



U.S. Department of Defense
Office of the Assistant Secretary of Defense (Public Affairs)

Speech

On the Web:

<http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1527>

Media contact: +1 (703) 697-5131/697-5132

Public contact:

<http://www.defense.gov/landing/comment.aspx>

or +1 (703) 428-0711 +1

Statement on Department Budget and Efficiencies

As Delivered by Secretary of Defense Robert M. Gates, The Pentagon, Thursday, January 06, 2011

Today, I am announcing a number of decisions and measures that mark the next major step in this Department's reform agenda.

First, I will provide an update on our efforts – within the military services, and in the Department as a whole – to generate efficiency savings by reducing overhead costs, improving business practices, or culling excess or troubled programs.

Second, I'll summarize the substantial investments that the military departments will be able to make in high priority capabilities and programs – investments made possible by the savings identified by the service leadership;

And third, I will describe how these reform efforts – if followed through to completion – will make it possible to protect the U.S. military's size, reach and fighting strength despite a declining rate of growth – and eventual flattening – of the defense budget over the next five years.

I believe it important to present all of these interconnected changes in full and in context, so my opening remarks will be long. And I want to thank you and Admiral Mullen for your patience in advance. Copies of this statement will be passed out following the briefing.

At the outset, I want to emphasize that while America is at war and confronts a range of future security threats, it is important to not repeat the mistakes of the past by making drastic and ill-conceived cuts to the overall defense budget. At the same time, it is imperative for this department to eliminate wasteful, excessive, and unneeded spending. To do everything we can to make every defense dollar count.

As a reminder, over the last two defense budgets submitted by President Obama, we have reformed and rebalanced the department's spending habits and priorities, curtailing or cancelling troubled or excess programs that would have cost more than \$300 billion if seen through to completion. At the same time, we increased investments in proven capabilities most relevant both to the current wars and to the most likely and lethal future threats. This follows the overall approach to budgeting set by the President: use precious taxpayer dollars to invest in key priorities critical to the core mission while cutting or reforming programs that are outdated, duplicative, or ineffective.

At this point, I should note the failure of the Congress to pass a defense appropriations bill for Fiscal Year 2011. Operating at significantly reduced funding levels under a continuing full year resolution would cause this department severe problems, likely requiring us to curtail critical activities needed to support our troops and carry out our national security mission.

Last spring, in recognition of the fiscal pressures the country is facing, we launched a comprehensive effort to reduce the department's overhead expenditures. The goal was – and is – to sustain the U.S. military's size and strength over the long term by reinvesting those efficiency savings in force structure and other key combat capabilities.

The military services were instructed to find at least \$100 billion in savings that they could keep and shift to higher priority programs. Under Secretary Ash Carter also launched an effort to get better value and results in the contracting arena for defense goods and services.

Then in August, I announced a set of initiatives aimed at reducing overhead costs and improving efficiency across the department as a whole – with special attention to the massive headquarters and support bureaucracies outside the four military services.

First, the military department savings.

To achieve the savings targets set last year, the uniformed service leadership conducted a thorough and vigorous scrub of our military's bureaucratic structures, business practices, modernization programs, civilian and military personnel levels, and associated overhead costs – identifying savings that totaled approximately \$100 billion over five years.

The Air Force proposed efficiencies measures that will total some \$34 billion over five years. Among those proposals are:

- Consolidating two air operations centers in the U.S. and two in Europe;
- Consolidating three numbered Air Force staffs;
- Saving \$500 million by reducing fuel and energy consumption within the Air Mobility Command;
- Improving depot and supply chain business processes to sustain weapons systems, thus improving readiness at lower cost; and
- Reducing the cost of communications infrastructure by 25 percent.

The Army proposed \$29 billion in savings over the five years. These include:

- Reducing manning by more than 1,000 civilian and military positions by eliminating unneeded task forces and consolidating six installation management commands into four;
- Saving \$1.4 billion in military construction costs by sustaining existing facilities; and
- Beginning consolidating the service's email infrastructure and data centers, which should save \$500 million over five years.

The Department of the Navy proposed savings of more than \$35 billion over five years. Those measures include:

- Reducing manpower ashore and reassigning 6,000 personnel to operational missions at sea;
- Using multi-year procurement to save more than \$1.3 billion on the purchase of new airborne surveillance, jamming, and fighter aircraft;
- Disestablishing staffs for submarine, patrol aircraft, and the destroyer-squadrons plus one carrier strike group staff.

The Navy also proposes to disestablish the headquarters of Second Fleet in Norfolk. During the Cold War, this command had distinct and significant operational responsibilities. Today its primary responsibility is training and mission preparation, a function that will be transferred to the Navy's Fleet Forces Command. This change would affect approximately 160 military positions. And no ships will depart Norfolk as a result.

Now let me turn to DoD-wide savings.

We also examined how the department is staffed, organized and operated as a whole. Special attention was paid to those DoD headquarters, administration and support elements outside the four military services – the Office of the Secretary of Defense, the Joint Staff, the Combatant Commands, and the defense agencies and field activities – all of which have seen significant growth in budget, staff, and contractors over the last decade. This effort – combined with a government-wide freeze on civilian salaries – has yielded about \$54 billion in additional savings over the next five years – savings that include, with some very limited exceptions, a DoD-wide freeze on the number of civilian positions. Several actions do not require budgetary approval and we will begin implementation immediately

First, reforming how the department uses information technology, which costs us about \$37 billion a year. At this time all of our bases and headquarters have their own separate IT infrastructure and processes, which drive up costs and create cyber vulnerabilities. The department is planning to consolidate hundreds of data centers and move to a more secure enterprise system, which we estimate could save more than \$1 billion a year. At the same time, I am not satisfied with the progress we have made in this area since August, and expect to make a follow-on announcement with a specific plan of action by next month.

Second, as I have said before, this department has become far too reliant on contractors to perform functions that should either be done by full-time employees or, in some cases, to staff activities that could – and should – be discontinued. As a result of the reviews conducted since August, several DoD components are moving ahead with significant reductions in contractor staff support. For example, OSD's Policy division and Acquisitions, Technology and Logistics office between them will cut nearly 270 contractors, the Defense TRICARE Agency more than 780, and the Missile Defense Agency more than 360. Overall, we will cut the size of the staff support contractor cadre by 10 percent per year for three years and realize nearly \$6 billion in total savings.

Third, since the beginning of this fiscal year, which began October 1st, we have been operating under a freeze in the number of positions – with very limited exceptions, such as the acquisition work force – within the Office of the Secretary of Defense, the defense agencies and field activities, the Combatant Commands. These entities were also directed to conduct a clean-sheet review to rebalance resources, staff, and functions within and across their components to reflect the department's most pressing priorities. The resulting review produced a number of opportunities to trim the size of the workforce, yielding more than \$4 billion in savings over the next five years.

I will recommend to the President that we hold to these limits in overall DoD staff levels for the next three years. While new requirements may emerge that require further staff support, those needs should be met by shifting personnel from other less important activities within the organization.

Fourth, in consultation with the Director of National Intelligence, we examined the Defense Department's sprawling intelligence apparatus. Since September 11th, the U.S. government as a whole has seen a proliferation of new intelligence organizations, many that are excess and duplicative, many that are spread out among the different services, agencies, task forces of various kinds, and combatant commands.

Based on this review, I have approved a number of changes. They include downsizing the new intelligence organizations that have

grown up around a number of the combatant commands in recent years – most of which are not directly engaged in the post-9/11 military conflicts. In place of having a large, permanent organic apparatus staffed on a wartime level, the department will transition to an arrangement that can surge intelligence support as needed from the Defense Intelligence Agency. The review also found that many intelligence organizations across the department and among military services focus on counter-terrorism and terrorism finance. We will consolidate the various redundant programs into two task forces located within DIA.

Fifth, I have approved the elimination of more than 100 general officer and flag officer positions out of the roughly 900 currently on the books. Of those, 28 are billets that were created after 9/11, primarily for the wars in Iraq and Afghanistan, and they will be reduced as appropriate as major troop deployments wind down. More than 80 general or flag officer billets in the services, OSD, and the Combatant Commands will be eliminated or downgraded. Additionally, I have directed the elimination or downgrading of nearly 200 civilian Senior Executive Service or equivalent positions out of a total of 1,400 civilian executives.

The monetary savings from these reductions in senior personnel will be relatively modest and mostly consist of the extra staff and amenities that by tradition follow high rank. The primary purpose behind this shift is to create fewer, flatter, more agile, and thus more effective organizations.

Sixth, and related, we looked at the department's organizational charts, command structures, force posture and basing arrangements. As announced in August, the Office of the Assistant Secretary of Defense for Network Intelligence and Information, the Business Transformation Agency, and the Joint Forces Command are in the process of being eliminated or disestablished, with a reduced number of their most essential functions transferred to other organizations. In the case of JFCOM, we have identified a number of missions since the August announcement that should be retained in the Norfolk/Suffolk, Virginia area. We are still refining the details, but expect that roughly 50 percent of the capabilities under JFCOM will be kept and assigned to other organizations.

Seventh, another area of focus was European Command. Based on our review, it is clear we have excess force structure in Europe. We are looking closely at alternative courses of action, but none would be implemented before 2015 or without consulting our allies. It is also no longer necessary to retain four-star service component headquarters for the Army, Navy and Air Force in European Command, each of which is too large and too senior given the number of troops they lead and the military operations they oversee. These commands will be reduced to the three star-level, with concurrent streamlining in the headquarters and personal staff. The change to U.S. Navy Europe will take place over a longer period because of that command's unique role in the NATO transformation effort.

Eighth, we are eliminating nearly 400 internally-generated reports that over the years have consumed vast amounts of staff time and energy, often to produce documents that are of questionable relevance, value, and in many cases, have been rarely read. Nearly a third of the total reporting requirements originated decades ago and in some cases date back to the 1950s. Overall, this reduction in DoD's internal reporting burden – about 60 percent of all non-statutory reports – when coupled with a reduction in funding for studies, represents an estimated \$1.2 billion in savings over the next five years. I am instructing that, effective next April, the requirement for any internal report with a commissioning date prior to 2006 will be cancelled. Furthermore, starting in February every report must include the cost of its production.

For all of these DoD-wide initiatives, a major objective beyond creating monetary savings was to make this Department less cumbersome, less top-heavy, and more agile and effective in the execution of its responsibilities. My hope and expectation is that, as a result of these changes over time, what had been a culture of endless money, where cost was rarely a consideration, will become a culture of savings and restraint.

I will now turn to some of the significant program decisions included in the \$100 billion identified by the services for reinvestment that will be incorporated in the Fiscal Year 2012 budget request. Given the variety and complexity of threats America faces, we need a portfolio of affordable, versatile military capabilities that can be produced on a reasonable schedule and in sufficient quantities. So at the same time the military services were digging deep for excess overhead, they were also taking a hard look at their modernization portfolio for weapons programs that were having major development problems, unsustainable cost growth, or had grown less relevant to real world needs.

As a result, the Army has decided to cancel procurement of the SLAMRAAM surface to air missile. The Army leadership also recommended terminating the Non-Line of Sight Launch System, the next-generation missile launcher originally conceived as part of the Future Combat System.

The Joint Strike Fighter program received special scrutiny given its substantial cost, ongoing development issues, and its central place in the future of U.S. military aviation. In short, two of the JSF variants, the Air Force version and the Navy's carrier based version, are proceeding satisfactorily.

By comparison, the Marine Corps' short take-off and vertical landing variant is experiencing significant testing problems. These issues may lead to a redesign of the aircraft's structure and propulsion – changes that could add yet more weight and more cost to an aircraft that has little capacity to absorb more of either.

As a result, I am placing the STOVL variant on the equivalent of a two-year probation. If we cannot fix this variant during this time frame and get it back on track in terms of performance, cost and schedule, then I believe it should be cancelled. We will also move the development of the Marine variant to the back of the overall JSF production sequence. And to fill the gap created from the slip

in the JSF production schedule, we will buy more Navy F/A-18s.

Today, I am also announcing my agreement with the recommendation of the Secretary of the Navy and the Commandant of the Marine Corps to cancel the Expeditionary Fighting Vehicle. This program is of great interest to the Marine community so I would like to explain the reasons behind what I know will be a controversial decision.

The EFV's aggressive requirements list has resulted in an 80,000 pound armored vehicle that skims the surface of the ocean for long distances at high speeds before transitioning to combat operations on land. Meeting these demands has over the years led to significant technology problems, development delays, and cost increases. The EFV, originally conceived during the Reagan Administration, has already consumed more than \$3 billion to develop and will cost another \$12 billion to build – all for a fleet with the capacity to put 4,000 troops ashore. If fully executed, the EFV – which costs far more to operate and maintain than its predecessor – would essentially swallow the entire Marine vehicle budget and most of its total procurement budget for the foreseeable future.

To be sure, the EFV would, if pursued to completion without regard to time or cost, be an enormously capable vehicle. However, recent analysis by the Navy and Marine Corps suggests that the most plausible scenarios requiring power projection from the sea could be handled through a mix of existing air and sea systems employed in new ways along with new vehicles – scenarios that do not require the exquisite features of the EFV. As with several other high end programs cancelled in recent years, the mounting cost of acquiring this specialized capability must be judged against other priorities and needs.

Let me be clear. This decision does not call into question the Marine's amphibious assault mission. We will budget the funds necessary to develop a more affordable and sustainable amphibious tractor to provide the Marines a ship-to-shore capability into the future. The budget will also propose funds to upgrade the existing amphibious vehicle fleet with new engines, electronics, and armaments to ensure that the Marines will be able to conduct ship-to-shore missions until the next generation of systems is brought on line.

Finally, for some time I have spoken about the department's unaffordable health costs – and in particular the benefits provided to working age retirees under the TRICARE program. Many of these beneficiaries are employed full-time while receiving their full pensions and often forgo their employer's health plan to remain with TRICARE.

This should not come as a surprise, given that the current TRICARE enrollment fee was set in 1995 at \$460 a year for the basic family plan and has not been raised since. During this time, insurance premiums paid by the private sector and other government workers have risen dramatically. For example, the fees for a comparable health insurance program for federal workers costs roughly \$5,000 per year.

Accordingly, with the Fiscal Year 2012 budget we will propose reforms in the area of military health care to better manage medical cost growth and better align the department with the rest of the country. These will include initiatives to become more efficient as well as modest increases to TRICARE fees for working age retirees with fees indexed to adjust for medical inflation. Potential savings from these initiatives could amount to nearly \$7 billion over the next five years.

So now let me turn to the areas, having identified \$100 billion in savings in the services, where they are now going to invest those savings from overhead and weak programs. To recap: Approximately \$100 billion was identified by the military services through shedding excess overhead, improving business practices, or troubled programs. Another \$54 billion in savings was generated by DoD-wide overhead efficiencies and freezes in civilian positions and salaries.

Of the \$100 billion identified by the military departments, approximately \$28 billion – will be used over the next five years by the Army, Air Force, Navy and Marine Corps to deal with higher than expected operating costs. These costs include health care, pay and housing allowances, sustainment of weapons systems, depot maintenance, base support and flight hours and other training. Frankly, using the savings in this way was not my original intent or preference, but we have little choice but to deal with these so-called "must pay" bills – and better to confront them honestly now than through raiding investment accounts later.

Nonetheless, the military services' reform efforts have left them more than \$70 billion from overhead and program savings to spend on high priority military capabilities – funds that would not otherwise be available. I will now summarize some of these new areas of investment.

For the Air Force, this process made it possible to:

- Buy more of the most advanced Reaper UAVs and move essential Intelligence, Surveillance and Reconnaissance programs from the temporary war budget to the permanent base budget. Going forward, advanced unmanned strike and reconnaissance capabilities must become an integrated part of the Air Force's regular institutional force structure;
- The Air Force will increase procurement of the Evolved Expendable Launch Vehicle to assure access to space for both military and other government agencies while sustaining our industrial base;
- The Air Force will modernize the radars of F-15s to keep this key fighter viable well into the future; and
- It will also buy more simulators for Joint Strike Fighter air crew training.

Finally, a major area of investment for the Air Force will be a new long-range, nuclear-capable penetrating bomber. This aircraft – which will have the option of being piloted remotely – will be designed and developed using proven technologies, an approach that

should make it possible to deliver this capability on schedule and in quantity. It is important that we begin this project now to ensure that a new bomber can be ready before the current aging fleet goes out of service. The follow on bomber represents a key component of a joint portfolio of conventional deep-strike capabilities – an area that should be a high priority for future defense investment given the anti-access challenges our military faces.

The Army intends to use its savings to:

- First, provide improved suicide prevention and substance abuse counseling for soldiers;
- Second, modernize its battle fleet of Abrams tanks, Bradley Fighting Vehicles, and Stryker wheeled vehicles; and
- Accelerate fielding to the soldier level of the Army's new tactical communications network.

The demand from ground commanders for intelligence, surveillance and reconnaissance assets continues to exceed the military's supply. In response, the Army will buy more MC-12 reconnaissance aircraft, accelerate procurement of the service's most advanced Grey Eagle UAVs, and begin development of a new vertical unmanned air system to support the Army in the future.

The Department of the Navy, as a result of the efficiency savings, is proposing to:

- Accelerate development of a new generation of electronic jammers to improve the Navy's ability to fight and survive in an anti-access environment;
- They'll increase the repair and refurbishment of Marine equipment used in Iraq and Afghanistan;
- They will develop a new generation of sea-borne unmanned strike and surveillance aircraft;
- They will buy more of the latest model F-18s and extend the service life of 150 of these aircraft as a hedge against more delays in the deployment of the Joint Strike Fighter;
- And finally, the Navy will purchase additional ships over the next five years – including a destroyer, a Littoral Combat Ship, an ocean surveillance vessel and fleet oilers.

In the area of missile defense, I am proposing more funding for long range defense interceptors that will support the Phased Adaptive Approach in Europe and extend that level of protection to the continental United States. In order to improve theater missile defenses we will also purchase additional advanced radar systems that had been requested by combatant commanders in Europe, the Pacific and the Middle East.

Now let me close with discussion of future budget projections. Meeting real-world requirements. Doing right by our people. Reducing excess. Being more efficient. Squeezing costs. Setting priorities and sticking to them. Making tough choices. These are all things that we should do as a department and as a military regardless of the time and circumstance. But they are more important than ever at a time of extreme fiscal duress, when budget pressures and scrutiny fall on all areas of government, including defense. When every dollar spent on excess overhead or unneeded programs – such as the extra engine for the JSF – is a dollar not available to support our troops and prepare for threats on the horizon.

Which brings me to the president's defense budget outlook. The president's base budget request for Fiscal Year 2012 will be approximately \$553 billion. This is some \$13 billion less than we expected for FY 12 in last year's five year budget plan, but represents about three percent real growth over the funding the department would receive in FY 2011 under the current continuing resolution – and about 1.5 percent growth over the Appropriations Committees defense bills for FY 11. The proposed budget plan will reduce real growth in the department's top line in FY 13 and in FY 14, and then provides zero real growth in FY 2015 and 2016.

In all, this budget proposal anticipates a total reduction of roughly \$78 billion to the Five Year Defense Plan submitted last year. Even with this top-line reduction, we were able to adhere to the original intent of the reform initiative and permit the military services to keep and reinvest the roughly \$100 billion they identified for savings.

So where did we come up with the \$78 billion for the top-line reduction?

- First, the approximately \$54 billion in DoD-wide overhead reductions and efficiencies I described earlier in this statement, which included a freeze on all government civilian salaries;
- Second, roughly \$14 billion reflecting shifts in economic assumptions and other changes relative to the previous FYDP – for example, decreases in the inflation rate and projected pay raises;
- Third, \$4 billion of savings to the Joint Strike Fighter program to reflect re-pricing and a more realistic production schedule given recent development delays.

And fourth, more than \$6 billion was saved by our decision to reduce the size of the Active Army and Marine Corps starting in FY 2015. Under this plan, the U.S. Army's permanent active duty end strength would decline by 27,000 troops, while the Marine Corps would decline by somewhere between fifteen to twenty thousand, depending on the outcome of their force structure review. These projected reductions are based on an assumption that America's ground combat commitment in Afghanistan would be significantly reduced by the end of 2014 in accordance with the President's strategy.

Ever since taking this post, now more than four years ago, I have called for protecting force structure and for maintaining modest but real growth in the defense top-line over the long term. I would prefer that this continue to be the case. But this country's dire fiscal situation – and the threat it poses to American influence and credibility around the world – will only get worse unless the U.S.

Government gets its finances in order. And as the biggest part of the discretionary federal budget the Pentagon cannot presume to exempt itself from the scrutiny and pressure faced by the rest of our government.

No doubt these budget forecasts and related program decisions will provoke criticism on two fronts – that we are either “gutting” defense or we have not cut nearly enough. As to the former, some perspective and a reality check are in order. Even after the projected reductions in the Active Army beginning in 2015, the service’s permanent end strength would continue to be larger, by nearly 40,000 soldiers, than it was when I became defense secretary four years ago.

And as I have described in previous speeches, when it comes to global reach and striking power, the gap between the U.S. military and the rest of the world – including our biggest potential rivals – will continue to be vast, and in some key areas will grow even wider. We must come to realize that not every defense program is necessary, not every defense dollar is sacred and well-spent, and that more of nearly everything is simply not sustainable.

Under the proposed budget plan, the Defense Department will continue to see real, albeit steadily diminishing, growth for the next three fiscal years before flattening out in the fourth and fifth year. What is important is to have a budget baseline with a steady, sustainable, and predictable rate of growth that avoids extreme peaks and valleys in defense spending that can be enormously harmful to readiness, planning and financial management.

This budget proposal is such a plan: It represents a reasonable, responsible and sustainable level of defense spending for the next five years. But only with the continued reform of business practices, reductions in overhead, and smarter acquisitions can we execute this plan and realize the savings for reinvestment without increasing risk to America’s security – or hollowing out our military.

This plan represents, in my view, the minimum level of defense spending that is necessary given the complex and unpredictable array of security challenges the United States faces around the globe – global terrorist networks, rising military powers, nuclear armed rogue states, and much, much more.

In recent weeks there have been calls from various quarters for major reductions in defense spending – to include substantial cuts in modernization, force structure, troop levels and overseas bases. I consider such proposals risky at best and potentially calamitous. For more than 60 years the United States, backed up by the strength, reach and unquestioned superiority of our military, has been the underwriter of security for most of the free world. The benefits – in terms of stability, prosperity, and the steady expansion of political freedom and economic growth – have accrued not only to our allies and partners, but above all, to the American people. We shrink from our global security responsibilities at our peril, as retrenchment brought about by short-sighted cuts could well lead to costlier and more tragic consequences later – indeed as they always have in the past. Surely, we should learn from our national experience, since World War I, that drastic reductions in the size and strength of the U.S. military make armed conflict all the more likely – and with an unacceptably high cost in American blood and treasure.

To maintain the kind of military needed for America’s leadership role requires not only adequate levels of funding, but also fundamentally changing the way our defense establishment spends money and does business. That is why it is so important to follow through on the program of reform and overhead reduction that I have spoken about today.

This department simply cannot risk continuing down the same path – where our investment priorities, bureaucratic habits, and lax attitudes towards costs are increasingly divorced from the real threats of today, the growing perils of tomorrow, and the nation’s grim financial outlook.

These times demand that all of our nation’s leaders rise above the politics and parochialism that have too often plagued considerations of our nation’s defense – whether from inside the Pentagon, from industry and interest groups, and from one end of Pennsylvania Avenue to the other. I look forward to working through this next phase of the President’s defense reform effort with the Congress in the weeks and months ahead – to do what’s right for our Armed Forces and to do what’s right for our country.