

Opening Summary -- SAC-D (Budget Request)

As Delivered by Secretary of Defense Chuck Hagel, Washington D.C., Tuesday, June 11, 2013

Chairman Durbin, Ranking Member Cochran, distinguished members of the subcommittee, thank you for the opportunity to discuss the President's F.Y. 2014 budget request for the Department of Defense.

I also appreciate this subcommittee's continued support of our men and women in uniform and our civilian work force and their families. As we discuss numbers, budgets, and strategic priorities, we will not lose sight of these men and women serving across the globe. As you all know, their well-being depends on the decisions we make here in Washington.

The President has requested \$526.6 billion for the Department of Defense's F.Y. 2014 base budget and \$79.4 billion for overseas contingency operations (OCO).

My written statement, Mr. Chairman, as you know, contains details on both budget requests. This morning, allow me to, very briefly, focus on three areas before I take your questions:

- first, the continued budget challenges facing the Department in F.Y. 2013 as a result of sequestration, as you have noted as well as Senator Cochran;
- second, the Department's F.Y. 2014 budget request;
- and third, how the Department is preparing for the future budget uncertainty and the prospect of further reduced resources as a result of sequestration.

As you all know, the Department has been forced to implement deep and abrupt cuts in the current fiscal year because of sequestration. According to the latest guidance from the Office of Management and Budget, the Department must cut \$37 billion in spending through the remainder of this fiscal year.

With our internal decision to shift the impact of sequestration away from those serving in harm's way and force readiness, the cuts fall heavily on DOD's accounts that train and equip those who will deploy in the future. The Department is also experiencing higher wartime costs than expected. As a result of these factors, the Department is facing a shortfall of more than \$30 billion in our operation and maintenance (O&M) account for F.Y. 2013.

To deal with the shortfall, the Department has cut back sharply on facilities maintenance, instituted hiring freezes, cut overhead spending, reduced important, but lower priority programs, directed furloughs of nearly 700,000 civilian employees, and submitted, as you have noted, a \$9.6 billion reprogramming request to Congress. And we ask this subcommittee for your assistance in providing rapid review and approval of this critical reprogramming request.

Given the scale of this shortfall, the reprogramming and other steps we've taken to cut nonessential spending are not enough. While we have protected spending to sustain the war effort and defend America's vital strategic interests, the Department's day-to-day activities will be significantly disrupted for the remainder of this fiscal year.

Each of the military services has begun to significantly reduce training and maintenance of non-deployable operating forces. As you have both noted, you have had the Chiefs before this committee, and they have made some very significant detailed presentations and accounted for these cuts. For example, the Army has stopped rotations at its key combat training centers for all but deploying units. More than a dozen combat coded Air Force squadrons either, already have, or will soon stop flying, and the Navy has curtailed many deployments.

To avoid even more significant reductions to military readiness, I directed furloughs of up to 11 days for most of the Department's 800,000 civilian personnel. Mr. Chairman, I made this decision very reluctantly. I made it decision reluctantly, because I recognize the significant hardship this places on civilian personnel across our country and especially on their families. But the current budget environment is requiring difficult decisions and options.

Now, let me turn to F.Y. 2014. The President's F.Y. 2014 budget continues to implement the \$487 billion in spending reductions over the next 10 years agreed to in the Budget Control Act of 2011. If the sequester-related provisions of the Budget Control Act are not changed, F.Y. 2014 funding for national defense programs will be subject to an additional \$52 billion reduction in DOD funding. And if there are no changes, continued sequestrations will result in roughly \$500 billion in additional reductions to defense spending over the next 10 years.

The President's F.Y. 2014 budget replaces sequestration and gives the Department the time and flexibility to plan and implement spending reductions wisely and responsibly.

In particular, this budget enables the Department to support troops still at war in Afghanistan, protect readiness, modernize the military's aging weapons inventory in keeping with the President's strategic guidance and sustain the high quality of the all-volunteer force that you noted that was in General Dempsey's speech at the National Press Club.

This budget also continues the Department's approach of the last couple of years of targeting growing costs in support areas like overhead, acquisition and pay and benefits.

Over the next five years, DOD has identified \$34 billion in new savings across these categories. This includes weapons program restructuring and terminations that will achieve \$8.2 billion in savings, slowdowns in military construction and reductions in other lower priority programs. Our military compensation package preserves DOD's world-class pay and benefits while putting our military on a more sustainable path to the future. It includes changes to the TRICARE program to bring the beneficiaries' cost share closer to the levels envisioned when the program was first implemented.

The Department of Defense also must be able to eliminate excess infrastructure. The President's F.Y. 2014 budget requests authorizations for one round of Base Realignment and Closure (BRAC) in 2015. BRAC, as we all recognize, is an imperfect process. And there are upfront costs. But in the long term, there are significant savings. The previous rounds of BRAC are saving \$12 billion annually. We cannot justify to continue funding unnecessary infrastructure when we are reducing our force structure. Since 2003, DOD has divested more than 100 foreign bases and operations, and we are on schedule to close or consolidate over 20 more overseas operations.

Although there are clearly opportunities to achieve significant savings by improving efficiency, consolidations and reducing overhead, the scale of the current spending reductions will also require cuts and changes to military operations.

The fiscal 2014 budget request seeks to further align budget programs with the budgets of the President's defense strategic guidance. While continuing to reduce the size of the ground forces and retire aging aircraft and ships, this budget invests in key elements of our defense strategy, including implementing our rebalance to the Asia-Pacific region, maintaining a safe, secure and effective nuclear stockpile, increasing investment in cyber-capabilities and sustaining the growth of special operations forces.

Finally, this budget seeks to preserve a combat-ready force and sustain the high-quality, all-volunteer force.

Last point, the F.Y. 2014 budget reflects DOD's best efforts to match ends, ways and means during a period of very intense fiscal uncertainty. It is obvious that significant changes to the Department's top line spending would require changes to this budget plan. Consequently, I directed, as you have noted, a Strategic Choices and Management Review in order to assess the potential impact of further reductions and plan for those continued reductions. I have received the initial internal results of this review and I am currently reviewing those options and those choices.

The Defense Department will continue to find new ways to operate more affordably, efficiently and effectively. However, as I've stated, continued cuts on the scale and the timeline of sequestration will require significant reductions in military capabilities and the scope of our activities around the world.

The President's F.Y. 2014 budget sustains our military strength in an environment of constrained resources, giving DOD the time and the flexibility to make the necessary reductions and adjustments over a ten year period.

Hard choices, Mr. Chairman, will have to be made over these next few years. In the past, many modest reforms to personnel and benefits, along with efforts to reduce infrastructure and restructure acquisition programs were met with fierce political resistance, and they were never implemented. We are now in a different fiscal environment. New realities are forcing us to more fully confront these tough and painful choices. And to make the reforms necessary to put this Department on a path to sustain our military strength for the 21st century and meet these new and complicated threats we will have to do things differently. This will require the continued partnership of Congress.

Thank you.

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