans. (Applause)

(Brief pause between panels)

MR. O'HANLON: I think we'll go right back to it, everyone, if we could. And by the way, there are some chairs up front. We had reserved seating earlier, but you can feel free to take any seat you'd like if you were in the back before and you want to move up.

Again, thank you for being here. We would now like to make some sense of what's going on with all of these changes with continuing resolutions, budget cuts, and sequestration with very, very capable couple of individuals who have been in this field in various capacities for many years and very thoughtful. I've learned a lot from both of them.

To my side is my former boss, Jack Mayer, who was at the Congressional Budget Office when we worked together. He's also been at the Center for Naval Analyses. He's now a senior vice president at Booz Allen Hamilton. He's a West Point grad, and Army veteran, and also just a very

thoughtful leader on many issues. Ran the Homeland Security and Defense Business Council for a number of years, as well as his many other activities in the area of a charitable and volunteer nature, but has thought about defense budget and strategy issues as well as anybody for decades.

Next to him is Jay DeFrank, who is a vice president at Pratt & Whitney, part of United Technologies; a very important player in a number of areas of defense technology. Obviously, we want to bring in the voices from industry as well as from the military services as we think about what's happening with sequestration, although Jay, also, just like Jack has military experience and spent three decades in the U.S. Air Force before joining Pratt & Whitney.

And so, gentlemen, thank you for being here. And what I'd like to do, we have a little more time in this panel for involving the audience as well, but there are really two main subjects I'd like to get your thoughts on as we launch into this. And one is just to reflect on what we've just heard, not only the specific stories and anecdotes and factoids and impressions that we heard from these five officers, but your own tracking of what's happening under this unusual budgetary environment. And, again, it's a big question, big subject, so I'm really just asking you for the impressions that are most on your mind, things that you most want to get into the conversation at this moment given where we've been in the last hour.

And then after we've done that, I'd like to talk more generally about where the defense budget should go in your judgment at a time when we're asking Congress to answer that question. We're asking the President to answer that question, but we're in a great deal of turbulence and uncertainty about where things really are headed.

So I'll re-pose that question in a second, but if I could just begin, you know, what's on your mind, Jack, as you listened to this group, as you watch what's going on in town and in the services today?

MR. MAYER: So, Michael, I find it very, very difficult to assess the implications of what's going on right now. I remember back in the '80s when we went through Gramm-Rudman and I was at CBO, and they did sequestration. Everyone walked away from that saying we'll never do that again. And so I, all the way up until last year, I said nope, Congress will walk away from it, they won't do sequestration. They learned how it doesn't work and it's a bad way to be able to run a country, and we did it.

And a month ago, I said that we wouldn't shut down the government, that we did that back in the '90s; nobody won on that, there were only losers in that. Nobody would actually push it to the brink and go ahead and do that again, and of course we did it again and we did it for almost three weeks. So I certainly won't even go out on a limb and to say what's going to happen in a month from now or two months from now in the middle of January because I really can't believe some of the rhetoric that I hear, that we'll never do it again, and we've experienced it.

So I think that those uncertainties compound the things that are going on right now in defense and what's going on in the country because I don't think you can decouple what's going on in defense and what's going on in the country. I mean, in defense we're coming back from fighting a war. We've declared that we're going to be out of Afghanistan in 2014. So they're not fighting anymore and as soon as you stop fighting and the world view changes of what's going on there's going to be a complete restructuring and there's going to

be less money. I mean, that's reality, and how that restructuring is done with the money is going to be, I think, is different.

But we've also got the pressures that are going on right now in the country in terms of how big of a government do we actually want? And before, you used to be able to say that, at least on the Republican side, that the Republicans were very pro defense and they were going to fund defense, and then the Democratic side, they were pro social programs and they were going to fund that, and you get some balance in between. I don't think you can even say that anymore because although the Democrats, I think, are still very much pro social, I can't say that the Republican Party is very much pro defense because we've seen those that are very articulate and have strong voices in the Republican Party who have been talking about having a much smaller defense budget, who are very much isolationists and don't want us to be as engaged as we've been before.

So I think predictability about where we would go based on what we knew political scenes used to be is gone out of the equation. And I think we're in a whole new game and being able to predict what that game is going to be is, I think, very, very difficult right now.

MR. O'HANLON: Thank you. Jay.

MR. DeFRANK: Thanks, Mike. You know, I think about the comments that you made at the beginning about sequestration and basically the sky hasn't fallen, and I think that there was one word missing and that's "yet."

MR. O'HANLON: Right.

MR. DeFRANK: You know, I think about it like the person who falls off the observation platform on top of the Empire State Building and they're

going by the 40th floor thinking I'm okay for now. If this continues as it is continuing, the effects will be incremental at first and then trend towards exponential. And I'll say a little bit more about why I think that's so.

This year not much happened. And, you know, full disclosure, I chaired the AIA's campaign Second to None, the steering group, but I did caution them I was no fan of the countdown clocks. And my concern was just what happened, is that come January 1st -- or in this case March 1st -- sequestration went into effect. The effects weren't going to be really felt at first for a lot of reasons. You had the unobligated Fiscal Year '11 and '12 dollars, you had the obligated Fiscal Year '12 and '13 dollars still to cycle through the system, and the effects on readiness were going to take time to accumulate, so the odds of really feeling a substantial effect in the defense arena the first year were probably going to be minimal.

And those people who look at it and say, well, it's not so bad and so, you know, a little bit more is good; or you get people on the Republican side who are the deficit hawks, who think that the greatest threat to national security is the deficit, and, you know, I've actually heard this on a number of occasions that, well, at least the deficit's coming down, so some good is coming of this. And it reminds me of the person with a terminal case of a wasting cancer saying but at least I'm losing weight. Yes, the deficit's coming down, but it's not coming down in the right way and in a way that's really going to be productive for the nation.

And it seems that on the DOD side and in many circles of government the strategy for sequestration is hope. I was always taught when I was in the military that hope's not a strategy, you know. But there seems to be this hope that even institutionally for a while the military services weren't allowed

to plan for sequestration cuts in there because the hope was that somebody was going to deal with sequestration.

So this year the effects weren't so great. Now, if there is a CR, then -- we met with our corporate political consultants. We have some of, I'd say, the best in the town representing both sides of the aisle. We were at our meeting today and we were talking about sequestration, CRs, just these same subjects and the consensus was that there'd be a CR and then the sequestration cuts would be imposed on top of that, which is a substantial cut from the current year's budget. This is for '14. If that's the case -- and, you know, the head of our Government Relations Department for United Technologies polled the consultants, how many thought that was the likely scenario, and it was about, you know, 2-to-1 that that was the likely scenario. And they took an optimistic message away from that because two weeks ago the idea that that was going to happen was 3-to-1. So, you know, things were improving a little bit in that area.

But then if you take that and then add the next year's cuts and then the next year's cuts and then the next year's cuts on the already reduced amounts, and the effects that they would have, we get into an area where there's some significant threats. And I think it gets to long-term ramifications of who we are and what we want to do as a nation. I mean, do we want to be a nation that is able to shape our national security environment, our geopolitical environment, or one that reacts? Again, going back to my early training as a military officer I was taught that it's six times more expensive to be on defense than offense. Now, I don't know if those numbers still hold, but if we're in a reactive mode, then we're going to be spending a lot of our resources responding to the environment rather than shaping it in a way that's favorable to our nation.

So sequestration is by no means the only driver. I mean, many of the budget issues that we have, our inability to plan, and things of that nature affect it, but I think that we're setting ourselves up for some really significant issues. We think we're solving, some people at least think we're solving, a problem -- the deficit spending -- in a way that, I think, could actually be, in the long-term, very harmful for the nation.

MR. O'HANLON: Now, here's a question, again, taking an even broader view that I understand you may not want to answer quantitatively, but I'm going to put it in quantitative terms. And the basic question is, what should the defense budget be or, if you prefer, rather than have sequestration what should the alternative package of additional defense deficit reduction measures be in the next 10 years?

So, again, to remind folks, and I think this crowd needs little reminding, but we've already got one tranche of Budget Control Act reductions before sequestration, and I'll that sort of as our premise, our starting point. And maybe you all like that starting point or not, maybe you think that's already cutting too much. But anyway, that's the first round of cuts. Then on top of that, sequestration is not only a mechanism for the way in which cuts are carried out, but it's associated with another \$500-billion-in-10-year reductions, as I think most of you know.

And separate from all of that is the reduction of war costs, which we're sort of considering as a separate matter because that's basically tied directly to how many forces we have in the field. There's less controversy about what that should be. It should fund whatever operations we've got, which may be controversial in themselves, but once we decide to do them, most of the country

agrees we should pay for them.

Anyway, that's the context. Sequestration, therefore, would cut this additional 500 billion over 10 years. Is that number too big? Is that too much of a defense budget cut? That would result in an overall real defense spending level, once you take away the war costs, of something around 500 billion, if you count Department of Energy nuclear weapons. So let's just use a nice round number of 500 billion if you want to count everything. But the defense budget has been up around 700 billion at the peak of the war when you count the war costs plus other things as well, even more than 700 billion. In the Cold War it was sort of averaging around where we're headed. You know, the Cold War average if you put it in 2013 dollars, somewhere in the 450, 475 range. So we're headed down to about that or a little above that.

Anyway, enough of my setting the baseline for discussion. What do you think the defense budget should be, if you're comfortable answering the question in that way?

MR. MAYER: So I'll give you a should. I think there are two different ways to be able to look at this, all right? And I tend to think you either got to do it either bottom-up or top-down. And if I took it from a bottom-up perspective, I go back to 2001. And I look at the forces that I had in 2001 and I say were those forces ready and able for what they were going to be asked to do? And I think the answer is yes, okay? That didn't mean that they were sufficient for what was going to happen over the next decade, but certainly in order to be able to react to unknown circumstances, they were able to do that.

And I look at that and how much we spent then in 2001, it was \$305 billion. And I just take that number, I adjust it for inflation up to 2013, that

puts me at about \$405 billion. And so I say, okay, if nothing else changed, I just had those forces, and I funded it at the level that it was, I got a base that's somewhere around \$405 billion. I don't think that's enough, but that's a base where I'd put it.

And so then I start building on that as to what is different about the forces. What has happened in terms of technology? What are the things that I need to be able to have that I know now that I didn't know then that's advanced? And I start building on that.

I probably wouldn't be building force structure on that. And I think there's a lot of good evidence of why I wouldn't. So, for instance, if I look at the Navy right now, the Navy was 377,000 people in 2001 and it's only 325,000 now. So it's a smaller Navy than what we had then, and I'll accept the fact that the size is adequate.

I look at the Air Force. The Air Force was 353,000 then. It's 333,000 now. So I'll say that that's sufficient.

If I look back at the Army it was 480,000 then. It's going to 490,000 by 2017, according to Army plans right now, so it's back down into that range.

And the Marine Corps was 173,000 then. It's 203,000 now, 30,000 that you would probably bring that down to.

So the size of the force structure says to me that it's about right in the direction that the plans are going. The question is about the size of the modernization and the equipment and things that you need. So that's where I would start if I was going from the bottom-up.

If I was going from the top-down, I think I've got to start with the

strategy. But the problem I've got with just starting with the strategy is I have to walk it in with the fiscal reality, which means that because the President is responsible for determining what the military strategy will be, the Congress is responsible for determining the resources that will be allocated to exercise that strategy. And so when I think of things from business perspective, I can't talk about stuff I want to do unless I have the reality of the resources to be able to pay for it. And I think that that's an iterative price to get there. So I can't say that I'm going to have a strategy to do this, have the military say, well, then I need the forces to do this, have a Congress that says, well, I'm going to resource you with that, and expect myself to be able to execute a strategy. All right? Unless I'm going to fund it for the resources that it says.

I don't think that Congress is willing to give the resources to the President and to the military that would be necessary to execute the strategy, assuming that the budget of the President reflects that. So then you put it down at somewhere around the \$498 billion that you get with the 2014 sequester, and then it does grow from that. Okay? Not as high as the President's has grown, but it grew every year from that. So what is the strategy that those types of resources support? And is that a strategy then that the people who resource this country and reflect supposedly the will of the American people, is that a strategy that we're willing to stick with, support, and be able to do it to make sure that you've got the forces to execute it?

So I didn't give you a number. I can't give you a number, Michael. I was never good at giving an individual number, but, I mean, I think those are the two different ways to be able to look at it.

MR. O'HANLON: And just one quick follow-up. If I'm following

correctly, and I appreciate it, that's a very useful framing, and the framing sort of converges on something in the broad 400s or the higher half of the 400 billion range, right? Because your first approach, you said you'd get up to 400 billion by inflating, but you needed to add some things on, and the procurement holiday of the '90s, presumably cyber, whatever else. So you're up into the -- I don't know, you didn't give a number, but maybe into the mid-400s. Your other approach brought you down to around 500. It seems like you would say we're in a reasonable realm of discussion with -- even with sequestration, we're not out of bounds of what might be reasonable or at least predictable given where the politics of the country are.

MR. MAYER: If we're starting at 2014. But then I think that -- I accept that the Congress will continue to increase above a 498 number because that was a sequester number that they signed up to and that they've got small increases a year after that, so, I mean, I think in terms of -- if I'm thinking from a strategy perspective, if I believe that they're willing to resource it there. What I don't know for sure is when I think build it from the bottom-up and the minimum is 400-plus, I don't know how much the "plus" is that way.

MR. O'HANLON: Right. Jay.

MR. DeFRANK: I think there are a couple of considerations. I'd like to build maybe a little bit on what Jack said.

You know, I see a lot of budget projections and analyses that go back from the end of World War II and track what the defense budgets have done through the time, and it's sort of a wavy chart there because after every major military engagement, the budgets come down and then they go back up a bit. And so you can look at any given point and say, A, we're in a relatively

normal pattern. We're coming off of the, you know, the 9/11, two wars that have followed that, the Cold War is over, so it's about time that we draw down from that period of time and go back, like Jack said, to the 2001 levels and what did it look like and it was sufficient.

But what I don't see coming into those analyses often are two things. One is where were we in the state of recapitalization during those times? I was on active duty when the Vietnam War ended and we rolled into what became the hollow force, right? And decisions were made and it turns out in retrospect good decisions to sacrifice readiness in order to bring on the next generation of modernization or recapitalization. So from the Air Force perspective we moved from the era of A-7s and F-4s and that generation of aircraft to the fourth generation of aircraft F-15s, F-16s, A-10s; into, on the Navy side, to the F-14s and F-18s. And they were largely from the tactical airpower perspective.

What has sustained us right up until the current state as we move now into, you know, a large, more fifth generation fleet -- you know, if those decisions had been made differently, we wouldn't have had those assets during that time. But it was a tradeoff with readiness. I don't often see people look at -- and I'm very conscious of correlation doesn't equal causation. But if you look at what happened in the world during that time when we traded off readiness after the end of the Vietnam War, you had, you know, Laos, Cambodia, (inaudible); you had insurgencies in Angola and Ethiopia; you had, you know, Cuban forces fighting there; you had insurgencies in Central America; you had then the U.S. embassy fall in Iran and Iran tumble; and then the Soviet invasion of Afghanistan until we had actually basically reconstituted our force and brought our readiness

levels up and reached a certain degree of geopolitical stability after that. And then we went into the Reagan build-up, the fall of the Cold War, and we know the history there.

But I think that those analyses are incomplete of where we were with the budget until you look at what had to be done and where we were in the modernization cycle. So now where are we in the modernization cycle? We've about used up the aircraft resources that were built up during that time and it's time, if we still see a viable role for tactical aviation, that we need to recapitalize that fleet. We're flying Eisenhower-era tankers. We've got a tanker out there now that's being built. It'd be pretty hard not to do that and it's, what, the number two priority. I think, General Welsh said F-35 was his top, tanker was number two, and I forget which was number -- oh, long-range strike was number three, he said the other day. And those are all things that have to be done, but they require resources, again, to do it. And I think you can look across the services and you'd see that we're at that point where it's time to recapitalize.

Now, again, it's easy to draw the wrong conclusions from the past because we had assets that lasted a long time. We had airframes lasting more than 50 years because they were over-engineered at the time they were built. I once asked one of the aircraft designers who I knew why bombers were still flying at 50 years and they had the structural life span to fly another 30 or 40 years when fighters were having to be retired after 22, 25 years. And the answer was because we've gotten a lot better at our engineering and at predicting the life span of the aircraft, and that's happening again. But I think if people see what's happened in the past with over-engineered airframes -- and you see that in the civil market, too. You know, Boeing aircraft that are 30 years old are taken apart

and they see that they've got another 30 years' worth of life on the airframe, which is far more than was expected because they were so over-engineered at the time. So I think that's one thing that we have to consider is where we are in the cycle of recapitalization and modernization.

The other thing that we have to think about is what are the missions? You know, I heard Secretary Hagel at CSIS the other day talk about six priorities, and he was talking about missions in those and the importance of cyberspace, space, and then all of the other modernization, personnel, the whole thing there. And it was very interesting because at a time when we're looking at our budgets, what I saw in there was a couple of extra mission areas that really weren't a primary focus either in 2001 or in the cycles before there.

What are the real threats we're facing? Well, I don't see any of our traditional mission areas going away or going down as new ones come on, but now we have cyber, now we have defense of our space assets. I think a lot of people think that -- take what we're doing in space for granted, yet much of what we're doing there is so woven into the fabric of our everyday life that it's become invisible. But if you were an adversary looking at our vulnerabilities, there's a key vulnerability there. If you look at cybersecurity, if we don't keep up with that, it doesn't matter if you take out infrastructure kinetically or electronically, you're still vulnerable there. So you have -- our traditional mission areas haven't gone away.

When you have a couple of additional mission areas at a time when you have to recapitalize, and I think then you have to look at the budget in terms of -- because budgets are what turn your intentions into reality, is what do we intend to do and how do we make that a reality? And so are there areas

where can come down, I mean, maybe in size of force structure? But there are other areas that require a key focus, and I think that takes you -- you know, that would help if you -- there's one other factor I didn't mention and that's the politically possible factor.

I've said this at panels here before, you know, a lot of budget people look at the defense budget and say over the period of sequestration I could take out 100-, \$200 billion easy. I think we all could because there are a lot of things there that don't make sense in today's environment, but they're not in the realm of the politically possible. Everything the Department of Defense does has a constituency and that's a constituency that's willing to fight very hard: base closures and realignments, aging assets in the Guard and Reserves and changing missions -- I mean, you could go on -- the personnel part of the budget, you know. Hagel said the other day on one of his six priorities on personnel that the cost for compensation on the personnel side are half of the budget. So what you're going to end up with is one of the best paid forces without the resources to do their jobs.

And, you know, there's a constituency for all those things that make it hard to do what looks easy, if you just take an objective look at the budget. So do you plan for that, for want of a better word, that slop in the budget or can you create a budget, a realistic budget that actually addresses those issues?

MR. O'HANLON: Thanks. Jack.

MR. MAYER: Jay, I also saw what the Secretary said, sort of the six priorities, but I was struck by some of the things that were not in the priorities, okay, which would have been things that were there traditionally. I think one of

the things that the services have to really be careful about is the -- in the debate that's going and will be going on for a while is overstating some of the issues. And I know that there are things that do not help when people, in my opinion, when people say it. And I will cite General Odierno yesterday, and he referred to the cost of a soldier. Now, that was a new metric to me that you're talking about the cost of a soldier. But he said that that had doubled since 2001, but he said it's going to double again by 2025.

Now, if that is a valid metric, we cannot afford many of them. Certainly we can't afford them the way we've used them now. I mean, they become too precious an asset for us to be able to use. And so if that's real and that's where the Army feels it has to go with its soldiers, then you start saying, well, how can I afford anywhere near the 480,000 at this price? I have to only be using them what I bought them for, which is to deter or to fight wars, not to be doing other things. And then I look at how I get substitute labor to be doing the other things. So I think we've got to be careful about when we talk about these things and what costs are, that we don't say things that may put us in jeopardy in the future, that you're making the cost look so great that people throw their hands up and say, well, I just can't do it.

MR. O'HANLON: Yeah. Well, let's involve you. Please, again, wait for the microphone, tell us your name, and pose a question. Let's start Lily in the back.

MS. CHEN: Lily Chen, research fellow at Brookings. I have a question regarding the strategy.

My question is if you look down the trend of the resources reduction what will be the reasonable military strategy, say, within 5 to 10 years

given all the constraints in budgets? I'm more familiar with the Chinese POE thinking. When the POE is planning their own strategy the U.S. weighs heavily in their mind because any frictions the POE's going to get into, they have to consider the possible intervention from the U.S. side. So when I listen to your conversation I'm thinking everything the U.S. will do with the military strategy adjustment will actually affect many other countries' military strategies. Thank you.

MR. MAYER: I mean, I try to say something there. I'm not sure that I'll even come close to answering the question. You know, typically, what happens when the U.S. develops its strategy it's looking at what the world view is and where they see that there are what I would say competitors to its influence. And it's very clear that as we're not particularly worried about Europe, doesn't mean that we're going to walk away from Europe, but we're not particularly worried about Europe and I think there's a great, I think, consensus in this country that the Europeans need to be first in terms of any defense of themselves.

I think that we're less likely to be involved in any ground-type of operation in the Middle East. If you look at what happened after Vietnam, we said we weren't going back to Southeast Asia and be involved in a ground war and we were true to that for 10, 15, 20 years before we were going to get involved in that. I think we'll still be engaged, but the engagement is going to be much more with Special Operations and missiles that are pinpointing or trying to pinpoint attacks.

So that leaves, what, the Pacific, the other part of the world. And, you know, you've got China that is becoming a large economic competitor to the

United States. And so I think -- and you've got North Korea that is a country that is completely unpredictable and could create all sorts of havoc intentionally or unintentionally that forces us to react whether we want to or not. And so I think there becomes a big shift in terms of how our thinking is in terms of a global strategy, and I think China has to be in the forefront of it.

MR. DeFRANK: I mean, I think to kind of build on that a little bit, that if you look at, on a macro basis, the U.S. strategic objectives are to ensure a type of stability that's favorable to our interests and what does it take to ensure that type of stability. And like Jack said, right now the area that looks like it has the potential to be less stable for the degree of impact on our interests would be in the Pacific region, and that's where our strategic focus is. That's one of the drivers behind the technology we're developing, such as the F-35 and, you know, a driver behind the long-range strike capability and others; our naval -- you know, some of our naval assets.

And I think rather than being directed in any specific mission area, it's what would be required to shape the events or to shape things? And I'll define that in a way. When you have an advanced fighter, for example, that is far more capable than anybody else's, it's a very expensive asset. Training's expensive, operation is expensive. If other nations know that they cannot fly against you and succeed, they're not going to develop them. And so, I mean, that's one of the rationales why there aren't very many advanced fighters fielded around the world or evolving, being produced and fielded around the world. The image that always sticks in my mind is the Iraqi MiG-25 buried in the desert, right, because if they thought it was going to get destroyed, why would they fly it? That's exactly what you would want, is to have that kind of shaping effect.

So I think developing the type of force with an appropriate foresight to be able to shape the environment, you know, it's following the method of Sun Tzu, the acme of skill is to win the battle without fighting it. If you can shape events and prevent a conflict, then you're far better off than if you actually have to have it. So to have a strategy and to have the force structure, including the technology to be able to ensure stability in the Pacific region, would be a key strategic objective that would not necessarily drive you to conflict, but would actually prevent and maintain that stability.

MR. O'HANLON: I'm going to answer this one myself, if you don't mind, which is a way that's, I think, consistent with what we've just heard, but just puts it in a different light. I would propose three pillars for future American defense strategy and planning, and one of them is to essentially preserve the believability of the Asia-Pacific rebalance. Now, that's a strategy that's partly diplomatic and economic, not just military, but one of the interesting things about it, it had very modest military elements if you go look at what happened. You know, 2,500 Marines in Darwin, Australia, which is a long ways away from most of the places we actually care about in that region and are worried about. Four littoral combat ships, largely rotating through Singapore. Again, very modest individual pieces. But the Navy has said it wants to put 60 percent of its fleet on Pacific-oriented ports, and maybe that's the single biggest piece of change.

But here's the thing. And by the way, I like the rebalance. I like the fact that it's not hot, not too cold; that it is a mix of diplomatic-economic tools; and only a few modest military pieces. But if these few modest military pieces which are trying to push your capability modestly up, are trumped by an overall downward press on the U.S. military capability. You can try to protect the Asia-

Pacific rebalance to an extent, but you can't do it indefinitely if the defense budget cuts get really big. And so let me just put it to you one very straightforward way in mathematical terms: the Navy wants to have, again, 60 percent of fleet in the Asia-Pacific region. Now, actually some of that fleet could still go to the Persian Gulf even from Pacific ports, so this is an upper bound on what the Navy will do to increase its capability.

Okay. Now, but if the fleet comes down in size, but the percentage for the Pacific goes up, you could say what's the breakeven point? Well, the breakeven point is when the fleet's about 85 to 90 percent of what it was. When it's in that range, 85 to 90 percent of what it was, 60 percent of that smaller fleet is the same as what you started with. So the whole logic of the rebalance is largely lost to me, or at least it's put in jeopardy.

So I would say you don't want a defense strategy that cuts your Navy by anything more than, let's say, at most 10 percent. The Navy would prefer to have the fleet go up by 10 percent, but I would at least prefer that it not go down by 10 percent or more. That would be one piece.

On the Army, and General Odierno is now testifying to this effect because he's obliged to given the sequestration scenarios that are before him, but what I've been arguing for is what I call a 1 + 2 framework for the Army and the TACAIR Air Force fighter jets as well, to a large extent. And what I mean is one major regional war at a time and two prolonged multilateral stabilization missions.

The one war capability is sort of where we've been trending in the gradual shift in Quadrennial Defense Reviews over the years. We still hope that we can do a little more than one. If you read the last Quadrennial Defense

Review and the Defense Strategic Guidance, the 2012, but we're hoping that we can still do something in a second war at the same time that we fought the first one to complete victory.

I'm actually proposing we scale back even that lesser requirement and have a robust one regional war capability for the ground combat forces, but be able to do two prolonged stabilization missions. And the stabilization missions could be, let's say, Afghanistan post-2014. They could be in a couple of years Syria. You probably think I'm crazy, but in 1993 in Bosnia, it was crazy to talk about intervention. By '95, things had shifted enough that we actually were part of a peace implementation force. That's what I'm talking about, not an invasion force. And there are other places where I could propose that as well.

You may say what's the need for even the one war capability? And I would answer it in five letters: Korea. For now it has to be Korea. And anybody who says we can start downplaying our commitment to Korea, I would like to debate face-to-face, head-to-head. I think it's just wrong and dangerous. This is still an extremely dangerous part of the world and the idea that we're going to rely on the South Koreans to handle it all on their own or do the majority of it I think is a mistake. North Korea now has 10 nuclear weapons going up. They still have a million fanatical, well-armed infantry soldiers. They're well-armed for that terrain and for that kind of fighting even they're not mechanized to the extent that they might like to be.

And so that's an example of how I would build a 1 + 2 force. To me that results in an Army of 425,000-450,000 active duty soldiers. You can debate the mix between reserve and active. You can debate the exact numbers, but that's a reasonable framework for me.

And then finally and briefly on capitalization and modernization, I'm very glad that Jay spelled out where we are in this cycle. We don't have a lot of equipment that's really new despite the fact that we finally got the procurement budget up a bit the last few years. But what I would say is, yes, we can rethink some of our recapitalization strategies. And to take, for example, one of the aircraft that Jay's company works on, the F-35, I actually think we probably don't need 2,450 of them across 3 services, but we do need to replace the aging force structure with something. And I think a mix of F-35 existing fourth generation planes, like new F-16s or F-18s, and also unmanned aerial vehicles at a great level, that kind of a mix needs to be purchased in roughly the kind of numbers we're currently intending for the F-35. So whether you believe and stick to that exact strategy or not, you need a high-end capitalization strategy that's robust at least for the high-end threats you might face. And then you've got to have something to keep the rest of the force proficient, safe, and reliable.

So if you put those kind of numbers together and you do some base closures and you do some reforms in military compensation and a few other things, I think you can justify defense budget cuts that are not as deep as sequestration, but that are maybe 200 billion beyond the first tranche of the 2011 Budget Control Act.

Sorry to go on at such length. Let me get to the next question.
Ma'am, right here in the fifth row.

MS. BLUMENTHAL: Just to -- I'm Ronnie Blumenthal. I'm an attorney and consultant here in town.

To follow up on something you just said, I am given to understand that there are senior executives and senior officers -- generals, admirals, et

cetera -- tripping all over each other at headquarters operations here and around the world. When you talk about sheer numbers, are they planning to cut back on those and just not replace as they retire? Because the support systems for these people are enormous in terms of cost.

MR. O'HANLON: Care to take that one or would you like me to or Jay?

MR. MAYER: So, I mean, I probably wouldn't characterize it exactly the way you did, but clearly DOD has been looking at the combatant commands that they've got, the number of combatant commands to be able to do different regions of the world, and considering options that would consolidate some of those, that would get at some of the overhead. I don't think that there have been any decisions made on that, but they're clearly looking at that.

MR. DeFRANK: I mean, that's my understanding, too, is that that's an issue that's under review, you know, making sure that you have the right proportion of leadership to the forces that you have and require. I've seen several both studies from within the Department of Defense and externally looking at that issue now, too.

But I would say that I wouldn't quite characterize it as people tripping all over each other. I bet if you asked any one of them, they'd say they were overworked and underpaid.

MR. O'HANLON: Just, by the way, one quick point on that. In raw numbers -- and you guys can correct me if you remember the exact numbers more accurately -- there is something like 2-3,000 flag officers in the U.S. military, general officer or admiral, one-, two-, three-, four-star; something like 2- to 3,000 total, something in that vicinity. So let's say that each one between their salary

and their retirement accrual is making a quarter of a million bucks, something like that, a year. So if you just do the math on that you're getting four for a million dollars, so that means the total amount, you know, it's really money, but it's like a billion bucks a year or less. It's not going to be the sort of thing that's going to make a sequestration level difference. It may still be a good idea to do, but it's going to be one piece of the overall fix.

Go here in the third row. Why don't we take these two together, third and fourth row, and then we'll take Ken's next?

MR. STEVENSON: Hello. I want to thank you for this event. And my name is Thomas Stevenson. I'm from the George Washington University Elliott School of International Affairs.

And how would you think sequestration would impact the nuclear forces, our nuclear forces, and Special Operations?

MR. O'HANLON: And we'll take one more in this round before we have responses.

QUESTIONER: Good afternoon, gentlemen. My name's Sam. I'm here representing Jakes Associates Inc.'s fiscal track; strangely enough, also from the Elliott School.

Mr. DeFrank, you mentioned and we heard this number from the service chiefs yesterday that it's around 50 percent of the defense spending that's on benefits and entitlements. We heard the service chiefs talk about controlling the increases of these costs instead of reducing them. So my question is how important a priority is decreasing a portion of the budget spent on benefits and compensation and is it even possible?

MR. O'HANLON: You want to start with that?

MR. DeFRANK: Okay. Well, look, and I'm a really biased source because I'm a beneficiary of those. I'm a retired officer. I'm 50 percent disability and I'm married to a war orphan who benefitted from those things, too. But I understand those compensation programs, I understand the rationale behind them. The issue is that right now they're consuming such a significant portion of the budget and much of that is off limits that there are going to be tough choices that have to be made that, if we continue at the rate that we're on, there won't be sufficient resources left to meet the mission requirements of the force that has to continue. So I think the issue is -- I mean, that's really what the issue is, but you can't break faith with the people who've served.

I mean, a lot of these programs are in place for good reasons, to attract and to retain people who have an unlimited liability clause so that they can feel confident that their families will be provided for. If you look at -- you know, depending on how the Affordable Health Care Act goes, if you take a person in my situation who leaves the service 50 percent disabled and then has to go out and try and find some form of insurance, if you're left trying to buy private insurance, good luck. You know, I mean, you're not going to be in that sort of situation.

Now, is someone in my situation now who happens to work for Pratt & Whitney and is willing to pay a bit more for my TRICARE for life, absolutely, but that's a broad generalization that would require some form of means testing in those sorts of areas because it might not be appropriate for others. You know, when my father-in-law passed away I hope that he was doing what he was doing for our country, confident that his dependents would be cared for, and they were. You know, as a war orphan my wife got her college paid for

with the GI Bill. It didn't really cover it, but, you know, it helped so that she was able to go, but these are parts of that compensation package.

It's really easy to depersonalize them and make them look like a bloated program, but they're all there for really important and good reasons. So they're not a simple matter to deal with, but they're a real matter because their impact is going to be great on the existing force, so they must be deal with in a way that keeps faith with the people who are the beneficiaries of them and who have, in many cases, through intense personal sacrifice, earn the rights to them and then yet still be able to have the force structure that you need to go forward.

If it was easy, it would have been done already. Because, I mean, I remember from my DOD days, I worked very closely with Dr. Chu and he was every day aware of this issue. He could see it. He had it charted out, graphed out. He could see what the impact -- now, you know, you're going back almost 10 years -- or it is 10 years since I was looking at the graphs with him. I mean, you could see it as clear as anything you can see in the future, and just what he was looking at is what's coming to pass. It must be dealt with.

MR. O'HANLON: Thank you. Jack.

MR. MAYER: So on the other question, I think that the Special Operations forces have a definite on-spot in the hearts of both the administration and the Congress right now. I think that in the type of environment that they're being used in, they're proven to be especially effective. And I think that there's probably a strong appetite among the political people who make the decisions to be able to preserve them.

I think on the nuclear side, sequestration affects nuclear forces exactly the way it faces other forces because the rules of sequestration -- and it

is the rules that is the issue here -- requires that the percentage cuts be applied across to everybody, so they are affected by that. Beyond that, I think nuclear forces right now are in the political realm more than anything else. Nobody's going to go out and reduce any nuclear forces without any negotiated treaties. In order to be able to do that, any negotiated treaty has to go through the Congress. And so it's very, very much a political issue, it's not a budget issue from my perspective.

MR. O'HANLON: Let's take one last round. We'll take three questions in this round and then we'll wrap up. So, Ken, first of the three.

COLONEL EKMAN: Thanks. Ken Ekman, the Air Force fellow here at Brookings. Thanks for being here with us today.

Jay, this question's probably more for you, but certainly the Defense Department, the defense industry are in this together, you know, as we deal with sequestration and provide capability for the nation. I was wondering just a couple of things.

One, you've said that it could -- you talked about, you know, it hasn't fallen very far yet. Could you give us a sense for how sequestration to date has impacted the defense industry or whatever subset of the defense industry you'd like to talk about?

And then, also, how sequestration as we look forward to the future, what kind of pressure our industry is feeling with regards to how profitable their businesses are, you know, as profits are released and we understand how much the defense industry is making above just the sheer cost of the systems. If you could talk about those pressures, I'd appreciate it.

MR. DeFRANK: Sure.

MR. O'HANLON: Great. Let's go ahead and take the last round and then we'll just finish. So anybody else have a question? Over here and then we'll potentially take one more.

QUESTIONER: I'd actually just like to piggyback off that question.

MR. O'HANLON: Good.

QUESTIONER: How do you feel that industry is planning for sequestration? What specifically are you looking for more foreign arms sales, expanding the domestic market? Really just in general, what you're doing to cope with a declining defense budget.

MR. O'HANLON: And was there one last question in the back? And then we'll wrap up.

MR. KIM: Yes. My name's Gil Kim. I just had a quick question on do you have any indication that if sequestration does proceed, when the bottom actually falls out, let's say, for the industrial base? At some point factories will close or depots will close or things of that nature. I mean, is there any type of indication if there's a red line or a timeline that will occur? Thank you.

MR. DeFRANK: Okay. So I think I can answer most of these in a coherent way.

First let me say United Technologies, although we're the 11th largest defense contractor, defense is only 17 percent of our business. That insulates us somewhat and I'd say it makes what we do for the Defense Department more important than they are to us. And, I mean, I don't mean that in a way that our defense business isn't important to us. It's critically important to us for a lot of reasons. But in terms of an overall portion of our business, proportionally, it's not by any means the majority of our business. I'll give you an

example from Pratt & Whitney.

If we sell every F-135 engine for the joint strike fighter in the 40-year projected life of the program, we anticipate that's close to 3,000 engines. We just introduced a new engine for the single-aisle commercial market and in 5 years we sold 5,000. So the commercial business is certainly the lion's share of what we do.

On the defense side, though, the implications are so substantial because we make much of our revenue through the aftermarket side. And so, for example, when flying hours get cut substantially, and flying hours are being cut substantially, that means that the requirement for spares goes away significantly. On the new programs, like the F-35, some of you may remember this fight for an alternate engine and things like that. Even when an alternate engine was in the mix before it was ended, at this point in time, based on what the Department of Defense had told us, we had made projections to be building 100 F-135 engines a month -- I mean a year, I'm sorry. We're building 50 a year. And we did -- last year we were supposed to have -- we were projected to have built 100 and next year. We don't see the ramp even beginning till 2016, and it keeps sliding to the right.

Now, what does that mean? Well, for one thing, much of the work that's done is done in the supply chain. Thirty years ago, we built 80 percent of our parts and resourced 20. Today, we build 20 percent and resource 80. Of our suppliers only 14 percent are from Fortune 1,000 companies or higher. So, in other words, a lot of them are small businesses.

We asked them to make substantial capital investments based on projections that the Department of Defense gave us for what we were going to be

building. So they made these investments in their companies expecting a certain degree of business in return that they're not getting and they're just hanging on and some of them are really struggling. And many of them are very reluctant to talk about it because they're afraid that their investments, their employees or potential employees will fear that they're on the edge of going out of business or not really viable. We've asked many of our suppliers who we know are hurting to come forward and talk about it, and there's a general reluctance to do that. And I think that reluctance, to some extent, masks the real trouble that's happening in that area.

But my many years working with the government, one observation, and especially on the space side that I saw -- at least first saw there was that whenever anything's hard and costly for the government, they shift the pain to the right. They move it to the right and that's what we see happening with the F-35. That's why I don't really take such an issue with Mike's ultimate concern on the numbers because the numbers over the 40-year life of a program, I think there's so much that can intervene between here and there, I'm just worried about the next few years and the numbers that we build then. And the rest of it is going to take care of itself because numbers can go up, they can come down.

For the F-22, we had made plans to build, you know, engines for 700 airplanes and we ended up building them for fewer than 200 and the line ended. And that has as much of an impact right now as sequestration, the premature ending of the line. So there are a lot of variables there.

But the impact from sequestration is going to continue to build. This is what I said this is the falling off the Empire State Building and going past

the 40th floor. Right now we feel some impact, but it's not a substantial impact. But that impact is going to grow each year. As the engines move out to the right, as the spare parts diminish, as training is reduced, and the requirement for them is diminished, then those small businesses in the supply chain are going to be less likely to make any long-term agreements with us, less likely to be viable, less likely to make the capital investments that are required in order to do this. And this can really drive a significant problem because our industrial base isn't what it used to be. Our industrial base is shrinking and shrinking all the way around because the business is shrinking. There just aren't -- the requirements aren't there.

One of our big initiatives is to have no single source of failure, but to do that is a huge challenge on our part to go out there and make sure we have multiple sources for everything because the volume isn't there.

So I would say that the impacts of sequestration are visible today. We can see, looking into the future, that they will continue to intensify. And if what we see happening is that the volumes never materialize, it affects everything from the cost of individual systems -- because the costs are based on -- you know, it's called the learned-out cost which is a function of volume or dollars. It takes one or the other to drive down the cost and so as it takes you longer, the costs stay higher, which, as the budget's coming down, the impact of the costs staying higher as you're going down -- not that you're not progressing down the cost curve that you agree to, but your cost curve is based on volume. And as that goes down, the costs go up, and so it impacts even what you're able to do with those shrinking defense dollars.

MR. O'HANLON: Thank you. And Jack, your answers to the

same questions and any concluding thoughts you may have, please.

MR. MAYER: So my business is around the Beltway primarily, so we don't produce product, we produce people. And, you know, it has a clear impact on us with the defense spending if you're in a consulting business.

But I think even greater is the impact that -- what's going on in government right now is having on the consulting business as a whole because with the exception of healthcare, I think that government has taken a hit across the board. There's a huge interest in smaller government. And a lot of people who were willing to be consultants and be consultants for the federal government or questioning of long-term viability of those types of jobs. So they're leaving it.

You know, see attrition in companies like mine that are at historic levels regardless of whether they're just supporting defense or other parts of the government. And it's really because of the rhetoric that's going on around town more than anything else.

MR. O'HANLON: Let me thank you all for being here and please join me in thanking Jack and Jay. (Applause)

* * * * *

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

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016