

THE BROOKINGS INSTITUTION

BUDGETARY TURMOIL AT THE
DEPARTMENT OF DEFENSE, 2010-2014

Washington, D.C.

Wednesday, September 2, 2015

Moderator:

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

Panelists:

ROBERT HALE
Fellow
Booz Allen Hamilton

THE HONORABLE DON BEYER (D-VA)
U.S. House of Representatives

* * * * *

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

P R O C E E D I N G S

MR. O'HANLON: Well, good morning everyone and welcome to Brookings. I'm Mike O'Hanlon. It's great to have you here as we wrap up summer, begin September, and get ready for an exciting month ahead. And I have the special pleasure today to talk with two gentlemen who know a lot about what's potentially in the offing for the next month and aware of some of the downsides of what could happen if we go wrong, especially with the broader budget picture.

As you know, today we're going to be talking about the looming potential budget problems in this country and also the historical recent past that Bob Hale, sitting immediately to my right, experienced as comptroller of the Pentagon. And the basis for our initial conversation today will be a paper that he's written which you'll find, if you wish, on the Brookings.edu website about budgetary turmoil at the Department of Defense during the period when he was comptroller, especially the 2010 through 2014 period.

Bob Hale was, before this job of undersecretary of defense for financial management and comptroller, he ran the Association of Military Comptrollers in the United States. Before that he had a similar comptroller job within the Air Force to the one that he later had for the entire Department of Defense. That was during the Clinton administration.

Before that he was my boss at the Congressional Budget Office. He's a graduate of Stanford, with degrees in mathematics and operations research, and many other distinguished attributes to his résumé.

Sitting to our right is Congressman Don Beyer from the Eighth District in Virginia. Recently elected Congressman, but with a very diverse background and a very accomplished individual, as anyone in this area knows. But I think across the country, as

well, an extraordinarily successful businessman in the area for many years. Lieutenant governor of Virginia during most of the 1990s, involved in that period of time -- among his proudest accomplishments, I think and most important -- with legislation initiatives concerning disabled individuals and also managing welfare reform as it was carried out in the 1990s.

He remained engaged in a lot of issues concerning the disadvantaged after leaving office and then became President Obama's ambassador to Switzerland and Lichtenstein in the first Obama term before becoming the elected representative just across the river here in Virginia, where he represents Alexandria, Arlington, Falls Church, and much of Fairfax County, which means much of the area in and around where the Pentagon is located, as well as many other federal workers.

So you can see the logic of our asking these two gentlemen to begin the conversation today. We're going to talk, as I say, first about the recent past and what we know about the effects of all the budgetary problems that have occurred here in the last five or six years in the United States with terms that we didn't even necessarily know existed in the English language, most of us, before that time, like "sequester," and also inside baseball terms, like "continuing resolutions," and, of course, we all know about "shutdown." That one's a little simpler. And we went through all of this and Bob's going to bring us through a little bit of a quick tour of the lessons from that period of time.

And let me add one more word of background. In terms of where we stand today, I think you all know -- this is already September 2nd, which means the fiscal year ends in four weeks and we will, on October 1st, face a whole new world for which we are not yet ready. We do not have a budget for the government for Fiscal Year 2016, which begins, as I say, in just four short weeks.

There are all sorts of possibilities that potentially loom, some of which could resemble the recent past, for better or worse. And as I think we'll hear today, largely for the worse if we're not able to see some kind of a compromise. And one last thing, as you know the Ryan-Murray legislation or compromise approach of 2013 is expiring. That was named, as you know, for Congressman Paul Ryan and Senator Patty Murray, a Republican-Democrat/House-Senate compromise, signed by President Obama, which softened the restraints on federal spending that would have otherwise kicked in under the Budget Control Act of 2011. That's the same legislative vehicle that has brought us sequestration.

But the Ryan-Murray compromise softened the blow for these last two years, but that period of relative -- it wasn't exactly Easy Street, but that period of relative relief is ending and now we have to face -- in a period with the Budget Control Act of 2011 still operational and still in effect, we have to figure out some new way going forward.

So thanks for your patience, listening to me give the background. Now I'm going to turn to people who know much more and have much more to do with it going forward, and thank them both for being here. So, given their stature and their service to the country, I wonder if you could first join me in welcoming them both to the stage.

(Applause)

MR. HALE: Thank you very much.

MR. O'HANLON: And so, Bob, thank you again for your paper and for getting us going with that. And I thought maybe what I would ask you to do is, first of all, explain a little bit about what happened in these last three or four years, or five years, that was so tumultuous. Why it happened and then any quick background on where we stand

at the moment with the fiscal 2016 debate.

MR. HALE: Okay. Well, thank you, Mike. Let me start by thanking you and Brookings for having me. One more thank you, and that is I'm currently a fellow at Booz Allen Hamilton and they supported this paper, so I want to be sure to thank you. And Congressman Beyer, thank you for joining us.

So I'm going to talk about DOD solely today because I know more about it, but many of what I'm going to talk about affected all federal agencies. I just wanted to note that at the outset.

So from 2010 to 2014, when I left as comptroller, I'd say DOD was nearly in constant budget turmoil. I mean, 2013 was the year of infamy, if you will. We saw sequestration in March of that year, a \$37 billion cut which translated because of protecting wartime funding and because we're halfway through the year, into a nearly 30 percent cut of the day-to-day operating budget of the Department of Defense. No sooner did we get through that then we shut the government down for 16 days starting on October 1st.

Those are the events everybody knows about. But there were a lot of others that were going on that were creating problems. We planned to shut the government down five times during my tenure as comptroller. Two of them ran to completion, which means you've got to identify people who can't work. You've got to send them letters; very disruptive. We never had an on-time budget. We lived with continuing resolutions. And so the Congress saying, hey, we can't figure out what to do, so do what you did last year, every year. And two of those years they were for six months and they're difficult to manage, especially when they go that long.

We had a large reprogramming, so we tried to move money around. We

did several budgets a year -- two budgets a year in several of those years. So a lot of chaos and a lot of effects.

And, Mike, do you want me to turn to those effects now?

MR. O'HANLON: Yeah, I think so, and let me say one more word.

That's a very helpful introduction. So what we'd like do this morning now is ask Bob to explain some of the more detailed points that -- and the cost to the government and to the workforce and to the nation -- that he was able to document in this paper and experience as comptroller. And then we'll ask Congressman Beyer to comment from his perspective, again, on whatever points he'd like to raise, but beginning, of course, with the federal workforce and the way in which it will be affected if we see similar problems. And then we'll ultimately have the conversation, of course involve you, and perhaps go to the current debate as it's shaping up as Congress prepares to return next week.

So, yeah, Bob, the main questions I'd like to ask are about the actual costs. And I thought the simplest way to begin was by documenting or itemizing some of the clear, direct cost to the government. And then maybe we can get into some of the more indirect or harder to measure.

MR. HALE: Well, I think the two biggest things that budgetary turmoil caused were, first, the cessation of training. I'll get to your costs in a minute, Mike.

The cessation of training: a 30 percent cut in day-to-day operating budgets in the Department of Defense in 2013. The services tried a number of things. They stopped facility maintenance, they put civilian hiring freezes on, but they weren't getting to those kinds of cuts. So particularly, the Army and the Air Force stopped training for a couple of months. The Air Force stopped flying at 17 of its operational squadrons. The Army didn't send 7 of its (inaudible) combat teams through the National

Training Center. These are culminating training events and the result for the country is we had a military that was less prepared for major contingencies than it should have been.

Fortunately, nothing happened. No major contingency happened during that period, but the military is paid to be ready and they weren't as ready as they should have been during that period because of sequestration.

The other big issue was furloughs. We furloughed 640,000 DOD civilians in sequestration to save money, another 350,000 as we lived under the tight legal rules that govern shutdown, and that caused a number of problems. Our civilians and all of our employees in DOD prioritize the work. They got the important stuff done, but the longer term items suffered. Auto-readiness: There's anecdotal evidence that we saw people saying -- skilled technicians in our depots saying, you know, I'm not sure I want to do this, and leaving.

I supervised, or really coordinated, the shutdown or the furlough activities for both sequester and shutdown and I remember walking around the Pentagon and people would wave at me -- I say this teasingly, but people would wave at me, but sometimes with fewer fingers. (Laughter) It was a tense period of time in the Department of Defense, but they did pull together.

Those were the big events. There were a number of smaller ones, and let me list them quickly.

MR. O'HANLON: Please.

MR. HALE: Okay. So we wasted taxpayers' money in ways that I found discouraging. The most obvious example occurred during shutdown. We told 350,000 DOD civilians they had to be furloughed under the law. We sent them home. We told

them they couldn't even consult their BlackBerrys because it constituted an illegal work activity. Four days later we brought them back and then Congress agreed to back pay for them, I think tacitly acknowledging that it wasn't their fault. So we paid \$400 million to these employees for days we told them they couldn't work. I think that's a pretty clear example of waste.

We wasted a lot of time. I won't go through the details, but it was my time, it was a senior leader's time, it was many people in DOD's time. I remember writing memos to Secretaries Gates, Panetta, and Hagel, and several of them at the end, and I said, this is all a colossal waste of time. And, to me, that captures much of the price that we paid for all of this budgetary chaos.

There's one more thing I want to mention and it may be the most important because it lingers to this day, and that is we harmed the morale of DOD employees. First with industry people, some of them were laid off or in other ways had problems, but I'll focus on the DOD employees.

There was some harm to the morale of the military. They weren't furloughed because the way we pay them you couldn't have saved anything. They get paid so long as they're on active duty. So they weren't furloughed, but they were very uncertain whether they were going to get paid, for example, during shutdown. I recall Secretary Gates in the run-up to what turned out to be an averted shutdown in April 2011. Just before that he'd gone to Afghanistan and he commented when he came back that the troops didn't ask him too many questions about the status of the Afghan war, even though it was at a critical juncture. But he said he was constantly asked whether the troops and their families were going to get paid during the shutdown. And, unfortunately, he couldn't give an unequivocal answer because there were circumstances in which we

wouldn't have been able to pay them.

But the real harm to morale occurred with civilians. We furloughed them twice, back to back, in 2013. We gave them three years without any pay raise, even though the military was getting raises during that period. Congress changed some of the retirement benefits for new employees and some members of Congress -- not Mr. Beyer, he wasn't there at the time and I don't think he would have, anyway -- really, I think, equate civilians with government and they don't always like government and they kind of take it out on the civilian employees, so we got a lot of criticism of our Civil Service from parts of Congress.

The result I think is a morale problem in the DOD as a whole, but particularly in the Civil Service. You can see it in polls, like the one conducted by the Partnership For Public Service, which showed about a 12 percent decline in morale from 2010 through 2014. And I just think some of our employees today, unfortunately, don't feel as valued as they should be and employees always work best when they feel valued by their employer, so I think this may be the biggest wound caused by all this budgetary turmoil and one that lingers today.

MR. O'HANLON: And, in fact, let's stay on that point. I know you thought that was one of the central findings in your paper and this is a good point to bring in Congressman Beyer. We can come back and do a couple of the other issues in a second round, but, Congressman, obviously you've got the full range of government activities under your purview in the district that you serve in when you were lieutenant governor. So, certainly, when you were ambassador you saw the foreign policy implications of sequester, but now you're facing the potential of the entire federal government -- I just wanted you to please comment on how you see the problem. Just

describe it, the one that we're about to face, potentially, but also the lessons and the historical realities of sequester and shutdown so far.

CONGRESSMAN BEYER: Thank you, Michael, very much. And, Bob, I enjoyed reading your paper very much. And I think your last couple of minutes on the impact on the federal workforce was, for me, the most important part. I'm privileged to have more federal employees in my district than any other in the country, and more federal contract employees, also.

So the coup de grace of this negative impact was the shutdown in October 2013, but it started long before, and I didn't really get the sense of it until serving overseas in Switzerland. Surrounded then by wonderful, not just foreign service officers, but folks from ICE and FBI and Homeland Security, et cetera, Social Security, who had just complained to me about years and years and years of feeling unimportant, neglected, all the way back to the Ronald Reagan, "let's get government off the backs of the people." And, of course, at that point we had three straight years of 0 percent raises. And when you're overseas and the exchange rate's changing, many of them were 25 percent behind where they were when they started.

So then you come up to the shutdown and that was part of my interregnum when I was back running the car dealerships, and it was amazing how much angst we got from our customers. You know, they couldn't afford to fix the cars, they would postpone and cancel appointments. Interestingly, the showrooms were full because people were off work, they just weren't buying anything. (Laughter)

And so there were lots of chances to have these conversations. And we heard particularly from federal contract employees, especially the mid-size contractors, who weren't getting paid because of the shutdown. Who knows what happened to the

DOD-2015/09/02

money? But these were people -- you know, Frank Wolf and Jim Moran, Republican, Democrat, got together during the shutdown to fashion legislation that would pay people back, but that didn't come until after the fact. And so there was just this enormous anxiety.

The older I get, as a leader in business or in government, the more I'm convinced that the primary responsibility of the leaders is to set the culture in which everyone can thrive, which means banishing fear -- people will be motivated, working together, feeling very valued and respected. Virtually every leader praises too little and we've had just sort of the opposite under the bell-shaped curve with our federal employees, which is just a terrible way to run a government.

The second big picture for me was what this did to the local economy. We have been just incredibly blessed by the fact that the federal government investment in Northern Virginia, D.C., suburban Maryland has been so good over the last 30 years. I like to brag during the campaigns that I led the family business through six recessions, but I would never point out that they were Northern Virginia recessions, which is not like the rest of the country. This really is.

We have, I think, Steve Fuller at GMU says \$15 billion undiminished into this economy. Terry McAuliffe, thanks to the wonderful job of economic development in his year and a half as governor, and yet Virginia's economic growth rate last year was 0.0 percent. In 2013, Metro D.C., the only city in America that had a worse economic performance was Atlantic City, New Jersey, so we've really been hit hard by it.

And in the government contracting space, you see it most in the mid-level guys. The big guys, Northrop Grumman, Boeing, Lockheed, they've been able to preserve their workforce. And the littlest guys have enough set-asides, but the medium-

DOD-2015/09/02

sized government contractors have really just disappeared. And what that's meant then is the highest vacancy rates for office space in Arlington, Fairfax, Alexandria that we've seen probably in our lifetimes.

And then the third piece is we don't seem to have learned anything from it because if you ask me about what's coming, I don't see us getting a budget by September 30th. Most people on the Hill anticipate something like the "cromnibus" of last December happening again this December, just before we adjourn for the holidays. And that was before the Planned Parenthood video.

And now a Ted Cruz and Rand Paul and others threatening no budget, period, ever, until Planned Parenthood is zeroed out. Planned Parenthood, which, I think, provides about a third of the birth control for America's women, so a spike in divorce and a spike in STDs and the like. God knows where we're going to go. The sad part is, we read your paper, Bob, and we learn nothing from it.

MR. HALE: Yeah, well, I'd say --

CONGRESSMAN BEYER: To be optimistic. (Laughter)

MR. HALE: To end on a high note, right, Don? (Laughter)

MR. O'HANLON: You're very clear and compelling, but let me ask you both, let me just try to be, not devil's advocate, but just take us out of the Beltway, since we do have a national C-SPAN audience and, of course, the whole nation is focused on this issue.

In addition to the points you both made about the federal workforce, we know the federal workforce is national, it's not just here. But how would you make the same kind of argument to a skeptic who's watching the show in the Midwest, an area with little federal presence and thinks the federal government still is too big and too expensive,

and has a hard time feeling sympathy for a few days of furlough. I realize that I'm caricaturing what some people would say, but I know that some of them probably have that thought. And you both have good answers to that, I'm sure, but let me start with you, Congressman?

CONGRESSMAN BEYER: So for me watching from across the river now, on Capitol Hill, the essence is the existential bite between the conservative, mostly Republican base that feels the major problem in America is the budget deficit is too large. A new congressman from Michigan, a Republican, who said he never paid attention to politics until he found out about the \$18 trillion public debt and he's here for his grandchildren versus the Democratic perspective, or the left perspective, which is that the way we get better is the investment in education, healthcare, and infrastructure, and all these things that require more money.

They are fundamentally irreconcilable unless we address entitlements. As all of you probably know, Medicare, Medicaid, Social Security interests on the debt are 70 percent of the budget and on its way up. And if the Fed raises interest rates, that's 6 percent of the 70 percent, just a doubling is going to push us up into the 74 or 75 percent rate.

So we have to deal with entitlements in a constructive way first, the most difficult thing politically to do, in order to create a larger pool for the investment versus budget-slashing compromise to take place.

MR. O'HANLON: And, Bob, I know you've got thoughts on this, as well, in terms of the contribution made by the federal workforce to the nation's security, and I wondered if you could just explain from that perspective, as well.

MR. HALE: Well, let me just underscore what Don said. I certainly

DOD-2015/09/02

agree, we need a broad budget debate that includes entitlements. I would say it also needs to consider revenues and what we do about them, as well as discretionary spending. I don't have hope that that will occur until after the election, but I hope it is a high priority for the next administration.

And as part of that, they need to consider ways to get rid of the MEDAC sequestration approach and to give the federal departments, particularly defense -- and I'll focus on them because I know it -- give them some security, some sense of where their budget's heading. It's very difficult to plan an organization as complex as the Department of Defense and do it one year at a time. In fact, you don't do it well, so we very much need a longer term.

In terms of federal employees, I know how hard a sell it is because I think some of the public have -- perhaps some in those Midwest or other places -- view them as symbols of a government they think is too large. I would only plead with them and say these are people that are trying to do a job, just like those listeners are doing, and part of that job is to support national security in the case of the DOD employees. Let's separate them from the issue of how big government ought to be. That's a legitimate debate and one we ought to have as a country and, I think, have for a number of years and need to continue, but let's not treat the federal civilian workforce as a symbol, if you will, for that, but rather do what employers should and make that clear to them that we value what they're doing.

There Are Changes Needed In The civil service, for sure, I mean, during my experience of these. We need a ways to hire them more quickly and, frankly, we need ways to fire the lower performers more quickly, which is a very difficult thing and will require legislation. So I don't want to suggest there shouldn't be any changes. I just

don't want to see them as the symbol of the distaste that some Americans have for their government. Let's take that on separately from them.

MR. O'HANLON: One more question on the civil Service and the workforce, if I could, before I go to one other matter, and then the audience.

If you could both explain a little bit about where we stand with the federal workforce. I know a fair amount of it is aging and soon to retire and we're dealing with a different kind of a job market. The younger generations think differently about careers. How do we think about where we stand in terms of attracting that younger generation into government and how does that relate to the conversations we're having today?
Congressman?

CONGRESSMAN BEYER: It concerns me greatly. The good news is that there's no mandatory retirement in most of the government agencies. The bad news is that in virtually all of them you get numbers like a third or 40 percent are eligible to retire in the next two years. So if you ever get that massive retirement, we're in really big trouble, especially as slow as it is to hire.

One of my favorite statistics is that since 1960, the federal workforce has only grown 9 percent whereas the overall population in the private section workforce is many times that. So the number of federal workers per American citizen is at a low point in our lives, but what we have to do first of all is pump up the perception that a job in government is a meaningful career, a great career path, where you can make a difference. And we still find that again and again, people are most motivated by important work and for work that they feel is valued. And I've worried tremendously that the millennials are not attracted to it.

MR. O'HANLON: Bob?

MR. HALE: I share the worry and as the Congressman said, we're going to have to recruit a number of workers. I'm encouraged that my good friend and former colleague and now Secretary of Defense, Ash Carter, has included civilians in his Workforce of the Future initiative. And I'm hopeful that coming out of that will be some new thinking about how we use federal workers and perhaps how we recruit, train, and, when necessary, fire them, as well. So I'm looking forward to the results of that.

MR. O'HANLON: I'm just going to make a quick comment myself, which is just living in this area, you come in contact with intelligence personnel who have helped us not get attacked again since 9-11. You come in contact with Department of Homeland Security personnel who have done the same. You come into contact with people who work at the National Institutes of Health, who are researching state-of-the-art medical treatment. These are all federal dollars at work. It doesn't mean that every single federal dollar is equally well spent, but I think people conflate different images and form false images.

I wanted to, if I could, also ask about some of the direct cost, Bob, that occur on the weapons side. And here I'm thinking people will say, well, the Pentagon's got such a big budget, it's so bloated. Come on, you can't really be complaining about losing 5 percent of the budget. You pointed out that 30 percent of your training budget was, in fact, taken away in that second half of 2013 and that made a big difference. And you quoted, I think, about 25 percent of the Army, 25 percent of the Air Force that had to go to much lower readiness standards.

But in addition to that, it seems to me, reading your paper, one thing I learned is that if you're accused of being a guy running a bloated Pentagon, one of the things that you responded by saying in the paper is, we're trying to buy weapons more

efficiently for the taxpayer by entering into multiyear contracts wherever we can. And yet these kinds of budgetary problems prevent you from doing that. Is that a fair summary?

MR. HALE: I think it is. Just one point and then I'll turn to data, it was actually a 30 percent cut in the total day-to-day operating budget of the Department of Defense, known as the Operation and Maintenance accounts. So it was more than training, it was almost all the day-to-day expenses.

MR. O'HANLON: Yep.

MR. HALE: I think the uncertainty that has occurred in the Department of Defense, uncertainty about future budget levels, has definitely had a chilling effect on some areas of ways that we purchase weapons that could be more effective, and I note multiyear contracts in particular. DOD has authority under the law to enter into a multiyear contract with a company to produce weapons. They have to meet a number of tests. They have to be mature. They have to save about 10 percent compared to buying them one year at a time. And then Congress will allow -- essentially commit the Department of Defense to making those purchases.

We do it to a fairly limited degree. I can't point out specific examples, but I have to believe that there's a good deal of uncertainty -- or the uncertainty about the future budget led many weapons managers to say, I just can't commit way out there two or three years. I don't know where I'm going to be. And it probably occurs most on weapons that aren't the big ones you read about, but rather missiles and smaller weapons that we buy, sometimes at very low rates, at or below economic order quantity levels.

We really should be entering into multiyear deals, which should allow companies to produce more efficiently and result in a savings of maybe 10 percent. I

DOD-2015/09/02

think it was Admiral Greenert who, speaking of the SSBN, the follow-on, the Ohio Class Replacement, saying I can get -- if I buy 11 submarines, I can get one free, if I do it with a multiyear contract. Now, that SSBN replacement is a long way from being ready for a multiyear. It's hardly even a mature weapon yet, it's still being designed. But I think it illustrates a point that applies today and will apply in the future. We need to do things to hold down costs, certainly, in the Department of Defense. Multiyear contracting is one and in this kind of an environment is very difficult to make it happen.

MR. O'HANLON: Congressman, I don't know if you'd like to comment on that same question, whether from the purview of DOD and, of course, as lieutenant governor you thought a lot about Newport News and other areas where Virginia produces weapons, but also in Congress you're in the Joint Economic Committee and you think about the domestic side of things. Are there any implications on that side?

CONGRESSMAN BEYER: Well, not so much weapons. I've heard, certainly, the feedback from Newport News shipbuilding that the two carrier contract or the two subcontracts are much more efficient to do. But it's the two-year that jumps out at me. I grew up politically in Richmond where Virginia has a two-year budget, and the General Assembly always touches up the second year a little bit, but the two years planning makes you a very different perspective. And if you had the two-year planning in DOD and throughout the federal government -- Congressman Reid Ribble, a Republican, has a bill right now that I've co-sponsored for the two-year solution -- it doesn't do everything, but it is I think an important step in the right direction.

MR. O'HANLON: Whereas a continuing resolution works in just the opposite direction, right? Because you can't even do one-year budgeting.

CONGRESSMAN BEYER: Well, the four years I was in Switzerland in

Bern, we were on a continuing resolution all four years.

MR. O'HANLON: Right.

CONGRESSMAN BEYER: Which meant that for the first 10-1/2 to 11 months we were spending significantly less, anticipating the 30 percent type cuts that Bob talked about. And then, along about September 10th, they'd say, okay, the budget's approved, and people would run around like crazy sending good money after bad projects trying to catch up.

MR. O'HANLON: Well, thank you.

CONGRESSMAN BEYER: It was a terrible way to run a budget.

MR. O'HANLON: This is a great foundation now for us to bring you in. And what I'd like to do, a little bit unusually, is have two different parts of the conversation with the audience because I would like to first ask for questions concerning anything we've been talking about now, looking backward, in other words, the effects that we've seen from sequestration and shutdowns and continuing resolutions so far. And then we can get into the conversation that I'm sure some of you want to have about what's coming in the next four weeks. And I'd like to, if I could, try to ask us to separate those into two parts.

So could I please first ask for anybody who has questions for either of these gentlemen on what we've been through in the last four years and what they've been talking about so far today, what Bob's got in his paper. And if there are no takers, then we'll launch into the forward-looking conversation.

But, please, my friend here in the second row, the microphone's coming. Please wait for it and identify yourself.

CONGRESSMAN BEYER: And help me, hearing's not my strong suit,

so speak up for me.

MR. NICKELSON: Hi. George Nickelson, a policy consultant for Special Operations. Now, two years ago Sam Nunn had a three-day session over at SCIS and the topic was national security and the national debt. He had Alan Simpson there with Erskine Bowles. He had former Secretary of Defense Gates, he had the former Chairman of the Joint Chiefs of Staff, he had the former Secretary of the Treasury under Reagan, Baker. He had the former Secretary of the Treasury under Clinton, Rubin, 10 former congressmen and senators. And basically they came out and said, the problem we've got -- and you alluded to two of them, Mr. Secretary -- we've got a problem with entitlements, we've got a problem with revenue, and we've got a problem with the tax code.

But he said the problem that we have in Congress is each of those that's got such advocacy that we're not going to solve it unless we bundle all three together and come up with a solution. And I said, well, what's the solution? And Senator Nunn said, it's not on my watch.

Now, along the same lines I asked Secretary Rubin, I said I've heard people say, we don't need to worry about the national debt. We've got lenders out there who will always lend us money. And Rubin said, he says, you don't understand my previous existence at Goldman Sachs.

And what I'm getting to is what's happening -- I don't know if this drifts over to the next thing, Mike, that you were talking about -- but what's happening to the world financial markets right now with China and everything else? What's the confidence in what's happening to our financial system here? And will they continue to lend us money, but we're going to have to make it more attractive and drive up the interest rate,

which will be -- I guess that's when it originally caused the original sequestration problem?

MR. O'HANLON: Okay, anyone care to comment on that?

CONGRESSMAN BEYER: I don't want to be too pessimistic. We saw the Erskine Bowles commission at the beginning, I think, of this administration. We saw what was close to a deal that didn't come to pass, unfortunately, that was broad in nature. And so I think a new administration that pays attention to this could begin to solve some of these problems. If they don't solve them all, at least take a significant bite of the apple. And I don't think it's going to happen in the next two years, but, as I've said before, I hope it is a high priority for the next administration, looking at entitlements, revenues, the tax code, and discretionary spending.

The money appropriates each year, about half of which is defense. So I don't want to give up and we can't give up. We're going to have to solve some of these problems.

MR. HALE: I'm optimistic about this, too. On the entitlement side, John Larson, a congressman from Connecticut, has a very responsible Social Security 2100 plan that addresses -- basically it puts Social Security on a firm footing through 2100 with a mix of Simpson-Bowles-type mixes. On corporate tax reform there are a lot different ideas out there and I think both this administration and the Republican leadership would like to see corporate tax reform in the 35 percent rate addressed relatively quickly.

And we do need the successor to Murray-Ryan. We need Democrats and Republicans on the budget committees to come together and figure out a way to take away the worst parts of the Budget Control Act for the years to come. But there's lots of good stuff.

And I also look at the fact that in Virginia, judges are going to redistrict at least some of our congressional seats. Governor Hogan's got the same thing trying to work in Maryland right now. I think there are seven states that now are up to independent redistricting. And the more we can get away from completely safe Democratic or Republican seats, the more political leaders, would-be politicians, have to appeal to the middle, the more likely or eventually get a politic that can make these compromises happen.

MR. O'HANLON: I'm going to add one point, too, based on an event we held two weeks ago with Ben Bernanke. And he was talking about the budget deficit situation right now and what he basically said is, listen, it's -- and apologies to Ben if I'm not getting this quite right, but you can check it out on our website to get the exact words. He said deficits right now are at a semi-tolerable level. The problem is it wasn't like that a few years ago and it's not going to be like that in a few years. But the good news is it does sort of give us a moment here where we don't necessarily have to sequester or shut down the government or go to a continuing resolution to impose an immediate false austerity. We can actually have the debate, have the campaign, and hope that we -- he didn't put it quite this way, but -- muddle through until then and then have a new consensus and path forward, if not sooner, by 2017. But that's soon enough because we now have deficits down to about 2-1/2 percent of GDP. That's still large. And for all the reasons you said, and others, it's going to probably grow, but it's not necessarily an urgent crisis the way it might have been a few years ago. I think that's a fair summary.

Yes, ma'am, here in the sixth row?

MS. MILHEYSER: Hi. I'm Ellen Milheyser from *Synopsis Newsletter*. I've been hearing rumors that there is possibilities of a budget deal brewing on Capitol

DOD-2015/09/02

Hill. However, the way it would work would be simply, as far as I can tell, to push the BCA caps out to 2020, so it's kicking the can down the road. Would you be in favor of that in the terms of we can address today's issues and hope that something will happen with the caps in 10 years?

MR. O'HANLON: I'm going to run up the white flag here. I'm trying to do the backward-looking part of the conversation. (Laughter) I think we're seeing where people's interests are, which is fair enough.

CONGRESSMAN BEYER: Right, yeah.

MR. O'HANLON: So, Bob, do you want to start, please?

MR. HALE: So the BCA, actually, as I remember, for discretionary spending goes through '21 right now. If there is to be a broad two-year budget deal, a Murray-Ryan II, as many call it, it is likely that some in Congress, many perhaps, will want it to be paid for. It might raise the caps on defense and, I think, also non-defense. They would want some offsets in terms of reductions perhaps in some lower priority entitlements.

One of the ways to get spending scored, or savings scored, is to extend the caps because right now the Congressional Budget Office that does the scoring would look through '21. If they saw them extended further, they would give some credit for that. So it is a possibility. And at this point, if it was a deal that got us through the next two years with some budgetary certainty for DOD and the other federal agencies, I'd live with it. It's going on to '22 and '23 and extending caps is kind of way out there. I'm not sure how much substance there is, but I think it's more important that we find a way to make a deal.

I didn't answer one of your earlier questions, Mike. Maybe I should do it

ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

real quickly, and that is, review the bidding on where we are in defense right now. So it's been an interesting year so far. We've seen all four committees and, I believe, both Houses pass both appropriations and authorization bills for defense, all at the level of the president's budget request, which is about \$35 billion above the caps.

Now, they did it without changing the caps by doing what I call the "OCO fix." OCO's the Overseas Contingency Operation Fund. It is meant to be used to pay for wartime funding and it is exempt from the caps. It is what's called "emergency spending." And, essentially, what they've done is put about \$40 billion of base budget, day-to-day stuff into OCO so it's exempt from the caps, essentially. I think everybody agrees, it's just a way of getting around the caps.

The president has said he won't accept that in part because there's been nothing done on the non-defense side and in part because it's a bad precedent. I think it's a bad idea. It's a bad precedent and it's one year at a time, which is unfortunate. So that's kind of where we are. The president said he's going to veto the bills. The bills are sitting there waiting for action. The president said he's going to veto them, and so I think it's back to the can-we-get-a-budget deal?

If we don't get a budget deal, and I'm less confident than I was a few months ago, then several other things could happen. And probably the next best option, at least in my view, would be to see Congress actually appropriate at the cap levels. That's about \$500 billion for DOD in fiscal '16. That way they give you the authority the department needs to operate. They'd make the decisions about what you buy and what you don't at those lower levels.

Even worse on the spectrum would be a continuing resolution, which is, as I've said before, is essentially Congress saying we couldn't really agree on a budget,

do what you did last year. It has to be done, usually, a classic or a clean one, you have to spend at the same rates in every appropriation at about 50 of them in DOD. That will cause lots of problems. Ironically, the spending there would be below the cap levels by about \$4 billion. It would be about \$496 billion if it was at the '15 levels.

You don't have authority for new starts, that is new programs that Congress hasn't approved. You don't have a lot of authorities that you need. You can do it for a couple of months and it's not a big deal. Try that for a whole year and it would be a nightmare for the Department of Defense.

And finally, I suppose, the least desirable in my view, to actually shut the government down and hope that that forces consensus. That's a terrible way to do it, but with the Planned Parenthood issue and maybe others, I am more concerned than I was a few months ago about the possibility of another government shutdown. I certainly hope it doesn't happen. It's disruptive. It will be yet another blow to the morale of our employees, but I couldn't rule it out. I don't have as much confidence as I felt I did a couple of months ago.

Hopefully, that's a quick overview of where we are and then we can turn back to --

MR. O'HANLON: Congressman, either your sense of where we could be headed on the current default or your thinking about what kind of deals may be still possible, we welcome those.

CONGRESSMAN BEYER: And to her question about kicking the can down the road, I'm always in favor of not kicking the can down the road. That's my favorite piece of car dealer wisdom from my father is, first loss is best loss. If you can take a hit, take the hit.

And we're about to come back and look at the Highway Trust Fund, which we have not added any money to since 1993 and we have this enormous \$3 trillion infrastructure backlog. This year there was one shining moment of hope when Leader Pelosi met with Speaker Boehner and worked out a deal on the so-called "doc fix," the sustained growth rate for physicians, and we passed it. We didn't fund all of it, but we stopped kicking the can down the road, and that's the example everyone on the Hill goes back to and says, let's do that again.

MR. O'HANLON: More broadly, do you think there's a possibility of a Murray-Ryan II?

CONGRESSMAN BEYER: There has to be. I'm not on the Budget Committee, so I'm not part of it. I'd love to be part of it. What's been really interesting is to watch the appropriators work so hard through the spring and all the committees making those decisions that Bob talked about. The old John Kennedy "to govern is to choose" thing. New programs killing old programs, only to realize that if it goes to a continuing resolution, all that work goes right out the window and we get to do what we did last year.

MR. O'HANLON: Bob, let me ask you to give a few examples, while we're on the continuing resolution issue, a few examples. Maybe it's easiest to do with weapons systems, I don't know. And be, if you could, as specific as possible, a couple of weapons we would buy more of that we don't necessarily need. We bought them last year, but now we have enough or at least we don't need to buy at the same rate. Or a new weapon that we're ready to buy now and we're delaying getting good weaponry into the hands of the warfighter because we're not allowed to do new starts. Do you have any examples that come to your mind?

MR. HALE: Well, you also can't ramp up production, I'm pretty sure, although I don't have the same detailed knowledge I used to, that the F-35 is still on its upward trend. You wouldn't be able to do that, you have to stay at '15 levels.

You wouldn't actually be forced to buy weapons that you didn't want, even if you were trending down, but the money would sit there and you'd have to find some way to use it, to reprogram it, or use it within the same appropriation.

And, of course, there would be no new starts. There may be weapons, and I'm not totally sure, I believe the JLT -- the Joint Light Tactical -- vehicle may be in the situation of a new start. That was one Congress hasn't approved procurement yet, so you can't actually move forward. There are some categories of environmental spending where a special authority is needed that the Department wouldn't be able to go forward with unless they got an authorization bill that provided authority for military construction. They wouldn't be able to do any military construction projects.

It's just a bad way to run a railroad. I mean, the DOD can hold its financial breath for a couple of months, under a kind of clean, classic CR, but if you extend that to six months, and especially if you thought of extending it to a year, serious problems will result. It will be very ineffective. I mean, we're not going to stop defending the nation, but we will do it less effectively and it will harm DOD's mission and we'll be right back in the situation we've been in for the last five years.

MR. O'HANLON: Other questions? Yes, sir? In the back, please?

MR. CAPACCIO: Hi. Mr. Hale, I'm Tony Capaccio with Bloomberg News. How effectively over the last three years has the military and the Pentagon conveyed to the 99 percent of the public not connected to the military the impacts of sequestration?

Two, last April your successor put out a pretty useful book on the impacts of sequestration, down to the program level. They haven't done that this year, for whatever reason. Do you think they should do that again? Was that a useful tool for educating the public?

MR. HALE: Well, let me take the second one first. It's hard to do those. I know what you're referring to and it was a document that's still probably up on the comptroller's website, actually done by that cost analysis and program evaluation folks for the most part. They actually did, as Tony just said, tried to say what would happen at cap level spending and each major weapons program.

Yes, I think it would be useful, Tony. It's easy for me to sit here, I don't have to do it, as I used to, but I think an update of that, especially if as this debate progresses it looks more likely that we will end up at the cap level.

So, how effectively has DOD conveyed it? You know, it's hard for the department to convey on a national level. A few -- the Secretary has national standing -- and maybe some leaders, but for the most part they are focused on defense. I think DOD did a good job of making clear what it would do to members of Congress, to interested constituencies; probably not as good as they wished they had been able to do in a national way because they don't generally have a national pulpit.

You need to depend, I think, on the president and others to make those kinds of national statements.

MR. O'HANLON: Congressman Beyer, let me ask you a question as Ambassador Beyer before we go to the next round here. When you were overseas in Switzerland and you were working a lot on a lot of issues, including Iran sanctions, but also money laundering and tax havens and U.S. business interests in Europe and many

other things during this period of continuing resolutions and shutdown and sequester, how did it affect what people said to you about the United States and what they seem to think about the United States?

I'm not asking you to overdramatize the point. Maybe it didn't come up that often, but I'd just be curious to know how often did what we were doing back here affect the way people saw us over there?

CONGRESSMAN BEYER: We mentioned earlier the impact on the workforce, but it was fascinating because it came up all the time. So I was in Switzerland and the mission when we went over there -- this is coming after the wars in Iraq and Afghanistan and Abu Ghraib, and all that stuff -- was to try, from the State Department, from Hillary and the assistant secretaries, and the like, was to try to improve the Swiss perspective on the American people and on our politics, our government, our culture.

I got over there and realized that all the movies, all the books, all the music is all ours, and they were totally in love with us. Every one of them had been to the Grand Canyon. They all had Harleys, but they could not understand how this shining city on the hill could be so dysfunctional? Their editorial writers, their politicians, their business leaders didn't understand the debt ceiling-debt cliff stuff, they didn't understand the shutdown, the sequester. They certainly didn't understand the budget deficits because they were running a 1-1/2 billion franc surpluses every year. So it was just very confusing that we could be this old, wonderful democracy and still be so dysfunctional relative to them.

MR. O'HANLON: Did it reduce our power in any measurable way or just sort of distract conversation from more productive areas?

CONGRESSMAN BEYER: I don't think it reduced our power. They

were mostly obsessed with the U.S. Department of Justice suits against UBS and against Credit Suisse, et cetera, which they thought was economic warfare against them. And much of the job was explaining to them that this was trying to hold Americans living in America, cheating on their taxes, responsible and accountable rather than attacking their banks.

MR. O'HANLON: It is interesting. When we have the same conversation with my colleagues here or others who are Asia specialists, they do sometimes assert that in Asia. They started to see a way in which the combination of the Great Recession and the Washington dysfunctionality -- and then at that time, China's rise -- really were eroding our prestige in the Pacific in ways they could see becoming harmful if it continued much longer. And, of course, that led to some of the rebalance or pivot strategy.

CONGRESSMAN BEYER: Which was one of the more compelling arguments for the Trade Promotion Authority, too, by the way. That we had to assert our leadership in trade again to be a factor in the Pacific.

MR. O'HANLON: On that point, does the recent progress -- and we will go forward -- no, but this is very helpful because all the pieces are interconnected in different ways. Congress did just get something done, right, on TPA?

CONGRESSMAN BEYER: Yes.

MR. O'HANLON: And so, to those who say this Congress can't get anything done, are they right, or does TPA prove them wrong? As we get into this September period when we're hoping for a miracle to emerge somehow from Congress and the White House working together, is that a plausible hope or is it a pipe dream?

CONGRESSMAN BEYER: Yes, there have been good things this year: two major cybersecurity bills, the doc fix, Trade Promotion Authority. Not everything, but

something. And so, what we have to do is come back next week and on things like the transportation bill, on the budgets, get those same type of coming-together fixes.

MR. O'HANLON: Next question? Yes, sir, here in the tenth row or so? Then I'll work back.

MR. CLARK: Yes, Charlie Clark with *Government Executive*. Secretary Hale, this workforce of the future plan, I understand they want to reclassify some civilian jobs and I'm wondering if there might be obstacles from the unions or OPM. I was wondering if you could address that.

MR. HALE: Well, I'm not familiar with the details of this, I have to say, so I don't want to go too far other than to say DOD employs nearly half of the civilians in the entire federal government. I would hope that they would have some clout to deal with the unions.

And I might add I didn't say much about this in the paper, but the unions actually did work with the Department of Defense during the worst of these times, sequestration and furloughs. And they didn't have any authority to stop them, but they did have authority to make DOD's life difficult and they did, I think, work -- they realized that the department faced a crisis in budgetary terms in 2013 and I was pleased that they worked with us. And I'd hope they'd do the same if they are brought in and discussions are had with them on any reclassification or other changes that could improve the Civil Service, but I'm afraid I can't give you any details.

MR. O'HANLON: Yes, standing in the far back?

MR. HERSHEY: Thank you all very much. Loren Hershey, an attorney and formally a guest scholar here back in 1986, a different era, different issues.

A two-part question for Congressman Beyer. I'm not your constituent,

but I do live in Virginia. I've known you since 1988, approximately. Talk about the Virginia Delegation on these issues. Where do you see leadership on the other side of the aisle within the Virginia delegation, where eight to three Republicans to Democrats?

A question for all three of you, if you would each think about it. At the debate on September 16th and the Democratic one in October, what question would you like the candidates to be answering with respect to these issues if you could formulate that question? Thank you.

MR. HALE: You start, it'll give me time to think.

CONGRESSMAN BEYER: Okay. On the Virginia delegation, it's interesting how people have their different niches. You know, Randy Forbes, obviously is the Navy guy at the Virginia delegation, but I think that the two most thoughtful: Gerry Connolly, obviously as a Democrat, ranking on Oversight and Government Reform, very good on federal government issues, very good on budget issues. He led the procurement reform on IT, and Gerry's a real keeper. Now, on the Republican side, Rob Wittman is very thoughtful and has said many, many different things in government and, once again, I think brings a good perspective to the whole process.

MR. HALE: I'll take a shot at your second question. And that is, if it were a perfect world, I would like to see the debates actually address broadly -- I understand they can't get to details -- their willingness to compromise on issues like growth and entitlement spending and perhaps increases in taxes. I mean, I know as I say it how many on the Republican side, and some on the Democratic side, would treat that question, but I'd like to hear that discussion get started. And there are some people on both sides that certainly understand, and I think Clinton does, I think Kasich does and Jeb Bush, and others as well, so we could hope for that.

I would settle for a commitment that we need to achieve some stability in federal budgeting and that would mean, in my mind at least, a two-year budget deal of smaller or lesser proportions that gets some stability so that we don't continue this budgetary chaos that has afflicted us. I'd settle for that.

MR. O'HANLON: I'll just add one point, since you asked all three of us. And I think that this is, again, a wonky, inside-the-Beltway point coming from me. Not surprising. But I think the whole domestic discretionary budget is just a morass to many people. It's just too complicated and it's seen as the place where we fund, you know, bumblebee reproductive practices in space or whatever. You know, pick your worse abuse or whatever else. And, in fact, it's what funds infrastructure, it's what funds science research, it's what funds health research, all sorts of various kinds of efforts to promote diversification of our energy, which are controversial, but, nonetheless, I think, relevant. It funds long-term environmental sustainability, which is crucial for our agriculture and our quality of life.

I'm not saying you should love every program within that broad morass, but I would like to see candidates show they at least understand the different pieces and help the American people understand the different pieces. Because I'm a defense strategy and budget guy, but to me that part of the budget is just as relevant to American national power as DOD, and yet I don't think it gets the attention, partly because it is so confusing. There's so many little things within it that are hard to talk about, but it's not impossible. And there are really 6 or 8 or 10 big things that I would like to see candidates at least pick a couple and say, this is what I'd like to do within 1 or 2 or 3 of them. I think that's a realistic goal and it would help with the education of the American people as we all think through what future budget plan would be optimal for us.

MR. HALE: I'd just add to that, it also funds on the non-defense side. The Department of State, which we need -- I mean, we prefer diplomacy, I think all of us would. It funds the Department of Homeland Security, which we need to maintain internal security, and it funds the Veteran's Administration, which is clearly directly related to national security; and others, as well. So, in addition to the good examples that Mike gave, there are many that I think directly or indirectly affect national security.

CONGRESSMAN BEYER: Including our investment in cybersecurity, which as we've seen with the OPM breach is an enormous national priority right now, but will not be inexpensive.

MR. O'HANLON: Yes, sir? Back there, about the tenth row, yeah?

MR. OAKLEY: Tom Oakley, National Economist Club. And let me just clarify that I did buy a Volvo from you --

CONGRESSMAN BEYER: Thank you very much.

MR. OAKLEY: -- so I guess indirectly I'm a donor. So my question is, what happens when these budgets get high and you see the internecine rivalry between the forces fighting over budget, and how does that get adjudicated?

And we've seen a lot of "the sky is falling" stuff last year from the Army and that didn't seem to work, so I just wanted to know how this plays out because you definitely see the tension rise in the budgeting cycle now.

CONGRESSMAN BEYER: I confess, I took office January 6th. I haven't been through it yet, but as near as I can tell, trying to pay attention, at the committee level -- first of all, the Budget Committee, there will be lots and lots of fights and people will be waiting for one or two people to come up with an interesting idea. That can surface, it can get up to Boehner and to Nancy Pelosi.

And by the way, it's not just Democrat versus Republican. It's often the House versus the Senate, because we've seen the difference between the Republican Senate budget and the House budget was pretty significant, so somehow getting those four leaders into the same room on the same page, and the ability to go back to the caucuses. I think John Boehner's got the toughest job in Washington right now because he's got 245 Republicans, but 40+ of them belong to the Freedom Caucus, who cannot be trusted to be with him on any given issue. It's very hard.

MR. HALE: Let me just add a thought. I haven't been through a national negotiation, not personally, but I did work for Leon Panetta, who's been through a bunch of them. And he was fond of saying -- it was usually more colorful than I will be about it -- but he was fond of saying, look, you pick some people you trust, you stuff them in a room, you give them pizzas and you tell them they can't come out until they get a deal.

And it was his way of saying that there has to be a forcing function. There has to be urgency. You may give them some broad guidance, but in the end they're going to have to work out the details. And then when they do that and they've convinced the senior leaders, you've got to sell it to the members of the House and the Senate. All of this is hard, but it's doable.

And I don't want to be too pessimistic. It's always darkest just before the dawn. I mean, we've seen two of these deals in the last five years and I think if you'd gone back to the times before the American Taxpayer Relief Act and the Bipartisan Budget Act you would have heard many of the same words. Oh, we can't do it, we can't do it. I think we can, I hope we do, but I'm not as confident as I was a few months ago that it's going to happen.

MR. O'HANLON: I'm going to add one point, too, because you

mentioned the word "Army" and you mentioned the word "urgency," and you talked earlier about why the Army couldn't train properly in 2013. I want to drive this point home because for a lot of people, they may say, well, big deal. The Army didn't train as hard that summer, they could probably use a break anyway. Half of them have been fighting wars for the last few years and they could make up for it later. No. They can't make up for it later because here's the thing: if you skip these rotations at the National Training Centers in Louisiana or California, these are the big events that Army brigades prepare for, as you may know better than I, they prepare for over the period of a couple of years as that unit really gets ready for that deployment.

The training centers can only handle so many brigades at a time. It's a multi-week effort and it really is meant to be the thing that ties all the different pieces of the U.S. Army together. This is what got us good in the '80s. This is what the Army figured out, coming out of Vietnam, that it needed to do: realistic training with these culminating big events. And we stopped doing them because of sequester last time, we really stopped.

And you might say, well, we'll do them later. No, the National Training Centers don't have the capacity to just cycle people through. Plus, the soldiers themselves move on.

So if somebody is a lieutenant at one point in their career, they have one opportunity to a National Training Center rotation when they are a lieutenant. If that unit doesn't go, then they move on to some other job, maybe it's a desk job. Maybe they don't go back until they're a captain, four years later. A totally different set of responsibilities, never having done what the lieutenant was supposed to have done, so with less experience and knowledge of how the system and the unit's supposed to

perform. It is really bad practice to stop these Army units from doing brigade-level training. And that's what happens with these unexpected shutdowns, showdowns, and I think, potentially, even continuing resolutions, although that may be, depending, as you said, on how it happens. You may be able to protect more of it with that mechanism.

CONGRESSMAN BEYER: I was actually at the National Training Center just a couple of weeks ago and I'd underscore what you said, it's good training. And as a culminating training event, we need very much to protect it. I know the Army wants to.

MR. O'HANLON: Next question? Here in the front?

MR. EGAN: Hi. I'm Liam Egan, I'm from the Charles Group. I'm an intern over there. For your proposed two-year budget, what do you see happening if that doesn't happen for the Department of Defense and, specifically, for the National Guard?

CONGRESSMAN BEYER: Well, as I mentioned before, if we really don't get a two-year deal, my next preference would be that Congress actually appropriate at the cap level. At that point the law will require that DOD funding and other federal agency funding come down to the Budget Control Act cap. That's about \$500 billion for fiscal '16. Better to appropriate at that level so that DOD has the right authorities, so that Congress, perhaps with advice from DOD, makes the decisions about what not to do, including the Guard.

The worst event would be a true continuing resolution with no special authorities. I think that would be worse. I'd rather see an appropriation bill.

The Guard is coming down modestly in size right now. I assume that is likely to continue, at least the administration will propose it. Congress has some reservations, as you're probably well aware. I don't think there would be -- I think what you would see if they had to come down to the cap level is some tightness on training

monies. I don't think they would probably accelerate the drawdown because if we make this decision and things are tight, it'll b only for fiscal '16, and DOD will want to stay around to fight again in fiscal '17. So I would expect tightness on training.

Money is already pretty tight in the Guard and elsewhere on training, so that would be a bad thing, but I guess I wouldn't anticipate an acceleration of the drawdown.

MR. O'HANLON: Care to comment on that one?

MR. HALE: No.

MR. O'HANLON: Okay, right here in the third row, please? And then after that, back there.

MR. STYMON: Hi. Don Stymon from Product Knowledge. A question addressed to both of you, and Congressman, if you could talk to it from the industry perspective, and Mr. Hale from the building's perspective.

Within the framework of sequestration and drawdown and the reduced finances that go into that, we've spoken about morale and relationships that exist today. How do you see the conversations and the relationship between industry and the building in the current environment in moving forward?

CONGRESSMAN BEYER: You know that, first off, DOD depends critically on the private sector to maintain national security and it should. They build the weapons, they produce many of the smaller products that DOD depends on. You know, something on the order of half of the entire defense budget goes to private sector firms.

I think there's still a reasonable relationship there. I'm not the very best person to answer this, but I'll take my best shot. A pretty good relationship, these companies depend on DOD, but as I just said, DOD depends on them.

Will it be frayed at the edges if we go through another shutdown? Yes. I think they were frustrated. I did some interviews of industry people -- not a lot, but some --- in connection with this paper. They were frustrated, they didn't have clear guidance, as what happened during shutdown. If we have to go to a lower budget level, down to the cap level rather than the president's proposal, we'll have to cut back on buys and that would be frustrating.

Do I think that it will strain the whole fabric of that relationship? No. I think it will -- they need us and we need them, and I think for that reason that relationship will survive, but there will be some strains. I don't know if I've answered your question.

MR. STYMON: I was thinking a little bit more related to (inaudible) better buying power initiatives --

CONGRESSMAN BEYER: Right.

MR. STYMON: -- and (inaudible) that perspective.

CONGRESSMAN BEYER: So it's certainly -- if we end up taking a budget at \$535 billion, I think it was, and bring it down to \$500 billion, we're going to have to make major changes in buy sizes of weapons. A lot of the growth in this budget was in procurement because, frankly, we have cut procurement a lot, or DOD cut it a lot, as the drawdown occurred because it takes time to reduce the number of DOD employees and save money on the personnel side. And the fiscal '16 budget began to redress that to get back to a more balanced program.

A lot of that's going to have to go if we end up going to the lower level, so it will harm better buying power because it's inefficient to produce at these lower rates. And I think in the strained environment that will surely be there, as some of the agreements that Frank and others have been able to sustain, will be frayed, also. But, as

I say, we need them and they need us. I think this relationship will continue.

MR. HALE: Three quick points. The first is my experience of the big guys -- Lockheed, Boeing, General -- they're all adapting like crazy to the Budget Control Act, to this new world in which we live. They're very much for getting away from LPTA. Everybody hates that and everybody's looking forward to what Mac Thornberry and others will do with procurement reform, specifically within defense.

Part two is they're all adapting. And I'm fascinated that LEIDOS right now, for example, their big growth area is in medical technology. Northrup Grumman got it, you walk into it, they have a huge thing on climate change and what it's going to do to Norfolk.

And part three is it will be interesting to see what Ash Carter's visit to Silicon Valley ultimately brings up or Wes Bush's pushback that all those millennials who like to work in coffee -- in the middle of the morning have no idea about government contracting or what it takes to do multiyear big systems. They're really good at apps, but what relevance do apps have to this?

And I'm not weighing in, but it's going to be a fascinating debate.

CONGRESSMAN BEYER: You've got to have it, too, as a theoretical physicist and a major in medieval history, that's not the right background. (Laughter)

MR. O'HANLON: Yes, ma'am? There in the sixth row.

MS. BALLINGER: Catherine Ballinger, former military construction analyst in DOD. I have two questions and you can answer the one you want.

One is, with the development of ever-increasing sophisticated weapons platforms, they seem to be crowding out other procurement programs. And I'm thinking of JSF, which is now the largest procurement program, to be followed by Ohio Class

Replacement. How do you afford both of these without an increased procurement line, which, again, with caps means you have to spend less in other appropriations?

The second question was, when Secretary McNamara introduced the planning/programming/budgeting system 50-something years ago, it was supposed to modulate the annual planning that the services had done previously. Fifty-five years later, is there something else we can do to be more agile because the services start planning and programming 18 months before the budget's submission?

MR. HALE: Well, let me try the first one first, the crowding out problem. If we do live under the caps, I think you're exactly right, we will have to take a number of steps to accommodate a higher JSF buy. We've got a bomber out there, we've got the Ohio Class Replacement, we haven't bought much for the Army in the way of major weapons for years, so there's probably a ground combat vehicle and a number of others.

Typically, what we do in highly constrained budget environments is not very efficient, and that is you stretch all of the programs out. And I'm afraid that we would see that happen again. And, also, we will probably have to try to move money, or DOD will, from other areas of the budget, things like military construction, although, frankly, they've cut that a lot already in order to get money in procurement.

I don't want to give up with the notion. I think given the state of the world, there's -- and I know this will sound strange sitting here in September 2015, but I believe that if you look out over five years, there's some chance that we'll see some further increases in the defense budget, maybe even above the PB-16 level.

I say that for two reasons. One, the defense budget is notoriously cyclical. And I think in the sixth year of the real drawdown in the total budget -- there have been longer drawdowns, but only one to my knowledge -- it would not be surprising

to see that turn around. And the other is the state of the world and defense budgets are clearly influenced by threats to national security. And between ISIL and North Korea and probably what will be some continuing problems in Iran, and who knows what else, I think those threats remain quite high. So I think there's some chance of some added funding and the department will have made some personnel drawdowns, hopefully we'll allow it to pump some more money into procurement.

On the planning side, the biggest thing -- I'm actually an advocate for the Planning, Program, and Budgeting System. It has many critics and legitimately so, but I think it does bring all of -- everybody gets a chance to have a say. I think the biggest problem with it right now is that we don't know what we're planning for. You always have some uncertainty about out-year budgets, but the uncertainty now is quite broad and it's not just about out-year budgets, it's about this year's budget or the fiscal '16 budget.

I think the biggest thing we could do to improve the effectiveness of PPBS is get some consensus in the country about defense for more than a year in advance, so that the planners and the programmers have the opportunity to shape a budget and then actually execute it, or something close to it.

I don't know if that answered your question.

MS. BALLINGER: It does.

MR. HALE: Thank you.

MR. O'HANLON: Congressman? Nothing to add?

CONGRESSMAN BEYER: No, no, he's --

MR. O'HANLON: I'm going to add one small saying, which is on the two programs you mentioned specifically, the F-35 and the ballistic missile submarine replacement. I think these are programs that the size, shape, and purpose can be

debated and should be debated. And I'm not completely in lock-step with the Pentagon on either one, you know, just as one opinion, especially on the SSBN. I don't think we need 12 new submarines costing \$6 billion each.

However, whether you agree with me or the Navy, the point is that what I would say in the context of today's conversation, the current shutdown debate serves no purpose in relation to that conceptual and strategic conversation. It distracts from it. So to the extent that we should be debating more, what do we do if Putin even further intensifies his aggressions in Eastern Ukraine, or what do we do about the issues you raised?

We can't have that conversation as easily because we're going to consume the oxygen more with an unnecessary, self-imposed crisis. To me that's one of the lessons, also, Bob, that comes out of your paper, is the amount of senior-level time, congressional time, that's spent on these unnecessary showdowns. That's an editorial comment.

In the back?

MR. BOOKER: Hi. Ben Booker from the Reserve Officer's Association. So my question is kind of a follow-up to the question earlier about the National Guard. I'm just wondering, as we see this turmoil on the budget and cutdowns and drawdowns with personnel, the Army probably being the biggest example, I was wondering if the Reserve component is going to be used more and more to fill in the gaps, as you were talking about. There's still threats abroad. I was wondering if there's going to be more pressure and responsibility placed on the Reserves at that point.

And then the second follow-up question to that is, do you think that will affect retention and recruitment within the Reserves and the military personnel more

DOD-2015/09/02

broadly? You were talking about struggles with morale within the civilian sector. I was wondering if that played out at all within the other military personnel, as well.

MR. HALE: So I'm amazed at what the Reserve components have done since 2001. And if I could date myself -- you can tell by the color of my hair I've been at this a while. I go back to the Thomas-Gates Commission that set up the all-volunteer force, which essentially said, you know, one thing an all-volunteer force won't be able to do is fight a long-term war because in a volunteer environment we wouldn't be able to mobilize the Reserve component sufficiently. Well, they proved that wrong, I think, and you should be very proud of what they've contributed over the last 10 years.

Actually, I think that probably because we're heading into a period where, at least at the moment, we have no major wars going on, there will probably be relatively less use of the Guard and the Reserve. And probably also the active, at least to some extent, although they are more involved in the day-to-day problems in Ukraine and Eastern Europe and others. And there will probably be some drawdown in the Reserve components. There's modest ones planned in the Army, although it's contentious, but I would expect that there would be some drawdowns there.

But I don't see us moving away from a fundamental dependence on the Reserve components, both to augment the active forces during very busy peacetime periods, but particularly to augment them if we find ourselves in a major contingency. I think they've proven that they can do it and they should be proud of that and I think we'll continue to depend on them.

MR. O'HANLON: Congressman?

CONGRESSMAN BEYER: Not Reserve-specific, but connected to this is the impact of the Budget Control Act and the shrinking defense or more slowly growing

defense budget on military benefits in general. In the commission we have many, many active duty and retired military living just across the river, and all of them -- many of them -- worry at least about PX, about the commissaries, about contributions. The new discussion about do you have to serve 20 years in order to qualify for the military pension? Or how do you do this for somebody serving 8, 10, 12, or 19 years?

It's very complicated when one looks at overall what we spend. A huge part of defense is spent on personnel. And at the same time, trying to integrate that with -- just a personal experience: I was at a food bank in Lorton about three weeks ago and the majority of the people we saw in the food bank were military families, wives with kids in tow, who come in saying that they're not paid enough to support the family. And these are PFCs and the like.

MR. O'HANLON: Other questions? Got another -- got a repeat questioner in the back.

MR. HERSHEY: Loren Hershey. Thank you for allowing me a second question. Climate change was raised and you said, I believe, Congressman Beyer, that General Dynamics was the firm that was paying a lot of attention, or one of the other majors. But there is, as I learned recently, in Virginia, down in the Tidewater area, a lot of flooding that is going on and apparently a national security cost to be incurred and so -- is it Mr. Hale or Dr. Hale? I'm sorry.

MR. HALE: Mr. Hale's fine.

MR. HERSHEY: Thank you. Has somebody looked forward over a long-term horizon to see how this rising seawater is going to actually affect our naval bases around the United States and around the world, as well?

MR. HALE: Well, somebody probably has, but it wasn't me, and I'm not

aware of the outcome of that. (Laughter) Can either of my two colleagues help with it?

CONGRESSMAN BEYER: Loren, at Northrup Grumman's presentation, right off their lobby that actually looks at Norfolk, because of the naval base there, and it takes data back on surges from 1910 through today and draws the straight line and says that that base by 2050, so 35 years from now, basically all of Portsmouth and all of Norfolk will be underwater at surge time.

And I continue to try to make the climate change argument in the Congress, which is not always a friendly place to do it, that it's best to come back to the military stuff because there have been many military leaders in the U.S. Government for years talking about the potential for climate change to incite conflict around the world. One of the things that usually goes unsaid in Syria is that the initial part of the Syrian conflict had to do with migration based on drought.

MR. O'HANLON: I think I'm going to ask one last question and invite each of our panelists to add any answers, but also any final concluding thoughts. And it's going to come back to this question of what kind of a deal could possibly avert the train wreck we could be headed for? I know you may not want to talk about that, not being one of the negotiators, so you'll get a pass if you prefer, Congressman.

But let me hypothetically put this on the table. We all know that the Murray-Ryan plan allocated roughly comparable amounts of money for defense and non-defense. Part of this debate in 2015 has been the president saying I want to do that again, and the Congress saying, no, the Pentagon needs it more than the domestic side, and we'll use the OCO account, the war supplementals, to help the Pentagon and not help the other parts of government.

And that's the philosophical debate each side thinks it can win. And you

sized up the political arguments a little bit ago. Each side thinks they can win taking it to the voter. It sounds like the spirit of our conversation is take it to the voter next year and, in the meantime, do good governance.

I don't want to put words in your mouth, but wouldn't a reasonable compromise be to add, let's say, the \$35 billion to the Pentagon budget that the Pentagon wants and add half as much to the domestic side? So it's a literal mathematical compromise on the fundamental dispute. It leaves aside all these other issues, which may actually be the driver. It may be more Ted Cruz wanting an issue, or the Planned Parenthood thing or some other partisan political matter tied to presidential politics, or something else. But if you were just trying to solve this on the mathematics of the budget, wouldn't that be the kind of proposal that might be a meeting halfway?

So, if you could comment on that. And, Bob, I'll start with you since you're now out of government and you can just opine like I can and Congressman Beyer has to worry about where he sits on the Hill. But any other concluding thoughts you want to bring into the discussion here, as well, please?

MR. HALE: Okay. Well, you know, I'm not prepared. As we've discussed here, there's some very important aspects of non-defense funding. They affect national security and many other programs, and you've done a good job.

Roughly, defense is about equal. It's a little bit bigger, but not a lot than the non-defense side. I'm not prepared to say we ought to go to a formula of half non-defense and full for defense. I would like to see some negotiations. If it yielded that result, I think I could probably live with it, but I'm not prepared to endorse it at the moment.

There will be another aspect any budgetary negotiations it will be

important in, and are these paid for through offsets? Both the past two deals -- American Taxpayers Relief Act and the Bipartisan Budget Act -- did have offsets and changes in some fairly obscure entitlements, and fee kinds of changes. So I think that would be another important thing that's going to have to be a part of negotiation.

But I think I'm of the Leon Panetta school. Put them in a room, give them the pizzas, pick people you trust from the leader or have the leadership pick people they trust, and tell them they've got to come up with a deal.

I'll offer one administrative comment and then a final -- and then a parting shot from me. The administrative one is, if any of you are interested in further contact with me on the paper, Kimberly West is here -- stick your hand up, Kimberly -- from Booz Allen Communications, if you get ahold of her.

On the substantive side, so you rarely get to write your own headlines. Never, actually, if you're in government. But if I was picking one for this, for me, it would be: "Former DOD Comptroller Pleads for End to Budgetary Chaos." (Laughter) We need it badly and I hope I've made that clear in the paper and in my remarks today. And I can only hope that we see that during this next couple of months, or at least a mitigation of the budgetary chaos. Don't you?

CONGRESSMAN BEYER: Thank you for offering a constructive approach because what the president has said is that it's not acceptable to skip the budget caps for defense using the OCO trick and do nothing for the domestic side, you know, that there has to be some middle ground.

And I'd just as soon a budget compromise that addressed revenues, also. As Dave Camp's proposal last year coming out of Ways and Means, there are many ways we can increase revenues without increasing the rate. There are so many

budget gimmicks and the like that they give us that opportunity.

And thank you, it's a great headline. I enjoyed being with you, Bob.

Michael, thank you so much.

MR. HALE: Same here.

CONGRESSMAN BEYER: And thanks for giving us some encouragement and some education as we try to press forward.

MR. O'HANLON: And we wish you the best as you go into this big month for the Congress and the country, so thank you both for being here. (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