DEPARTMENT OF DEFENSE LONG–TERM BUDGET ISSUES

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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DEPARTMENT OF DEFENSE LONG–TERM BUDGET ISSUES

THURSDAY, OCTOBER 16, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:01 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Gutknecht, Hensarling, Diaz-Balart, Brown, Spratt, Moran, Edwards, Scott, Baird, Majette, and Davis.

Chairman NUSSLE. Good morning. Today's hearing, the full Budget Committee, is entitled the Department of Defense Long-Term Budget Trends. Today we have on our first panel Dov Zakheim, Under Secretary of Defense and the Comptroller. We welcome him back to the committee as the Under Secretary and Chief Financial Officer for the Department of Defense.

This hearing has been somewhat difficult to schedule, and I appreciate your involvement here today. I hope that with the Department of Defense in particular, there will be future opportunities and growing cooperation because we have some very critical matters to discuss and today is only a beginning.

This hearing will focus on a subject that I believe is critical to the life of every American, and that is how we can best support the current and potential future needs of our Department of Defense and by doing so, securing our Nation.

Since September 11, and following through the war in Afghanistan and the conflict in Iraq, I have been a 100 percent supporter of our President, our troops, and our policy with regard to the war on terrorism, and this Congress has shown that we are more than willing to spend whatever is needed to defend our country and to support the needs of our troops.

That said, we in Congress still have a fundamental obligation to ensure that the money we spend is being spent judiciously and with the proper planning and oversight necessary for a successful conclusion to the policy.

We are holding this hearing today primarily to gain a greater understanding and to gain a better picture, get a better picture of just what the long-term anticipated needs are for the Department of Defense.

On September 10, 2001, we had a budget surplus. Starting September 12, 2001 this Congress spent fast and furious to rebuild New York, our Pentagon, shore up our Nation's defenses, provide

for homeland security, and assure that future terrorist attacks were not possible. Our Nation was in a state of emergency. Our economy was in trouble. And we did whatever it took, we did whatever we had to do in order to get both our economy back on its feet and to secure our Nation.

But we are now 2 years into our war against terrorism, and since April of this year, assuming this supplemental passes today on the floor, we will have obligated ourselves over $160 billion in this, quote-unquote, "emergency spending" to pay for wars in Iraq and Afghanistan, and all of that money is outside of the budget.

Were these choices necessary? I think a majority of us would agree that they were. Can we continue to fund our war efforts on this type of ad hoc basis? I believe most of us would agree that we cannot and should not. This committee and this Congress must have a solid plan, a blueprint, a financial blueprint to set our priorities for the year and for the long term. To do this we must be able to gather whatever information is necessary and put together a credible and responsible budget for the Nation. In order to do that, we need to have the best possible information as to the likely future costs of the Department of Defense, one of the largest and growing components of our budget.

While there are several other areas we need to address today, I know that there is particular interest in the President's supplemental request that is being debated on the House floor. Specifically, I need to know how much of these funds are considered one-time expenditures, how long the Defense Department estimates that the funds that we are appropriating today will last, and what is the future funding requests that will be necessary to stabilize Iraq?

Further, as we begin the process to look forward into the 2005 fiscal year budget, I want to discuss how the administration will begin to incorporate the known costs in next year's budget submission.

Next, we will look at the long-term funding needs for the war against terrorism and how they will be incorporated into the Federal budgets for years to come. As the President has said, the war against terrorism will be long, and there is no one who will dispute that. We will need to gather today the best estimates possible to what the anticipated long-term funding needs in Iraq and elsewhere might be.

I would like to turn to the readiness of our Armed Forces. Regardless of plans to transform the military in the future, there are urgent near-term readiness priorities. We have got some holes that we are going to need to fill, and we need to know just what and where they are and how much they are going to cost in order to be fixed.

I have a concern regarding the extended use of the National Guard and Reserve forces. My State of Iowa is home to 30,000 of these Reserve and Guardsmen. While I doubt any of these men and women in their desire to serve—and I want to underscore that—there is not one of them that I have had an opportunity to talk to or their families that lack the desire to serve their Nation. But we want to ask the question, how long can we keep this up? Their families have questions, their employers have questions. Their

elected representatives have questions. And we need and deserve the answers to those questions so that we can properly communicate them to the folks back home.

Next is the area of burden sharing. During the Gulf War, the United States received $48 billion in financial contribution from our allies. This time, apart from a smaller number of countries such as Great Britain, Poland, Spain and others, the United States is bearing almost the entire burden of peacekeeping and reconstruction in Iraq. As we approach the Donors Conference in Madrid, what steps are we planning to take to encourage other nations or the IMF or the World Bank to share this load? The supplemental request on the floor today is based on, in part, the success of those negotiations. What if success is not achieved at that donor conference? How much will that mean for future requests? And when will those requests come?

Certainly, yesterday and again today there is some encouraging news about France, Germany and Russia, that they may be moving closer to a better partnership and to our own views on the administering of Iraq in the future. I certainly hope these signals signal increased cooperation.

Still, for budget purposes, it seems as though we have two plans, one in which we will continue to bear the entire burden and one in which the international community begins to play a growing or larger role.

Last, as most of you are aware, this committee has spearheaded an effort to reduce the amount of waste, fraud, and abuse in our Federal Government. We have taken on this challenge particularly in the mandatory programs, and we have already identified close to $100 billion in a successful effort to begin at least the process of looking for ways to root out waste, fraud, and abuse.

The President's 2004 Defense budget and succeeding budget requests will put the Pentagon spending on a path to exceed $500 billion before the end of the decade. We simply cannot be spending that kind of money without taking a serious look at whether it is being spent efficiently. This is certainly not the time when the Department of Defense can afford, nor can our country afford, for the Department of Defense to have critical funds lost to waste or fraud or any kind of abuse.

So we must discuss with this witness what steps the Department is taking to ensure that the funds allocated to the Defense Department are being spent properly. For instance, what is the state of the Department of Defense audit that has been demanded, requested, and eagerly awaited? As I said earlier, looking forward to the next budget and beyond is not a courtesy, it is an obligation of the Defense Department to provide for us with the most credible information that is available.

So I hope today will be a positive step in that process as we look forward into the future for better budgeting, better fiscal and financial management of the Department of Defense, and I welcome the Under Secretary back to the committee.

Mr. Spratt.

Mr. SPRATT. I find myself very much in agreement with the chairman, and would simply echo his comments and add to it. First of all, a welcome to the committee. And I think it is critically im-

portant that we get together periodically, because your component of the budget is enormous and growing and it is the elephant in the room. It tends to get its way. But one of these days, I have been here long enough to know, the deficit will again take precedence over defense, and we probably ought to be getting ready for that now.

I am going to truncate my remarks because we are all anxious to get to the floor, but at the same time we are anxious to put some of the questions like the chairman just listed to you.

CBO some time ago issued a report which indicated that the defense program exceeds the Defense budget, both as it is displayed in their periodic analyses of the budget and also in your formal budget, your multi-year budget called the FYDP, the Future Years Defense Plan. I will give you a few examples. The THAAD, theater high altitude. We have spent billions on its development; it is an Army program but it has been under the umbrella of BMDO. If you look at the procurement dollars in the Army's budget and in the FYDP, I don't believe you will find it there.

The Air Force, they are now telling us that it is critically important that they buy new tankers, that something could happen to their aging tankers that would render the whole fleet questionable and, therefore, we have got to buy brand-new tankers as an exceptional item in the budget. If you look in their FYDP, none of that was anticipated or planned. This critical need that they are now pressing upon us was not even put in their own internally developed budget, the FYDP.

Ships, Navy ship building. We all know that the rate of production, you picked it up for next year, but has not adequately reflected what it will cost to maintain our programmatic requirement for a 300-ship Navy.

So we have got a FYDP. We have got a programmatic budget which doesn't really reflect the full program that this administration is pushing. Now, this has happened in all administrations, but the gap seems to be particularly wide and it is worsening now because we have got Afghanistan, where we are likely to be for a long time to come, and Iraq, where we are likely to be for goodness knows how long. Neither one of those is reflected in the budget. They come to us as exceptional items. And that is one bone in particular that we would like to pick with you today.

The first budget you gave to us was a plug budget, by your own acknowledgment. You told us that it was not a number that you had internally generated as your desirable budget, but you would plug it in for the time being until you got us a better number. When we finally got the FYDP request, it was really half of what you wanted. Mitch Daniels held you to an $18.3 billion increase instead of the near $40 billion that you wanted. But Mr. Rumsfeld, in response to a question I put to him, very honestly answered in the Armed Services Committee the President has requested the DOD not to submit its budget until he got his tax bill passed. As a consequence, we didn't know what the Defense budget was when we were making major, major decisions about the budget.

The same is true with the supplemental. In mid-July of this year, as required by law, the Office of Management and Budget sent us their mid-session review. And with respect to the cost of our de-

ployment in Iraq and Afghanistan, there was not a nickel. Now, we didn't know for sure what it was going to be, but we knew it was not zero. And, therefore, at that point in time of the budget for the year to come, they didn't include a dime for the supplemental. The justification typically for that, it is too iffy, there are too many variables, we can't project it. But within a little more than a month we had a supplemental here for $87 billion. That should have been factored in in some way, some measure to the other budget.

And going forward, we need to have your best estimates of what it is going to cost to maintain these deployments as well as maybe closing the other gaps in the budget that don't reflect reality. We simply can't maintain a semblance of a budget if we have an April supplemental for $80 billion and an August supplemental for nearly $90 billion. I mean, you can't have variables like that and claim that you have got a budget, particularly when none of these add-ons to the budget is paid for. And there is a widespread resistance to paying for any of them on the part of the administration. They simply want to add them onto the budget. If that is going to be the practice, then we are going to have a hard time getting our hands around the budget.

I have got other questions to ask, but I would rather hear from you first and we will come back to it. Thank you again for coming. We appreciate the opportunity to put these questions to you.

Chairman NUSSLE. We welcome you back to the committee, and we are pleased to receive your testimony. As written it will appear in the record, and you may summarize as you see fit. Welcome.

[Prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF HON. HENRY E. BROWN, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. Chairman, thank you for holding this hearing today. And thank you gentlemen for being here with us. I think it critically important that we examine the long-term budgetary implications of the administration's national defense plan. Our current and future ability to fund our military is of critical importance, as we budget for operations in Iraq, long-term budget for the war on terrorism, and budget for our readiness priorities.

The Department of Defense is the first funding priority in the President's budget with a request of $379.6 billion in budget authority for fiscal year 2004, an increase of $15.6 billion, or 4.4. percent, over the previous year's level and is the largest component of the national defense function. The President's plan would bring the Defense budget to its highest level in constant dollars since the early 1990s.

The fiscal year 2004 budget did not reflect costs for combat operations, occupation and reconstruction in Iraq, and will be paid for by a second supplemental appropriations request that we are considering on the House floor this week. Are further such supplementals required? The President's plan will push DOD spending above the $500 billion dollar mark before 2010. Is this the right plan for long-term security? The U.S. has bourne nearly the entire burden of peacekeeping and reconstruction of Iraq. Can we expect engagement of NATO nations or other organizations to aid us in these efforts? These are all important things to consider as we examine the long-term budget of DOD, and I am pleased that we have that opportunity today.

STATEMENT OF DOV S. ZAKHEIM, UNDER SECRETARY OF DEFENSE (COMPTROLLER)

Mr. ZAKHEIM. Thank you. Thank you very much, Mr. Chairman, Mr. Spratt, members of the committee. Thank you for having me back, and thank you for agreeing to submit the statement for the record.

The statement, as you will see shortly, addresses many of the questions that you have raised. And, of course, we will continue to discuss them after I have finished. But let me briefly walk you through some markers that we wish to lay down.

First, regarding the budget impact of our operations in Iraq, one paramount point is that building a stable and nonthreatening Iraq is not and will not be, indeed cannot be a U.S. only endeavor. It has been and continues to be a coalition of nations that removed Saddam Hussein and moved quickly toward enabling the Iraqi people to build a better future for themselves and for regional and global security. The United States and its coalition partners are working hard to increase the contributions of other nations to a goal that will benefit the entire global community. We are confident that these contributions will increase and will reduce the burden of our current coalition of nations, and I will be happy to go into detail as we proceed during this hearing.

Any estimate of the fiscal impact on the United States of operations in Iraq must take account of two major ways in which our burden in Iraq will be relieved.

First, America's burden will be eased by accelerating the contributions of the Iraqi people to their own security and future well-being. CENTCOM Commander General John Abizaid has stated that the key to success in Iraq is increasing the security role of the Iraqis themselves. That is a primary focus of the President's supplemental request and a primary focus of coalition leaders on the ground in Iraq. And I would note that, after the United States, the second largest contributors of men under arms in Iraq are the Iraqis themselves.

For example, about 70,000 Iraqis are now engaged in security operations, and another 13,000 are in or awaiting training. These include the police, border enforcement officers, civil defense corps, facility protection service, and the new Iraqi Army. Plans are for this total to grow to at least 170,000. Needless to say, a few months ago the number of these forces was zero. We have gone from zero to 70,000 in about 5 months.

More than 6,000 members of a new Iraq civil defense corps are employed, and this force should reach 15,000 by the end of 2004. About 20,000 members of the new facility protection service are guarding more than 240 critical sites.

The supplemental will support the fielding of a new Iraqi Army, 27 battalions by September 2004; the first battalion of 700 Iraqis graduated from training in early October. About $5 billion of the President's request is to accelerate this early progress and to increase the contributions of the Iraqis for their own security. That figure of course refers to the request in the supplemental.

Since the end of July, Iraqi participation in security efforts has more than doubled. America's burdens will also be eased through contributions from other nations. We cannot yet predict how much those contributions will increase, but we expect considerable help.

Regarding financial contributions, Japan has just announced that it will provide grant assistance totaling $1.5 billion for immediate reconstruction needs in Iraq. I spoke to the Japanese this morning; they are talking about $1.5 billion in 2004.

The United Kingdom has announced its intention to provide over $850 million in grant assistance to Iraq. We expect additional substantial contributions from the upcoming international donors conference. Parenthetically, I was in Ottawa 2 days ago. The Canadians have committed to $300 million [Canadian]. Given their size, the economy that they have, that is not an insignificant contribution.

In addition to contributions of funds, we continue to solicit more international contributions of military forces which should reduce the strain on coalition troops. Currently, 32 nations have troops in Iraq. The United Kingdom is providing a division-sized element for operations in southern Iraq. Poland is providing a division headquarters and a brigade. The Spanish, Ukrainians, and Italians are all providing brigades to support the U.K. and Polish led divisions. We are talking about contributions in terms of thousands of people. The Netherlands is also providing a large battalion.

As security contributions from the international community and Iraqis increase, the United States expects to lower its troop levels significantly. We expect to be able to reduce our military personnel in Iraq from 147,000 now, to an average of 113,000 active military personnel in fiscal year 2004. If additional multinational troops are not contributed however, we are prepared to call up and deploy four enhanced separate brigades from the U.S. Army National Guard. These forces would provide a prudent hedge against uncertain international commitments. We intend to ensure that the gains made in Iraq are not lost by failing to follow through on the stability mission.

Obviously, our future costs in Iraq should not be minimized, but they should not be overstated by omitting or downplaying likely contributions from the Iraqi people and the international community.

Moreover, our costs in Iraq have to be assessed against the consequences of failure. Iraq is now the central battleground in the global war on terrorism. If we fail to defeat terrorism there, we would hurt the entire civilized world and increase the likelihood of direct attacks on the United States and its citizens.

On the positive side, a free and thriving Iraq would be a powerful demonstration that there is an alternative to the hopelessness and hate that fuels international terrorism.

Permit me now to turn to Afghanistan. The fiscal year 2004 supplemental appropriations request will enable us to continue progress in Afghanistan toward building a peaceful, democratic and prosperous country that can serve as a partner in the region and as a model for other Muslim states. Examples of our progress include:

Over the past 2 years we have provided over $2 billion in assistance to Afghanistan. As of late September, we had 9,800 troops stationed in Afghanistan, approximately 8,100 Active, 1,700 Reserves. That is roughly comparable to what the international community has also contributed. Thirty-nine countries have contributed about 8,000 troops to Afghanistan.

Security: Security and particularly strengthening the role of the central government in the security arena is one of our top priorities. We have trained and partially equipped 10 battalions of the

Afghan National Army, trained 700 Afghan national police, helped implement the national communications system, and put in place a national police I.D. card system.

With respect to Afghan National Army, let me point out that I have seen them on three different occasions. When they start out they can barely crawl along the ground with their helmets staying on their heads. By the time they are done, they are out patrolling. They are a professional force. Their noncommissioned officers have the right priorities such as communications and the need to be able to operate effectively tactically. They are very different from the ragtag bunch that supports some of the so-called warlords. Those of you who have been out there would agree that they do not match these people in the ANA.

Let me talk a little bit about reconstruction. To help increase commerce, improve security, and better integrate the various provinces, the international community has begun working to improve the roads in Afghanistan. We, the United States, have graded the entire 389-kilometer portion of the ring road between Kabul and Kandahar. That, by the way, cuts the trip down from 30 hours to 6. We have deployed security along road construction sites. We have paved about 169 kilometers. We have also built 203 schools and 140 health clinics, including schools for women and girls. Again, all of this helps the central government provide for its people, demonstrates that it is extending its reach throughout the country, and enables it to counter the influence of extremists.

We have also begun to create a joint civilian-military provincial reconstruction team network. Two are operated by the U.S., one each is operated by the United Kingdom and New Zealand. That one was opened in Mazar-e-Sharif in July. These teams are going to help provide basic services to the Afghan people and increase security in outlying areas. We hope to have a total of eight up and running relatively soon.

As you know, Afghanistan is a very poor country without many of the institutions necessary for democracy and governance. Its ability to provide basic services to its people is limited after decades of war. We, the United States, have contributed $58 million to the recurrent budget to help in that arena; that is to say, the government's operating budget. As the government starts meeting the needs of its people, it helps to reduce the influence of the war lords.

We have also begun helping Afghanistan prepare for its Constitutional Loya Jirga, which as you know, is the unique Afghan institution that essentially sets the direction for future governance. Voter registration is proceeding—it is being readied, rather, in the run-up to next June's elections.

You mention, Mr. Chairman and Mr. Spratt, defense transformation. I would like to address that as well.

President Bush and Secretary of Defense Rumsfeld have determined not to let Operation Iraqi Freedom or Operation Enduring Freedom or Operation Noble Eagle deflect them from achieving their plan to transform the United States military and Defense Department business processes. Indeed, these operations underscore the importance of DOD transformation. To transform our military capabilities, the President's budget requested $24 billion for 2004

and projected literally 10 times as much for the 2004–09 framework. The fiscal year 2004 DOD appropriations bill will enable the Department to sustain its transformation agenda, and that is exactly what we intend to do. Transformation is still a top priority, and we intend to maintain that emphasis in the President's budget for fiscal years 2005 and beyond.

One reason we can sustain our transformation efforts is that the President and the Congress have supported supplemental appropriations to reconstitute our forces once they return from Iraq or Afghanistan. This reconstitution can include depot maintenance or replacement for systems that have been used intensely during these operations. Sufficient supplemental funding plus a continuing robust procurement program is enabling the Department to sustain its transformation objective in spite of the heavy commitments in Iraq and Afghanistan.

Wartime supplemental funding also protects transformation by funding incremental operations and maintenance costs, which, as you all know, in the past were covered by cuts in procurement and research and development. For years there was an outflow, from the investment accounts into the operations accounts. The Bush administration remains resolute in preventing such a migration of funds. To that end, we will continue our realistic funding of O&M requirements both in our annual budgets and in any supplemental appropriations that become necessary.

In sum, with congressional support for the President's supplemental appropriations request, the President's commitment to transformation is on track. However, transformation and all other Defense priorities could come under intense funding pressure from two very costly entitlements that the Congress is considering.

The first is concurrent receipt of military retirement pay and Veterans Administration disability payments. Section 644 of the Senate's defense authorization bill could cost the United States Government an additional $57 billion in mandatory outlays over the next 10 years. Even if the authorization conference could cut that cost in half by phasing in or adjusting the entitlement, funding it would still have to come at the expense of critical priorities. Needless to say, the CBO study did not include concurrent receipt, as I recall. Moreover, concurrent receipt would certainly not be the best way to spend whatever money one might want to add to help our Armed Forces in its transformation.

But there is a second entitlement as well that is up for consideration, and that one is TRICARE for Reservists. Currently, Reservist health care needs are covered immediately upon mobilization. The health care of their family members is covered under DOD's TRICARE system if the Reservist is on duty for 30 days or more. But now Congress is considering granting TRICARE program eligibility for Reservists and their families when they are not on active duty. This new entitlement would cost over $3 billion a year. So, again, taking that 10-year time frame, we are talking about $30 billion. It would be complicated and costly to implement; it would threaten higher defense priorities such as transformation and force readiness.

These new entitlements, if they are approved, would come at a time when the Department continues to wrestle with rising per-

sonnel costs. For example, my colleague, Under Secretary David Chu, is working hard to control rising health care costs just as governments and companies across the Nation are struggling with similar increases. There is no room in our budget for mammoth new entitlements.

Since taking office, President Bush and his DOD leadership have demonstrated their commitment to take good care of their military people and their families. We want to continue to work with Congress on how best to allocate available funding to benefit our military people and their families while sustaining other national security requirements.

In closing, Mr. Chairman, Mr. Spratt, members of the committee, I wish to emphasize that the Department of Defense continues to focus intensely on advancing stabilization and recovery in Iraq as rapidly and cost effectively as possible. The stakes couldn't be higher. The emergence of an Iraq that protects the rights of its citizens, that represents all of its diverse ethnic and religious groups, that prospers economically for the benefit of all its people, would be a profoundly important model for the Middle East and for the entire world.

Similarly, Afghanistan is a major, major undertaking on the part of this country and has roughly similar goals. To help the Iraqi people meet this historic challenge, to help the Afghan people meet their challenge, President Bush has pledged America's commitment to stay the course. But America will not shoulder that burden alone, and the cost of failure would be catastrophic. Success is not going to come cheap. We all understand that. But success is our only viable option, and we will press on until we have completed the mission.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Zakheim follows:]

PREPARED STATEMENT OF THE HON. DOV S. ZAKHEIM, UNDER SECRETARY OF DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE

DEPARTMENT OF DEFENSE LONG-TERM BUDGET ISSUES

Mr. Chairman, members of the committee, I have prepared a statement to contribute to this important discussion of Department of Defense (DOD) long-term budget issues.

COST AND CONSEQUENCES OF SUCCESS IN IRAQ

As Congress continues work on President Bush's fiscal year 2004 supplemental appropriations request, permit me to begin with several points regarding the budget impact of our operations of Iraq.

One paramount point is that building a stable and non-threatening Iraq is not, and will not be, a U.S.-only endeavor. It has been and continues to be a coalition of nations that removed Saddam Hussein and moved quickly toward enabling the Iraqi people to build a better future for themselves and for regional and global security. The U.S. and its coalition partners are working hard to increase the contributions of other nations to a goal that will benefit the entire global community. We are confident that these contributions will increase and will reduce the burden on our current coalition of nations.

Any estimate of the fiscal impact on the United States of operations in Iraq must take account of two major ways in which our burden in Iraq will relieved.

First, America's burden will be eased by accelerating the contributions of the Iraqi people to their own security and future well-being. CENTCOM Commander General John Abizaid has stated that the key to success in Iraq is increasing the security role of the Iraqis themselves. That is a primary focus of the President's supple-

mental request and a primary focus of coalition leaders on the ground in Iraq. For example:

• About 70,000 Iraqis are now engaged in security operations, and another 13,000 are in or awaiting training. These include the police, border enforcement officers, Civil Defense Corps, Facility Protection Service, and New Iraq Army. Plans are for this total to grow to at least 170,000.

• More than 6,000 members of a new Iraq Civil Defense Corps are employed, and this should reach 15,000 by the end of 2004.

• About 20,000 members of the new Facility Protection Service are guarding more than 240 critical sites.

• The supplemental will support the fielding of a New Iraqi Army—27 battalions by September 2004. The first battalion of 700 Iraqis graduated from training in early October.

• About $5 billion of the President's request is to accelerate this early progress and to increase the contributions of the Iraqis to their own security.

• Since the end of July, Iraqi participation in security efforts has more than doubled.

America's burdens will also be eased through contributions from other nations. We cannot yet predict how much those contributions will increase, but we expect considerable help. Regarding financial contributions, Japan has just announced that is will provide grant assistance totaling $1.5 billion for immediate reconstruction needs in Iraq. The United Kingdom has announced its intention to provide $870 million in grant assistance to Iraq. We expect additional substantial contributions from the upcoming international donor conference.

In addition to contributions of funds, we continue to solicit more international contributions of military forces, which should reduce the strain on coalition troops. Currently, 32 nations have troops in Iraq. The U.K. is providing a division-sized element for operations in Southern Iraq. Poland is providing a division headquarters and a brigade. The Spanish, Ukranians, and Italians are all providing brigades to support the U.K. and Polish-led divisions. The Netherlands is also providing a large-sized battalion.

As security contributions from the international community and Iraqis increase, the United States expects to lower its troop levels significantly. We expect to be able to reduce U.S. military personnel in Iraq from 147,000 now to an average of 113,000 active military personnel in fiscal year 2004. If additional multi-national troops are not contributed, however, we are prepared to call up and deploy four Enhanced Separate Brigades from the U.S. Army National Guard. These forces would provide a prudent hedge against uncertain international commitments. We intend to ensure that the gains made in Iraq are not lost by failing to follow through on the stability mission.

America's future costs in Iraq should not be minimized nor, however, should they be overstated by omitting or downplaying likely contributions from the Iraqi people and international community. Moreover, our costs in Iraq must be assessed against the consequences of failure. Iraq is now the central battleground in the global war on terrorism. Failure to defeat terrorism there would hurt the entire civilized world and increase the likelihood of direct attacks on America and its citizens. On the positive side, a free and thriving Iraq would be a powerful demonstration that there is an alternative to the hopelessness and hate that fuels international terrorism.

PROGRESS IN AFGHANISTAN

The fiscal year 2004 supplemental appropriations request will enable us to continue progress in Afghanistan toward building a peaceful, democratic, and prosperous country that can serve as a partner in the region and as a model for other Muslim states. Examples of our progress include:

Over the past 2 years, we have provided over $2 billion in assistance to Afghanistan. As of late September we had 9,800 troops stationed in Afghanistan, (approximately 8,100 active and 1,700 reserves). Thirty-nine countries have contributed some 8,000 troops to Afghanistan. This is a major effort and a top priority for the United States

Security. Security and particularly strengthening the role of the central government in the security arena is one of our top priorities. So far, we have trained and partially equipped 10 battalions of the ANA, trained 700 Afghan National Police, helped implement a national communications system, and put in place national police ID card system.

Reconstruction. To help increase commerce, improve security and better integrate the various provinces the international community has begun working to improve the roads in Afghanistan. The United States has graded its entire 389-kilometer

portion of the ring road between Kabul and Kandahar, deployed security along road construction sites. About 169 kilometers have been paved to date. We have also built 203 schools and 140 health clinics, again to help the central government provide for its people and counter the influence of extremist influences.

We have also begun creation of joint civilian military Provincial Reconstruction Teams (PRTs), two operated by the United States and one each operated by the U.K. and New Zealand, opened in Mazar-e-Sharif in July. These teams help provide basic services to the Afghan people and increase security in outlying areas.

Democracy/Governance. As you know, Afghanistan is a poor country without many of the institutions necessary for democratic and governance. Its ability to provide basic services to its people is limited after decades of war. The United States has contributed $58 million to the recurrent budget to help in that arena. As the government starts meeting the needs of its people, it helps reduce the influence of the warlords. We have also begun helping Afghanistan prepare for the Constitutional Loya Jirga, and voter registration in the run up to next June's elections.

SUSTAINING DEFENSE TRANSFORMATION

President Bush and Secretary of Defense Rumsfeld are determined not to let Operation Iraqi Freedom, Operation Enduring Freedom, and Operation Noble Eagle deflect them from achieving their plans to transform the U.S. military and DOD business processes. Indeed, these operations underscore the importance of DOD transformation.

To transform our military capabilities, the President's budget requested $24 billion for fiscal year 2004 and projected $240 billion for fiscal year 2004–09. The fiscal year 2004 DOD appropriations bill will enable the Department to sustain its transformation agenda, and that is exactly what we intend to do. Transformation is still a top priority, and we intend to maintain that emphasis in the President's budget for fiscal year 2005 and beyond.

One reason we can sustain our transformation efforts is that the President and Congress have supported supplemental appropriations to reconstitute our forces once they return from Iraq or Afghanistan. This reconstitution can include depot maintenance or replacement for systems used intensely during these operations. Sufficient supplemental funding, plus continuing a robust procurement budget, is enabling the Department to sustain its transformation goals in spite of heavy commitments in Iraq and Afghanistan.

Wartime supplemental funding also protects transformation by funding incremental operation and maintenance (O&M) costs, which in the past were covered by cuts in procurement and research and development. The Bush Administration remains resolute in preventing such migration of funds. To that end, we will continue its realistic funding of O&M requirements—both in our annual budgets and in any supplemental appropriations that become necessary.

OTHER CONCERNS

In sum, with Congressional support for the President's supplemental appropriations request, the President's commitment to transformation is on track. However, transformation and all other Defense priorities could come under intense funding pressure from two very costly entitlements that the Congress is considering.

The first is concurrent receipt of military retirement pay and Veterans Administration disability payments. Section 644 of the Senate's defense authorization bill could cost the U.S. Government $57 billion in mandatory outlays over 10 years. Even if the authorization conference could cut that cost in half by phasing in or adjusting the entitlement, funding it still would have to come at the expense of critical priorities. Moreover, concurrent receipt would certainly not be the best way to spend whatever money one might want to add to help our armed forces and its transformation.

A second new entitlement is TRICARE for reservists. Currently, reservists' health care needs are covered immediately upon mobilization. The health care of their family members is covered under DOD's TRICARE system if the reservist is on active duty for 30 days or more. Now Congress is considering granting TRICARE program eligibility for reservists and their families when they are not on active duty. This new entitlement would cost over $3 billion per year, be complicated and costly to implement, and threaten higher Defense priorities such as transformation and force readiness.

These new entitlements would come at a time when the Department continues to wrestle with rising personnel costs. For example, my colleague Under Secretary David Chu is working hard to control rising health care costs—just as governments

and companies across the nation are struggling with such increases. There is no room in our budget for mammoth new entitlements.

Since taking office, President Bush and his DOD leadership have demonstrated their commitment to taking good care of our military people and their families. We want to continue to work with Congress on how best to allocate available funding to benefit our military people and their families, while sustaining other national security requirements.

CLOSING

In closing, I wish to emphasize that the Department of Defense continues to focus intensely on advancing stabilization and recovery in Iraq as rapidly and cost-effectively as possible. The stakes could not be higher. The emergence of an Iraq that protects the rights of its citizens, that represents all of its diverse ethnic and religious groups, that prospers economically for the benefit of all its people—this would be a profoundly important model for the Middle East and for the entire world.

To help the Iraqi people meet this historic challenge, President Bush has pledged America's commitment to stay the course. But America will not shoulder that burden alone, and the cost of failure would be catastrophic. Success will not come cheap, but it is our only viable option, and we will press on until we have completed our mission.

Chairman NUSSLE. Thank you.

Let me start off with some of the questions that I posed within my opening statement.

First of all, the request that is on the floor today, 2004 emergency supplemental, is this the final request in the fiscal year 2004 for Iraq and Afghanistan and the war on terrorism?

Mr. ZAKHEIM. My understanding is that—well, let me break it up actually into two parts. You have the defense side, military operations side, and the $20 billion that is for Iraq's reconstruction.

As you know, Mr. Chairman, in the past when we started out with Afghanistan, we were hoping to have a $10 billion fund, Congress decided it didn't like that idea. So basically acting along the lines of congressional preferences, we funded Afghanistan-related operations with supplementals. This supplemental, as I understand it, as far as we can see, would cover fiscal year 2004 costs through September 30, 2004 on the operations side. I can not speak to October 1, 2004. That is fiscal year 2005. But for fiscal year 2004, the answer is yes.

The $20 billion request is different. The $20 billion essentially is a front-loaded effort to help Iraq for the immediate term undertake the highest leverage kinds of activities: electricity, security, health and water. We do not anticipate coming back to Congress for more money for a further supplemental along these lines. What instead we anticipate as we sit here now—and of course I can't predict the future—is that if we need more money that would come through the regular appropriations process, whether it is FMF or AID or whatever it might be. This $20 billion is more than just for a year; but it is essentially front-loaded because these are the expenditures that are needed to get Iraq back on its feet, indeed to get some of the other urgent things viable. You can not have oil production without electricity, for example.

Chairman NUSSLE. Well, it appears from your answer that the answer to both the $20 billion and the $66 billion is, yes, that this is the last supplemental request for the fiscal year 2004 for operations as well as for stabilization and security for Iraq.

Mr. ZAKHEIM. As best I see it, correct. Yes, sir.

Chairman NUSSLE. How much of this is one-time expenditures? How much of these emergency supplemental requests are one-time

expenditures that will not be included in the baseline as we move forward?

Mr. ZAKHEIM. The operations side and the military personnel side, as we have seen over the last couple of years, those are in fact recurrent. They are a function of how many people we are going to have out there. To some extent depot maintenance is recurrent; it is a function of what kind of systems we are using and how heavily we are wearing them out. So on the military side, on the operations side, it really is a question of what forces we will have over the next few years and where the trends lead. So those operations are recurrent.

In terms, as I said, of the Iraq reconstruction funds, that is quite different and that looks to us as one time.

Chairman NUSSLE. Are you able to provide us with an amount of how much of this will be one-time expenditures?

Mr. ZAKHEIM. How much of which, sir? Of the military side you mean?

Chairman NUSSLE. Yes.

Mr. ZAKHEIM. I really cannot in the sense that I don't know what our force levels will be like in a year's time. Now, we know where we want them to be. I mentioned that in my testimony. We want them to come down to an average of 114,000. We are hoping that there will be international participation beyond what already exists. We know, for instance, that the Turkish cabinet and parliament have agreed to send troops, although the modalities have still to be worked out. We know that with the passage of a Security Council resolution the prospects for getting other forces, whether it is Pakistani or Bangladeshi, go up.

But most important of all, as I mentioned in my prepared testimony, we are looking to add another 100,000 Iraqis to the various security forces. That clearly is going to make a difference to the levels of American forces required, and that in turn will drive the operational costs. So I can't make a prediction except to say that all the trends are pointing downward.

Chairman NUSSLE. Are there any of the supplemental requests that are one-time expenditures?

Mr. ZAKHEIM. I would have to look at that for the record. Obviously if you are spending money on particular efforts to modernize systems, either—whether they are being upgraded or you are maintaining them, then by definition you are not going to repeat that the following year. But in terms of the military operations, taken as a whole, unless you were to run your forces down to zero next year, then it is by definition recurrent.

Chairman NUSSLE. Will you be able to provide us with what those one-time expenditures are?

Mr. ZAKHEIM. We can certainly do that for you to the extent we know them. We will get that for you.

Chairman NUSSLE. How long? When will that be? How long will it take for you to provide us with that?

Mr. ZAKHEIM. Since this addresses the current supplemental, it shouldn't take me very long at all. I am not going to delay this.

Chairman NUSSLE. OK. We will follow up on that.

How will you incorporate these requests and the war on terrorism, the war with Iraq, in the budget request that you will be making to us for fiscal year 2005?

Mr. ZAKHEIM. Obviously that is still under consideration. What we have right now is what has clearly been the intent of Congress up to now, which is to treat that separately.

Chairman NUSSLE. Well, no. Whoa, whoa, whoa. I think that has been the intent of the request. The administration is the one that makes the request. Congress has allowed that to be the case. So I guess let me ask the first question. Is it your intent to continue to treat these as supplemental requests, or is the intent of the administration now to put these into the budget requests?

Let us start with that, and then we will move to how we will respond to that.

Mr. ZAKHEIM. Obviously I am not talking about how you would respond. I am talking about the past, when we came in with a budget right after the Afghan war and added two $10 billion requests, which, by the way, panned out pretty well in terms of what we thought operations in Afghanistan would cost for that year; Congress didn't like them and they knocked them down. So we are operating on the basis of what we have in fact seen.

Again, to formulate a request for literally, what, 14 months from now, presupposes foreknowledge of our troop levels that we obviously don't have at this stage. So, again, it would have to be a rough estimate. Up to now, as I say, the clear indications we have received when we did try to do something like that were that they weren't looked upon favorably. At this stage of the game we have to factor that in. We are obviously putting our budget together, and we will consider how best to do this. But it is very, very difficult to predict at this time. I don't have to tell you because you know that the 2005 budget begins in 14 months and ends in 26 months. So to predict what force level we are going to have, say, in 20 or 25 months in what is clearly a dynamic situation in Iraq, and where there are clear indicators that we will have certainly a lot more Iraqi forces there and hopefully others from the international community, is very, very tough to do.

Chairman NUSSLE. Just to explore this for a moment. Part of the reason that I believe that there was objection to the $10 billion is that it was unspecified. Do you recall it that way as well, that there was $10 billion requested with absolute zero specificity as to how that money was to be spent?

Mr. ZAKHEIM. We did indicate—and again my memory may be faulty here, but we did indicate that it was clearly for operations and military personnel.

Chairman NUSSLE. Well, clearly, but that is a fairly unspecified amount. And if you were going to do it by supplemental requests, Congress, at least by intention, was hoping that you would be more specific and thereby do it through supplemental requests as opposed to giving a $10 billion amount that was unspecified. That is my recollection.

Mr. ZAKHEIM. I don't challenge that at all. But, again, given that we are talking about quite a bit of time from now, the question then arises how well do you specify? How well are we in a position to specify?

Chairman NUSSLE. Who is going to do that if you don't?

Mr. ZAKHEIM. What we have done up to now is essentially estimate as we got closer to the time what it looked like we would be needing and then come in to Congress with a supplemental request. I recall as well that when we first delivered our first budgets and Mr. Spratt recalled the $18 billion request, we said we were not coming in for supplementals unless they were wartime related, and that is in fact what we have done. But because of that, predictability is very, very difficult.

Chairman NUSSLE. Has this war on terror not changed? How long will this war on terrorism take?

Mr. ZAKHEIM. I guess until we win it.

Chairman NUSSLE. All right. How long will that be?

Mr. ZAKHEIM. I wish I knew.

Chairman NUSSLE. OK.

Mr. ZAKHEIM. I wish it were today.

Chairman NUSSLE. Let us assume therefore that that means it may take a long time.

Mr. ZAKHEIM. It may well.

Chairman NUSSLE. That is what the President has said.

Mr. ZAKHEIM. That is correct.

Chairman NUSSLE. So wouldn't it also logically therefore be the case that we would begin to build into our budget a certain degree of planning for the future? I mean, there isn't a person in this room—or let me be more specific. There isn't a Member of Congress who occupies Article I of the Constitution when it comes to the purse strings in this country who is not clearly understanding and supportive of our need to win this at whatever price that may be. Not one of us. Yet we are growing frustrated that the further we get away from September 11, and the emergency, we had hoped to see more fiscal planning with regard to the Defense Department needs, recognizing that there has been a change in our strategy as a Nation as we look forward to our defenses in the future. And I have to tell you, what is remarkable about your testimony here today is its lack of specificity with regard to fiscal planning for the Defense Department needs for the future, and that is troubling.

Mr. ZAKHEIM. Let me begin by saying that many of the programs that we have in our future year defense plan do in fact address the kinds of threats that we are facing. That is why we focus on transformation, on flexibility, on the ability to respond quickly. We are dealing with a very different kind of threat from, say, the one that was dealt with in the 1980s. To that extent, we have built into our program changes that frankly were not anticipated as recently as a few years ago.

To give you one example, the focus on unmanned aerial vehicles, which played a tremendous role both in Afghanistan and Iraq. In addition, the focus on band width to enable communications at a far higher scale than ever before, to allow the UAVs to speak to space, to speak to people on the ground and so on, which again were demonstrated in both of the conflicts. In both cases, the focus is clearly linked both to the experience in those two conflicts and to the overall effort to deal with a very, very difficult kind of foe.

When I said that we couldn't, in the Department, anticipate the specifics that I thought you were alluding to, I meant how many

people we might have to fund both in terms of military personnel and operations over the next few years, particularly in the case of Afghanistan and Iraq. That is by no means to say nor did I intend to imply that we had not accounted for this changing nature of conflict in our baseline program.

Chairman NUSSLE. And will that be included in the budget request for 2005?

Mr. ZAKHEIM. It was in 2004 and I see no reason why it shouldn't be in 2005 and beyond.

Chairman NUSSLE. Let me ask you about the audit. Two years ago Congress provided $100 million, as requested by the Department of Defense, to begin a transformation to better equipment, computers, et cetera. Could you give us an update on the status of that transition and where the audit of the Department of Defense stands?

Mr. ZAKHEIM. Absolutely.

First of all, I am very grateful to the Congress, because with the infusion of funds we have now completed a new enterprise architecture, which is a blueprint that is supposed to take the 2,400 different financial management systems and neck them down, hopefully, to about 10 percent of those.

In addition to that, we have begun a regular process, together with the GAO, the Inspector General, and OMB, to review our financial statements on a quarterly basis. I personally review them. We review the details of each line. We have, for instance, added far more assets to our books simply by coming up with a system for evaluating property, plant and equipment and our weapons systems.

If I can digress briefly. The argument—the bureaucratic argument, I must say, always was we can't cost out weapons systems without giving away national security. We came up with a way of doing that by taking a composite evaluation. No, we won't put a value on a single F–16, but we will put a value on all F–16s and that way the taxpayer knows what we are doing with F–16s, what the assets are worth. We have done a lot, way more in the way of environmental liabilities. Every time I sit down with the services and review their financial statements, I sit down with OMB, GAO, and the IG in the room. And you can imagine the reaction the first time that happened.

We anticipate having a clean audit by 2007. We have it timetabled for that. We have reviewed that timetable with the Inspector General, with OMB, and with GAO. It is tough to get from here to there. It took Gillette, for example, 5 years to reorganize and have a financial management system for a $9 billion company. We are at $400 billion. But we are going to do it, and we are on track to do it.

Chairman NUSSLE. 1990 was when the Chief Financial Officer Act was put in place, which required these audits. So that will be 17 years after passage of that act.

Mr. ZAKHEIM. I was not Comptroller through all those years.

Chairman NUSSLE. And I wasn't Budget chairman then, either, but I am certainly responsible for it now, and as are you. And I guess my question is, is 2007 the best that we can do?

Mr. ZAKHEIM. That is a question that I keep asking, and the answer is probably yes. I think that is the consensus of GAO and OMB as well, and the reason is that we are trying to do a number of things at once. Not only are we modernizing the systems, we have also have to deal with all the systems that feed into it, whether it is health, personnel, logistics, and so on. In order to break down bureaucratic resistance to putting their numbers and their systems together in a way that the Comptroller wants, we have done two things.

First, I am doing this jointly with our Chief Information Officer John Stenbit, so that it is not seen as some Comptroller power grab. That is not what we are trying to do here. We are trying to get a management information system that works and a system that the taxpayer can understand.

Second, we have created six domains—essentially business lines like, health and logistics and so on, and got the bureaucracy that is tied in with each of those to work jointly with us. We are going to be testing these systems over the next few years, we are going to be modifying the interfaces between the various business lines and the financial management side. We are also going to work at the very same time to improve what actually shows up on the financial statements. We hope to have qualified audits, which is to say halfway there. Right now we get disclaimers. Right now the auditors throw their hands up in the air and say they can not address this at all. We want to get past that. Once you have a qualified audit, it means that at least part of your statement is verifiable.

So we do have a game plan. If I could get it before 2007, I would love to, but I wouldn't be honest with you if I said I would.

Chairman NUSSLE. In closing, let me just say that, you know, I have to say it is increasingly frustrating when we know that the information that we are basing these decisions on are not coming to us in either a timely way or in a way that can be demonstrated either to the General Accounting Office, to the Congressional Budget Office or to the Office of Management and Budget as being accurate. You know, if it is going to take to 2007 before we know, before we can even begin to look at the books and discover whether or not we have challenges, it is going to be difficult to continue to maintain the argument that these expenditures are necessary. It is on the one hand difficult to be so clear on the need when, on the other hand, you can't be clear on where the money went and how it was spent or whether it was wasted or not. And it is going to be very difficult to continue this process if 2007 is the best that we can do.

And, you know, I understand it is difficult to change the mentality of people who we may like to call them bureaucrats, but we are talking about following the law here. It is not a matter of it would be nice to get to this point. This is a law that has been in place since 1990, and if it is completed in 2007, that is 17 years too late. I don't consider that success, I consider that failure. And so if there is any way that we can move this along, we will be exploring that effort sometime in the future, I guess.

Mr. ZAKHEIM. Mr. Chairman, maybe I didn't make myself clear. And, by the way, if you want to work with us on this, we would be delighted to work with you.

First of all, it is not a matter of saying we are not going to have anything until 2007. What I said was we will not have complete clean audits for all our financial statements by 2007. We already have clean audits for four of our agencies right now.

Second, we are breaking this matter down in terms of component problems. I don't even call them challenges. They are problems. Like problem disbursements, like our fund balance with the Treasury. We have already reduced our problem disbursements by approximately a third. Our fund balance with the Treasury we hope to have cleared up within a year or so.

We are working with GAO precisely for the reason you just outlined, that we do not want to wait until 2007. We want to move this system along various parallel paths so there is more visibility as we go along into the financial statements and more solutions to the questions like, "why can't you track something end to end from the time the money is spent?" and, "where is the piece of paper that demonstrates the process to the actual outcome and execution, that is from the request to the expenditure?"

The money is not winding up in Swiss banks. That is to the credit of our bureaucracy. We know where the money is ending up, it is ending up in tanks, aircrafts and aircraft carriers. The problem is not that. The problem is that in terms of having the visibility we want to make decisions, to make choices, we just do not have it as well as we would like, and that is really what we are trying to do here. Obviously we are trying to comply with the law. I would venture to say without exaggeration what we have done in the last 2½ years has pushed us further and faster than what we did in the previous 14½.

Chairman NUSSLE. To suggest that all of the money is ending up in tanks is also not correct. There is money being wasted. I don't think it is necessary to bring up the poster children of credit card abuse to Hooter's and to Carnival Cruises; but having said that, we know if that is going on, there are other abuses that are more difficult to find unless we get to the bottom of some of these audits.

Mr. Spratt.

Mr. SPRATT. Thank you, Mr. Chairman.

We can expect, as I understand your testimony, not to receive another supplemental request for the military deployment or for the economic reconstruction aid during fiscal year 2004?

Mr. ZAKHEIM. As I sit here now, that is the way it looks.

Mr. SPRATT. With respect to the cost of the deployment in 2005, just the military end of it, can we expect to have some kind of estimate of what the likely cost is in your year 2005 budget request?

Mr. ZAKHEIM. Right now we are looking at that. It is tough to do. It would make certain postulates about what force levels we have in particular. As I said, we have some goals which we hope to achieve. We are not there yet. One example: we have not yet gone beyond the Polish division and the British division, and we have had those for a few months.

Again, can we train up all of the additional 100,000 Iraqis that we hope to? Yes. Will we have them all done by the end of next year? I don't know. So far our track record has been good, but it is difficult to predict. I don't know that I can give you an answer

to that. I am not being difficult about it, but simply responding as I have because of the difficulty of the question.

Mr. SPRATT. Surely internally you have a best estimate, you are not just flying blind?

I am going to come to this chart next, and I asked Mike to give you that. Surely you have a working estimate that you are using within the Department?

Mr. ZAKHEIM. Again, we are not currently estimating the operations and support costs or the additional personnel costs of 2005. Just to give one example of that, so much of these personnel are Reserves. We are trying to cut back on using Reserve forces. We have some question marks. I mentioned in my testimony we might have to use enhanced effort brigades. Are they Reserves or Active? We do not know. That is going to color the numbers. A Reserve that is called up goes from a $9,000 annual cost to a $123,000 annual cost. There are some serious variables that we have to address, and it is not easy to do.

Mr. SPRATT. I just handed you a couple of pages because I want to walk you through the last supplemental that we passed in April, which was for about $80 billion. I believe the request was $74.7 billion, and it would be hard to follow the questions I have unless you have something in front of you.

Of the $74.7 billion, $62.6 billion was for the Department of Defense. Does that meet with your recollection?

Mr. ZAKHEIM. Yes.

Mr. SPRATT. Of the $62.6 billion, according to the justification documents, $30.3 billion went to cover sunk costs. As I recall, the sunk cost definition included costs that you were obligated to spend by virtue of having shipped equipment to one theater, it would have to be removed back to its home base, and that cost was reflected in the $30 billion, as well as amounts already spent. The remaining money, $32.3 billion, the justification documents indicate that $13.1 billion was for a short, extremely intense period of combat operations; $12 billion was for mopping up and phasing the combat forces into an occupation force; and then there was $7.8 billion out of the $74 billion that went to Israel and Jordan and other nations as well as postwar Iraq. As I understand the numbers, there was about $3 billion altogether in postwar aid to Iraq in this April request.

Now, after the war was over you held a press conference. As I recall, you announced that the war turned out to be shorter than expected and therefore had cost less than expected, and as I recall, you said the war cost around $20 billion. How much of the $25 billion, the $13 billion plus $12 billion, remained unspent or unobligated at the end of the war? If it turned out to cost less than we thought, how much was left over?

Mr. ZAKHEIM. As of the middle of September, we got $56.6 billion of the $62.6 billion that Congress appropriated..

Mr. SPRATT. That was obligations?

Mr. ZAKHEIM. That was apportioned to us.

We had $15.6 billion of the Iraq Freedom Fund, and we have issued about $10.5 billion. We have actually come to Congress for about $700 million, and up to now we have about $9.9 billion that has been issued. So you have a shortfall there. However, it looks

like Congress is rescinding 3½ billion of the remaining IFF funds, so that out of that remaining, I would say, $5 billion, $3.5 billion has been rescinded, and all told we anticipate that $54 billion of the supplemental funds, so that $54 billion out of the $56.6 billion that we got was obligated prior to the end of fiscal year 2003.

Mr. SPRATT. What you are referring to is the rescission in the appropriation process?

Mr. ZAKHEIM. Yes.

Mr. SPRATT. The appropriators rescinded money that we provided you as recently as April in order to get the amount appropriated for next year down beneath the 302(b) allocation?

Mr. ZAKHEIM. Whatever the reason, they rescinded it, so we lost 3½ billion right there. Basically where we are is approximately a billion and a half short, and we expect to expend that pretty shortly. So our estimates held up reasonably well.

Mr. SPRATT. Nothing is left after you account for the rescission?

Mr. ZAKHEIM. Not much.

Mr. SPRATT. $56 billion was apportioned, about $3 billion was taken away from you, and there is about $4 billion left; isn't there?

Mr. ZAKHEIM. If you apportion $56.6 billion. And you have 3½ out of that, so it is $53 billion.

Mr. SPRATT. About 3 billion left?

Mr. ZAKHEIM. There is about a billion left.

Mr. SPRATT. Can you assign what that $3 billion is for? Is it for replenishment of assets?

Mr. ZAKHEIM. We got $1.4 billion for what is called coalition support, including supporting, say, the Pakistanis. This is for operations they are conducting in Afghanistan, and it would be more costly and probably more dangerous and probably less successful if we tried to do it ourselves in the tribal areas.

Instead of taking a lump sum payment, the Pakistanis have asked for monthly payments. They essentially stretched it out. They do not go by our fiscal years. So they have money still coming to them that will be expended. That is an example of some of the monies where we know where the money is going. It is all accounted for is what I guess I am telling you, sir.

Mr. SPRATT. With respect to the war itself, can you give us your number as to what the war itself cost through whatever date you designate as the initial conflict ending?

Mr. ZAKHEIM. As you know, Secretary Rumsfeld said it was about $4 billion a month. That was an average.

Mr. SPRATT. It only lasted 3 weeks?

Mr. ZAKHEIM. That's correct. But as you mentioned, there was money that we essentially replenished. We had cash-flowed money ahead of time. It was $30 billion, and the supplemental went to restore those funds. And we have not obviously left Iraq. We have still over 128,000 troops there right now. That continues. It is working at approximately $4 billion a month. Right there you can get a pretty good sense of what the operations and additional personnel costs amount to.

Mr. SPRATT. I understand, but the war itself, including the period that you call extremely intense period of combat operations, for which you allocate $13 billion and $12 billion for mopping up, is that approximately what it costs—about $25 billion?

Mr. ZAKHEIM. The cost of the war was pretty much what we said. My memory tells me that those monthly rates were in the region of $6-or-so-billion a month, maybe higher than that, and that was in the immediate precursor to the war, the war and the immediate aftermath.

Beyond that, as I said, the so-called mopping up as we have seen has not exactly been mopping up in the classic sense of the term.

Mr. SPRATT. With respect to the redeployment and replenishment and repair, particularly depot repair, what is your estimate of the all-up cost to handle that particular category?

Mr. ZAKHEIM. What we have in the supplemental is $2.8 billion. That presupposes that both private and public depots would be able to do about 25 percent additional work in fiscal year 2004. We think they are capable of that.

Beyond that, there are obviously other needs, but that goes to whether you are going actually to modernize, replace, repair. There are all sorts of issues in terms of what exactly we want to do with some of these systems. We are not thinking about one-for-one replacement either, so that is a factor as well.

Mr. SPRATT. The ranking member on the Committee on Appropriations is saying there is still a large unmet need for depot maintenance and high-level repair and replenishment.

Mr. ZAKHEIM. There is. It is a question of execution in fiscal year 2004. It is what you can actually do.

Mr. SPRATT. So there is still sort of a remaining liability looming over the future that this equipment is going to be deferred for maintenance, major maintenance, for the time being?

Mr. ZAKHEIM. Again, there is money in the baseline budget for this, number one. Then it becomes a question of whether you can dovetail the already scheduled maintenance for some of these systems with the maintenance that is required because they have come back from the battlefront.

Secondly, as I said, the question is whether we indeed retain all of these systems or not.

Mr. SPRATT. The question I am getting is you and I know the O&M counts traditionally get funded pretty tight. Is there some remaining liability that is going to be a charge against, a surcharge, an extra cost, incumbent on those accounts, the O&M account, for the next several years because of this deployment that we have not reflected here?

Mr. ZAKHEIM. We have been pretty good about fully funding O&M over the last few years and protecting it, and there is some real growth built into O&M which was not necessarily the case in the past.

Secondly, as I said, as we go through this, I am not ready to concede the point that we will have a big additional overhang because of depot maintenance. It is a function of whether we can work in what has to be repaired with the schedules that already were set for those repairs; and, in addition, whether we factor in the requirement for preserving or perhaps disposing of some of these systems. I am reasonably confident about this without challenging the question that there is a requirement for further repairs.

Mr. SPRATT. The $63 billion included $7.8 billion, part of which was designated for aid and humanitarian assistance to Israel, Jor-

dan and other unnamed countries. Where did that money go, and has it all been spent?

Mr. ZAKHEIM. That of course is not in my budget, Mr. Spratt. It is not my budget, it is the Department of Defense budget. It is certainly not my budget. The Department of Defense does not have cognizance over that. That would be something to be discussed primarily with the State Department.

Mr. SPRATT. We have agreed to provide other nations like Pakistan, if they will send troops, incremental costs to maintain troops in the field. They would pay the base cost, we would pay the incremental cost. Could that account be tapped for that expense?

Mr. ZAKHEIM. You mean for the aid, is that what you mean?

Mr. SPRATT. Yes.

Mr. ZAKHEIM. These are totally separate. The DOD accounts are for supporting military operations by our allies and friends. There are some very, very strict conditions before we actually fork out a penny. First, they have to be operations that these countries otherwise would not have undertaken. Second of all, they have to be operations that they undertook at our request. And third, they have to be operations that are clearly geared to fighting the war on terror.

Having met those conditions, we then actually look at what bills they submit to us, and we review them to see whether, in fact, we can verify that those operations indeed were undertaken to meet all those conditions. Quite frankly, we have annoyed some of them because we do not pay then 100 cents on the dollar; but that whole effort is totally separate and apart from aid to Israel or Jordan. It is a completely different account.

Mr. SPRATT. But you are paying that out of your hide?

Mr. ZAKHEIM. Again, it is the Department's money, the people's money. It is certainly not mine; but yes.

Mr. SPRATT. I have one question that does need to be put to you because we need some clarification.

We frequently see the per-month cost of maintaining troops, the deployment in Iraq, and I guess the theater of about $3.8 billion?

Mr. ZAKHEIM. It is a little higher. We have been saying $3.92 billion. That is about right.

Mr. SPRATT. You have requested $51 billion. If you divide that by 12, it actually comes out to about $4.3 billion which is a little higher. You said we have 128,000; I was given the number 113,500. I would think we would draw down those troops somewhat and maintain an average of 100,000 or so for the next fiscal year. If you do that, the cost per troop works out to be about $40,000-$45,000 per troop per month. That is over and above their base pay and all the other benefits they get. That is $45,000 of incremental cost, which seems substantial, to say the least.

But then when we look at Afghanistan, we have 9,000 to 10,000 troops in Afghanistan. We are getting $1 billion a month for their maintenance, $900 million to $1 billion. If you do the arithmetic on that, that comes to close to $100,000 per troop per month, the incremental cost, which seems an enormous sum, one; and two, especially in comparison to what is happening in Iraq where those troops have a regular high ops tempo, I would think.

How do you account for the cost components that make up that $4 billion a month and for the difference between Iraq and Afghanistan?

Mr. ZAKHEIM. In terms of the cost components, basically what you have is not just the marginal cost of the forces, it really depends whether they are Active or Reserve because there is a huge difference in terms of what it costs us. The Actives involve additional costs, whether it is hardship pay, family separation allowance, or hazardous duty pay; whereas for the Reserves it is a different story, they are now being paid as Actives.

The second fact is the cost of transporting them and bringing them back. There is the cost of housing them there. We have put more money into housing them. They were working under pretty rotten conditions. There was concern that we have not moved as quickly as some would like in terms of improving conditions there, and we are actually doing that, and we have budgeted funds for that.

Yet another factor beyond the conditions in terms of living, and that includes air conditioning and water and so on, are the personal security elements. There has been a lot of concern, for instance, about the ceramic tile inserts to the Kevlar jackets about how to protect the Humvees and other vehicles, and about up-armoring Humvees, and those are additional costs associated with this effort. There are multiple inputs into the $4 billion a month that go beyond simply personnel costs per se.

In terms of the difference between Afghanistan and Iraq, a lot of people have noticed that, and I think some of it is simply a function of the relative cost of Reserves there and the facilities that we have put in. We have been there longer and have spent more money on facilities there than in Iraq. Again, the average is about $950 million a month. On the face of it it seems an oddity, and we can get you for the record an accounting of that.

Mr. SPRATT. The cost has gone up. We were typically getting a number like $3.8 billion several months ago, and now it has crept up to over $4 billion. Particularly if you divide 12 months by $51 billion, that is $4.3 billion in your request. It would seem to me that now that we have our troops over there in theater and ops tempo is down to at least less than what it was when we were fighting a hot war. We have a guerrilla war on our hands now, but the logistics and supply folks are trying to realize some efficiencies. It seems to me that the costs would be going down rather than up.

Mr. ZAKHEIM. Precisely because there are so many troops there that are functioning in a different way, we have new requirements for logistics that we did not have during the war. It was different logistics during the war. Now we are talking about keeping people on the ground doing things that in the wartime they did not really need to do. They did not need facilities on the ground in Iraq. They did not need welfare recreation facilities. They did not need 2 weeks of rest for which we are paying now. There are a lot of things which have materialized as a result of being there, or maybe precisely because it is not a combat situation.

Mr. SPRATT. If you can give us that for the record, I would appreciate it.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman.

Mr. Zakheim, thank you for coming up here. Let me apologize in advance, and we hope you do not take some of these questions personally, but they are the kinds of questions that we get when we go home. In many respects, those of us on this committee and, frankly, in the Congress, we do reflect what the people are thinking about and what they are talking about.

$87 billion is a lot of money. If you divide that up, that would run the State of Minnesota for probably at least 6 years, OK. When you talk about some of these numbers, I think Mr. Spratt, the numbers that he just talked about, the numbers per month are just mind-boggling to the average grain farmer in southeastern Minnesota.

In some respects, I am happy you have been as forthright as you have been today, and in some ways I am a little concerned. I think one of the problems that we have right now in communicating all of this to our constituents is there is a dissidence. We have had various folks from the administration come down here in the last year or so, and we have gotten sort of different kinds of stories. One of the stories, for example, is that there are no more than 2,500 or 5,000 terrorists at large in Iraq, and generally toward the lower end of that number. And yet somehow to deal with that, we need 140,000 Active troops. We need every type of weapon system known to human beings and still that does not seem to be enough.

The other dissidence is created because the Commander in Chief himself said a number of months ago that the war is over, and yet every day we learn that is not exactly the whole truth and nothing but the truth.

Secretary Wolfowitz and Armitage were up here earlier this year, and they said the cost of any rebuilding could easily be borne by the Iraqis themselves, because if you divided up the potential oil wealth in Iraq, they are potentially the third wealthiest country in the world. All of this creates an awful lot of dissidence not only in this committee, but among the American people. And now we are being asked for another $87 billion, and I have to say what I said back home, and that is that this is not what we were told a few months ago.

So as we go forward, the only thing I would ask is that you work with the people both at the Department of Defense and the State Department to at least have one story, and you are going to have to help us explain $100,000 a month. I am sounding like I am ragging on you, but these are difficult things to explain. When you have a 20-year-old kid who loses a leg in Iraq, and he is in the hospital, and we bill him $8.10 a day for food, that is a hard thing to explain on my radio show back home. Or, for example, that we are willing to spend these huge amounts of money, and if one of those kids gets killed, we send their families a check for $6,000; and, oh, by the way, they have to pay Federal income tax on that next year. We have to have a much better system of communicating this.

I know this is not your category, but the whole area of the $22 billion, and I understand the President's position, and I also understand that we cannot afford to fail, and we have made an enormous commitment to the people of Iraq, and we are in a difficult position

in trying to pull the rug out from under them. But I hope the people down at the White House, Pentagon and State Department understand that this $22 billion is going to be borrowed. It is going to be borrowed against future oil revenues of the Iraqis, or it is going to be borrowed against our children. One way or the other it is going to be borrowed. The question is who is going to have to pay it back?

Everything that you can do to make certain that we have good information; and more importantly, I think what the chairman and the ranking member were saying, at the end of the day we all have to be held accountable, and that includes the Department of Defense. I know there are people in this building, not necessarily in this committee, but in some of the other committees, who believe that every agency of the Federal Government is capable of waste, fraud, and abuse, except the Pentagon. I do not happen to be one of those people. It seems to me we have every right to know how in the world do you spend $100,000 a month?

Mr. ZAKHEIM. Sir, first, I do not have any difficulty with the kinds of questions you ask. It is not a question of me taking it personally or not. We all have friends who have kids, or we have kids, who are out there. In my case if you want to get personal, I have a stepson who is a photo journalist who went out with sniper missions, who went with special operations people, who was with the 101st when that guy threw grenades into the tent next door. My stepson calls home from Iraq, and we hear the mortar fire in the background, and we do not sleep at night. We understand every set of parents in this country who have difficulty sleeping. These are questions that deserve to be answered and should be answered.

So let me try to answer some of them, at least to clarify for you. Why do we need so many Active troops with the terrorists being in Iraq in such small numbers, and obviously by definition we do not know how many terrorists there are, whether it is 5,000 or 2,500. I am not an intelligence type, I cannot talk to that.

Mr. GUTKNECHT. I did not make up that number. That is what we are told.

Mr. ZAKHEIM. No, no, I am not challenging that. I am going down a different path, which is simply this, and as one IRA terrorist once said, everything works until we succeed one time, and that changes everything for the British, and it has for all those years. Look at the thousands upon thousands of troops that they have in a little place called Northern Ireland. Look at what the Israelis have to do in territory that is tiny compared to Iraq. So maybe 114,000 is not the issue. The answer is maybe to get more Iraqis on the ground dealing with their own, and that is exactly what we are trying to do, and I think that has been a consistent message of the administration.

As far as the war being over, as you know, the President really referred to major combat operations. No one was under any illusions that the war was over; but it is fair to say we are not talking about sending in F–15s or F–16s or those kinds of things. We are dealing with a different kind of operation and threat, and it has to be dealt with. It in no way diminishes the President's statement; we have just moved to a different phase, and I think most folks understand that.

As to the cost borne by Iraq, there was the question of borrowing, grants versus loans, whether we would bear the cost; that someone is going to be essentially borrowing. It is fair to say—and actually let me step back because you did mention that my Deputy Secretary made some statement about how Iraqi oil money is going to cover things. What he said was that he expected over the next few years the Iraqis could generate about $50 billion in oil—that is our estimate, and the World Bank does not challenge those—over the next 4 years. In 2004 it will be about $12 billion in revenues; about $19 billion in 2005; and about $20 billion in 2006 and 2007. You do the sums, and that is what it comes to.

The difficulty is that a lot of that money is going to go to the running costs of Iraq, and then there is the need to jump-start the economy and to do investment beyond running costs. Certainly over the next couple of years, maybe the next 3, Iraqi oil is not going to do the trick. That is why it is not just us, but other members of the world community are prepared to change their own policies, like the Japanese, and put grants in up front. Everybody recognizes that within a few years, the Iraqis will be on their own feet.

The question is: How do you get from here to there? We cannot do it, frankly, if we lend them the money. If we lend them the money, we beat them further into the ground. Let us leave aside all the political science stuff about resentment and Versailles and all that. The basic economic problem is if we lump them with more debt, they will never be able to get out from under it, we will slow down the process of recovery, and we will make it more costly. The Japanese understand that, and the British understand that, and the world community understands that.

I think I have addressed the grants versus loans as well. I have segued into it.

Again, you are asking the right questions, and we are trying to get you the right answers because the American people deserve them.

Chairman NUSSLE. Before we move on, I need to say this for the record before we move to Mr. Moran, and I apologize to the Member.

I hear that you are saying if you cannot budget for every possible future contingency, you cannot budget for any. I need to just say this: That may have been how we handled the budget in 2003 and 2004, but I just need to tell you from this Member's standpoint, that is not how we are going to handle the budget in 2005 and beyond. We are far enough way away from the budget submission that we have time to plan, and if there is a belief on the part of the Department of Defense that we are not going to do that for 2005 and beyond, I need to say that is a mistaken belief, at least by this Member's vote and intention.

Mr. Moran.

Mr. ZAKHEIM. I would like to respond to that, if I may. I think I was misunderstood, or maybe I did not make myself clear. It is not that we are not budgeting for any contingency. In fact, the whole way we have structured our programming and budgeting process is to have a capabilities-based budget which moves away from contingencies and creates situations.

Chairman NUSSLE. So then I will ask the question that I asked before. Are you or are you not going to include in your 2005 budget request the global war on terrorism?

Mr. ZAKHEIM. The answer I thought I gave you and continue to give you is——

Chairman NUSSLE. You don't know that yet?

Mr. ZAKHEIM. Beyond that in certain respects, of course.

Chairman NUSSLE. What I am suggesting to you, and it does not require a response at this time, the response I would suggest very respectfully that needs to come in your submission is that you need to do that. That is the request, that is the answer I need is in your request, not an answer today that you will try. That is great. I am glad you will, we hope that you will. But the answer needs to come in the request. I apologize to Members for taking the time. I don't usually do that, but I needed to.

Mr. MORAN. Mr. Chairman, this is the same thing on all of our minds. Just as you said, every one of us want this venture to be successful, and with as little loss of life and limb as possible before we can get out. But if it was the Clinton administration, you know the kind of pressure there would be on specificity as to amount, as to period of time for engagement. I remember the deadlines that were given with regard to Bosnia, and that was a much smaller level amount of money and troop commitment.

It has been 6 months since we passed the last Iraq supplemental, and things have gotten much worse. That was an opportunity to at least have taken care of some of the bare necessities which have been mentioned by the Chair, the ranking member, the most basic protections of the troops, the Kevlar jackets, protecting the Jeeps, the hand-held devices that will jam portable explosive devices. One would think all of those would have been in that request, but they were not. Now that is being used to partly justify this current request. How do we know it is going to be taken care of with the money we provide now?

We were just told by Secretary Rumsfeld last week that the force that will be in Iraq next year is likely to be 40 to 60 percent non-enlisted, in other words Reserve and Guard. The Army has told us that they cannot sustain significant troop levels in Iraq much beyond spring of next year. This is going to have a dramatic effect on our ability to have an adequate number of people in the Guard and Reserve for maybe a generation to come.

There is a lot of evidence that those people who were telling the administration what they needed to know instead of what they wanted to hear were ostracized. Larry Lindsey, Chair of the Council of Economic Advisers, said this war could cost $100 billion to $200 billion. That was the only estimate we could get, and where is he? He is gone, put back in the private sector.

Everybody else deferred answers, just like you are doing, Mr. Zakheim, and I do not blame you, but you are being given your marching orders. More importantly, the military has been marginalized in planning for the budgeting and operations in Iraq. I think that is a large part of the problem. Much of the military's funding requirements to reconstitute the force were not even considered by the Office of Management and Budget or by your office in the preparation of the supplemental request. We have been told

that by the very people who should have had that input. They were given an arbitrary funding limit set by your office and by OMB.

That is a top-down approach that is going to have dire consequences. A failure to expediently reconstitute the force is going to leave our military ill-prepared for future contingencies, and you justify the reason we are in Iraq is because we are going to go out and hunt down the terrorists. What about Iran and Syria and North Korea. How are we going to be prepared to deal with situations in those countries that might become critical if our forces are as depleted as we are told they have been?

Boy, we have some dramatic numbers in terms of depletion of the force. We are told 46 percent of all Army spare parts are not available. They are called zero bin. Forty percent of the Humvee vehicles are out of commission due to the lack of spare parts. I could go on and on.

This is not going to work. We need specific numbers. You are going to hear this over and over again. And if you have some better answer than what we are getting in your statement, I would love to hear it. But it sure makes people on your side voting for this supplemental and it makes it very difficult for those Democrats who want to support our troops to give you another blank check. Do you have any response?

Mr. ZAKHEIM. Sure. Let me try and take each of your concerns in turn.

The first one is actually a pretty straightforward issue. You mentioned 6 months ago there was a supplemental. That was true, for fiscal year 2003. I was constantly asked, as were others in the administration, are you going to come back for more money for fiscal year 2003? We said no, and we did not.

The supplemental now is for fiscal year 2004, and I believe I gave both the chairman and Mr. Spratt an answer on that one: We do not anticipate at this time coming back for more money for fiscal year 2004. The 2003 supplemental was, relatively speaking, late. We had forward-financed a lot of our activities, and we waited until the war was over—2004 is a completely different circumstance. It is an apple and an orange in a certain way. I am glad you asked that question, as they say.

About the body armor and some of the other systems, the Army's original plan was to outfit about 61,000 troops, and now we have a lot more. The Army actually more than doubled their requirement. It is now about 137,000 sets. Right now, as of September 24—I am 2 weeks late with my information—there are 98,000 sets already in theater, 50 percent more than the Army's original plan, and we expect the remaining sets to be filled by the end of November 2003.

As a result of concerns that you and others have raised about force protection, the Deputy Secretary asked the Director of Research and Engineering and myself—for him to identify systems, for me to find the money in some way—to find near-term solutions to deal with CENTCOM's priorities for a situation that was clearly involving these explosive devices. No one anticipated that to the degree they are taking place. We were asked, "How do we up-armor the Humvees?"

We got three different estimates every 2- or 3-week interval. The Army went back to the contractor and said, "can you produce more?" They gave a number. Then the Army went back and said, "can you produce more?" They gave a second number. The Army went back a third time, "can you produce more?" and they gave a third number. Our original estimate was about 595- in the supplemental, and we came in with over 700-. Now there is an increase for even more.

What the Deputy Secretary said was, "can you work out a plan" for things like countermortar radars, additional unmanned vehicles, various electronic countermeasure devices, up-armoring the Humvees, body armor, Kevlar suits, ceramics for the jackets and so on. The Director of Research and Engineering, Ron Sega, has been working on putting something together. We are working on identifying the funds, and we expect to come back shortly and tell you how we are going to deal with that.

We are being responsive to a situation that I don't think anybody really foresaw in its precise nature, not the least was the Army. As they have upped their requirements, we have tried to be responsive. We do not want the kids killed any more than you do. We have all visited Walter Reed and Bethesda, and it tears your heart out to see young women who are mothers without legs, young men without stomachs and so on. We have to do something about it, and we intend to. I am not challenging your point, I am showing you that we are being responsive.

In terms of the military being marginalized, that one I have to take issue with. We did not marginalize the military. We worked with the joint staff, which synthesizes the services' requirements. They were not marginalized. I do not know who told you this, but I will tell you as best as I know and as far as I participated in this process, we did not marginalize people. We worked with the best estimates we had; and as I just mentioned in the case of body armor, the estimates changed. We are trying to be responsive.

Mr. MORAN. What did the Army tell you that it would take to reconstitute the force?

Mr. ZAKHEIM. I do not have a precise recollection right now. They came in with addition estimates. They worked with our staff. They revised them. The estimating process—as you know very well, you have been in this business for quite some time—begins with preliminary estimates, and we scrub them. Sometimes the estimate goes up. That is what happened with the Humvees. The Army insisted they needed less than 600 Humvees. They went back to the manufacturer and got more. They wanted more, but it was a question whether it could be executed. Sometimes the estimates go down. That is the give and take of the process.

Mr. MORAN. Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Diaz-Balart.

Mr. DIAZ-BALART. Thank you, Mr. Chairman.

I think there is no higher priority than seeing our troops have the best training and equipment, and our national security is protected. That does not mean, however, that we should not be concerned about waste, fraud, and abuse. This chairman has been harping on that for a long time and has been leading efforts to try to get rid of waste.

I want to mention just a couple. The GAO report that studies expenditures on contingencies operations in the Balkans and Southwest Asia said that over 5 percent of the expenditures were questioned by the GAO. Some of those jump up and bite you: a sofa and armchair for $24,000. For that it should drive someone to work. Decorative lock for $19,000, a designer table for $2,200, executive pillow for $1,800.

You mentioned before in your statement how all of the money is going to aircraft carriers and tanks. Some of it seems to be going for things that are obviously none of the above, and that worries me. I think that should worry all of us, obviously, for two reasons. One, it is obviously taking from the taxpayers, and two, it is also not going to serve those troops on the field that need all of the help they can get.

I am hoping that you are looking at some of those issues and you are going to come up with some things to try to correct some of those issues, but also some system of accountability. I don't think you can have accountability without having people's jobs on the line. What are you doing to make sure—and you are working on it, and the chairman had some very good questions as far as timing, but are you looking at a system of accountability that will actually put people responsible for these sorts of actions in a situation where their jobs are on the line even?

Mr. ZAKHEIM. Those are all fair questions, so let me try to address them. When all of that stuff came up about the sofas, I guess somebody also was bringing sand into Saudi Arabia. I asked my staff to look into what was going on and what I could do about it.

The first thing that we found was a lot of this was money that was what is called MWR money, morale, welfare and recreation money. It is not taxpayer money at all. It is money that people raise and are able to spend. They get it from private sources and so on. I felt very uncomfortable because the average person on the street is not going to understand the distinction, but there is a distinction.

The second part is that even if I could point out that someone had not acted properly, if that person was in the military, my hands were tied. There is something called command influence. I cannot go to a military commander and tell him or her how to discipline people. I can write memos and issue very stern instructions and warnings to the civilian side of the services, and I have. I can send you copies for the record if you need some of those. But there are bounds beyond which I cannot go.

And the reason you have these command influence laws are straightforward. You do not want the military to be subject to the whims of civilians either. In this case there could be a very good reason for beating up on somebody, but there may also be bad reasons, and that is why the laws are strict about what someone like me can or cannot do.

The chairman mentioned credit cards. We did not just wring our hands. I created a credit card task force. What we have done is outlined ways to get to the bottom of this. We have worked out systems where there are things called split disbursements. You pay the hotel directly, and the guy or woman does not get their hands on the money.

We have ways of tracking patterns in the expenditures. And frankly, I do not want to go public, because if I tell how we are doing the tracking, then the tracking will not be as effective. But a lot of stories you read in the paper about people caught out doing fraudulent stuff, it is because of the tracking we have started. We have new training courses and handbooks. I can send you a list of these things.

What we can do, we are doing, because it is not for some vague taxpayer; it is for me, you, my family, your family. So we are doing something about this.

Chairman NUSSLE. Mr. Edwards.

Mr. EDWARDS. Mr. Zakheim, you work every day on behalf of our servicemen and women, and I appreciate that, but I am going to be very direct in my comments and questions.

First, the administration said it will take good care of our military families. I do not doubt the intention at all, but I do want you to answer, if not during this 5-minute period, in writing to me, how can it be that the administration this year can say we can afford a $230,000 tax break to someone sitting here safely at home making $1 million a year in dividend income if the administration's position this year is we should cut military Impact Aid education funding that provides better schools for the kids whose parents are fighting in Iraq today by $173 million? Why is it this administration says we ought to cut military construction funding by $1.5 billion this year, which means less housing for our military families, less day-care centers, less health care clinics, despite the fact in this same year we passed that dividend tax cut? And why can an administration that pushed so enthusiastically earlier this year for a dividend tax cut cannot get the Speaker of the House to move the bill that has been sitting at his desk for 6 months, the Tax Fairness for Military Families Act, H.R. 1307, which would provide modest death tax benefits and home sale tax benefits for military servicemen and women? I certainly hope it is not because the leadership in the House is offended by the idea that the Senate pays for that bill by closing the loophole on Benedict Arnolds who leave our country to keep from paying taxes even during time of war.

Dr. Zakheim, I think the key question before the committee today is not do we support a strong national defense. All of us in Congress do. But I think the key question is whether the American people have yet been told the truth about the full cost of the Iraqi war and the full cost of our future Defense budgets. I think the answer is no. If you cannot answer as Defense controller what the estimated cost of the Iraqi war will be, then who can?

This administration was slow to tell the American people what the cost of the Iraqi war might be, and when it did, it estimated, I believe, around $70 billion. That estimate was over $70- to 80 billion wrong, and we are just beginning to get through this process.

Just a few months ago, referring to chart No. 13, Secretary Wolfowitz, in answering a question to this committee about the cost of Iraqi reconstruction, said to assume that we are going to pay for it is just wrong. Well, it was Secretary Wolfowitz that was wrong. What bothers me is not the cost of the Iraqi war, which I will pay for and support, it is not the cost of national defense, but it is that an administration that is so uncertain today about our future cost

in Iraq and for national defense had no uncertainty when saying a few months ago we could afford a half-a-trillion-dollar dividend tax cut bill. That simply makes no sense.

I want to ask you this question: Is there a time when you can estimate for us and the American people a low, high, and most expected cost for the Iraqi war? And secondly, will you stand by the present fiscal year debt for 2004–09, the administration's defense budget estimate, or do you think perhaps the Congressional Budget Office was right when it said that budget, excluding the Iraqi war cost, underestimates our defense needs by $61 billion?

I think those are questions we need to have answered before the administration pushes through with what it said recently, and that is next year they are going to push another tax cut even as our military housing is underfunded, even as they are trying to cut Impact Aid for education for military kids at Fort Hood in my district while Mom and Dad were getting on the plane to fly to Iraq. I will stick with you in supporting a strong defense, but this administration needs to be carry out its responsibility to the American people to be honest about the cost of this Iraqi war and the true cost of our Defense budgets for the next 5 years before we start making grandiose promises and digging a huge hole for our children and grandchildren by passing on a massive national debt because they were not given those honest numbers.

Mr. ZAKHEIM. First of all, Mr. Edwards, I know you are a strong supporter of national defense. You do not have to convince me or anyone in your district, I suspect. I am not going to address some of the larger issues which are outside of the purview of my Department in terms of taxes and so on. They are questions that others are in a better position to answer.

On Impact Aid, as you no doubt know, the budget is in the Department of Education, so it is outside my ability to do very much with.

On the full cost of Iraq, I guess it really amounts to this: What Deputy Secretary Wolfowitz said, the question that he was responding to, he gave an accurate response to. If you put the slide up again, you would see that the question he was asked was whether the cost of Iraq's reconstruction would eclipse the cost of the war and its immediate aftermath. And his answer was, our contribution to the cost of reconstruction, which is about $20 billion, is, A, less than 50 percent of the cost estimated by the World Bank and the United Nations; and, B, is going to be less than what the Iraqis over the next 4 years are expected to generate in terms of their oil revenues; and, C, is less than the cost of the war. He did give an accurate answer.

In terms of the full cost of Iraq, as I told the chairman and Mr. Spratt, right now we see this $20 billion as our share of contribution costs. Beyond that, in the regular appropriations cycle, if there is a need to give FMF or aid money to Iraq, it will go through the usual appropriation. This supplemental is the one big, critical injection of funds.

In terms of operations, I know it is frustrating for all of you. It is frustrating for us as well, but we cannot predict where we are going to be 1 or 2 years down the road. We know as long as we continue down the current trajectory of training Iraqi forces and

anticipate getting more international troops in, our numbers will come down, and therefore operation costs will come down, and our personnel costs will come down. It is not that we are being stubborn here.

Mr. EDWARDS. Do you have costs based on those estimates and assumptions?

Mr. ZAKHEIM. We are looking at that. We can see what we can do about that, but even those estimates continue to vary. So when you ask me whether there is a high, low or middle, the study I believe you are referring to did not account at all for the Iraqi contribution. It did not account for international contributions. The same, by the way, with CBO. I used to be at CBO. It is a top-flight place. The people there are the best of the best right now, and hopefully we were pretty good when I was there, too.

Again, CBO's methodology is very rigorous and they are clear about what they do. They have assumed one-for-one replacement of all the systems. That is not how we will be doing it. The transformation is clearly not a one-for-one replacement. When you put $24 billion and $240 billion into transformation, you are talking about a complete overhaul of the way you are buying and replacing systems. If systems were replaced one for one, you would be absolutely right, because every few years the cost of a weapon system doubles. It is just compound interest effect. But that is not what we are doing.

The other thing that the CBO highlighted in a very good way is the cost of all of these additional entitlements. They did not even count in Tricare for Reserves or the cost of current receipt. My goodness, what is it going to do to their estimates when these are brought in?

Chairman NUSSLE. I am going to call on two more Members before we break for the vote: Mr. Hensarling and Mr. Scott.

Mr. HENSARLING. Thank you, Mr. Chairman.

Dr. Zakheim, during my limited time I do not care to debate Iraqi policy with you or debate the amount of money that the Pentagon is spending under your watch. I do care to inquire some about how that money is being spent.

First of all, as an observer of human nature, the world works off of incentives. On your watch, tell me about what incentives the guy or lady seven or eight layers down in the bureaucracy has to be a good steward of the taxpayer money, be it civilian or military personnel? Are there pay raises, promotions, ribbons? What is the incentive that would have somebody be a good steward of the taxpayer money?

Mr. ZAKHEIM. We have put a new proposal to Congress for a complete change in the way we deal with civilian personnel, which in many ways would create the kind of flexibility at the top that right now does not fully exist. I would say that the current system makes it very, very difficult for really talented people to jump up because the pay bands are quite narrow and rigid, and were set a long, long time ago.

So in addition to the usual sorts of incentives and the kind of things you mentioned, not to mention the fact that ultimately people go into government and public service if they are talented because they care about the public. And, you know, the talented peo-

ple in the bureaucracy could clearly be making a lot more money elsewhere. So their incentive, their fundamental incentive, is the public service.

Having said that, I think the kinds of reforms that Dave Chu has been proposing are critical to create a circumstance where better people can be demonstratively rewarded for what they are doing.

Mr. HENSARLING. Well, that is what I would be interested in. I mean, the incentive to go and serve your country and being a good steward of the taxpayers' money I don't believe necessarily are identical concepts. There may be a lot of people who want to serve their country, but that doesn't necessarily mean that they are going to go out and purchase the $10 hammer as opposed to the $100 hammer.

As long as we are on the incentive question though, a question that I like to ask all of our witnesses is: What else could this Congress do that would allow the Pentagon to maintain their current mission as defined but do it in a more cost effective manner?

Mr. ZAKHEIM. We do have a number of proposals, as I say, a number of ideas that we have put together that are currently pending before the Congress—the overhaul of our civilian personnel system, perhaps being one of the most prominent in that regard—which would allow us to be far more cost effective. There are others as well and I can give you those for the record. There are quite a few of them.

[The information referred to follows:]

MR. ZAKHEIM'S RESPONSE TO MR. HENSARLING'S QUESTION REGARDING PENTAGON EFFICIENCY

The best and fastest way for Congress to enable the Department of Defense to fulfill its current missions more cost effectively would be to pass President Bush's "Defense Transformation for the 21st Century Act of 2003"—submitted last April. This package includes our important and pressing requirements. We especially need approval of the National Security Personnel System. Among its several key benefits, the System could enable the Department to substitute civilians for military personnel in thousands of non-military positions, which would help relieve the strain on our military. Other initiatives in the Act include improving the acquisition and contracting process, transforming the appropriations and budget process, and reducing unnecessary reporting requirements.

Mr. HENSARLING. Well, I would very much like to have that submission.

President Bush was quoted once as saying that we have to go beyond marginal improvements to harness new technologies that will support a new strategy. Obviously, the threat to America has changed over the years, yet I am only aware of one major weapons system being canceled as we add on all the new spending to meet the new threat. It seems to me that a case can be made that all we are doing is building new systems on top of cold war legacy systems. Can you disabuse me of that notion?

Mr. ZAKHEIM. I will certainly try. I guess the one you are thinking of is Crusader. But the Army alone cut 18 other systems. If you recall, we cut the size of the B–1 force by improving the rest of the B–1 force. We totally changed the DDX project. That is now completely different in terms of new systems that we are talking about.

Mr. HENSARLING. What are the documented cost savings then on these transformations and cancellations?

Mr. ZAKHEIM. We have those. I will get them to you.

[The information referred to follows:]

MR. ZAKHEIM'S REPONSE TO MR. HENSARLING'S QUESTION REGARDING DOCUMENTED COST SAVINGS

To implement Secretary Rumsfeld's guidance stemming from the 2001 Quadrennial Defense Review, the Military Services have shifted billions of dollars from their old multi-year budget plans to new ones—as they have terminated and restructured programs and systems. For FY 2004–09, the Military Services estimate that they have shifted over $80 billion to help them transform their warfighting capabilities and support activities.

Of special note, the Army's fiscal year 2004–09 budget plan cancelled 24 acquisition programs and restructured another 24.

Some transformational changes will not be reflected in savings. Instead, existing funding has been redirected to achieve transformational capabilities, rather than merely upgrade to legacy systems. For example, the Navy's planned 2007 aircraft carrier has been upgraded to the CVN–21 design—whose innovations include and enhanced flight deck, a new nuclear power plant, allowance for future technologies, and reduced manning. Some of these capabilities previously were not going into a carrier until 2011. This is an example that fulfills President Bush's goal of skipping a generation of systems or technologies.

Mr. HENSARLING. OK. I am sorry, I interrupted you. If you wanted to——

Mr. ZAKHEIM. Sure. I was just going to say that if you want to look at some new systems, we put cruise missiles on our Tridents, which is a completely new approach. Our UAV programs have expanded. We have got some very exciting space based programs and also communications programs, some of which are classified and perhaps you could be briefed about them in another venue. The Navy has a new program for a littoral combat ship, for completely different type of naval operations that are not your classic blue water operations. There is the future combat system in the Army, where research and development is going to ramp up and the new chief of staff is looking at making that more appropriate for the 21st century. The Stryker system is another one.

That is not a bad list right there.

Mr. HENSARLING. Thank you.

Chairman NUSSLE. Mr. Scott, it is your option whether you want to go now and sneak this in, or wait until after we resume.

Mr. SCOTT. I prefer to come back.

Chairman NUSSLE. All right. Then we will recess until after the second vote. Thank you.

[Recess.]

Chairman NUSSLE. The hearing will be in order. The hearing resumes at this point. Mr. Scott may inquire.

Mr. SCOTT. Thank you. Thank you, Mr. Chairman.

My first question involves the bulletproof vests. I understand that in a few weeks we are going to get around to having enough for everybody. How many troops did we plan on having in Iraq, and how many do we have now?

Mr. ZAKHEIM. How many troops? In terms of the vests?

Mr. SCOTT. No. When we went into Iraq, how many did we plan on having, eventually having in Iraq, and how many do we in fact have now?

Mr. ZAKHEIM. Right now we have approximately 132,000 today. In terms of planning, as you know, we came in with a somewhat similar number, a somewhat larger number, and it seemed to have

worked out pretty well in terms of how the war went. So I am not really sure where you are headed with that.

Mr. SCOTT. Well, did we think we were going to need fewer troops than we ended up with?

Mr. ZAKHEIM. I don't think so. I think—I mean, obviously you would have to speak to——

Mr. SCOTT. So we knew we were going to have a shortage of bulletproof vests when we went in?

Mr. ZAKHEIM. Oh, I see what you mean. No, sir. Again—see, that is what I asked you, if that was the reference point. No. The Army originally anticipated 61,000 vests because what they needed those for were for the people who were going to operate from vehicles and then dismount, and——

Mr. SCOTT. But the total number was the same?

Mr. ZAKHEIM. Yes.

Mr. SCOTT. OK.

Mr. ZAKHEIM. And then the Army simply raised the estimate because the nature of the operations were such that they had a lot more people walking around and needing the protection and also in the vehicles.

Mr. SCOTT. OK. Who oversees the contracts in the reconstruction part of the budget? Would that be State or Defense? If Halliburton is in fact overcharging, who would be the one responsible for catching that?

Mr. ZAKHEIM. Leaving aside whether Halliburton is overcharging or not, AID has issued a large number of the contracts, Defense has issued some contracts, too.

Mr. SCOTT. Who is responsible for overseeing the contract compliance?

Mr. ZAKHEIM. The——

Mr. SCOTT. The one that issues the contract?

Mr. ZAKHEIM. Well, yes. It would be State in their case. When we issue contracts, it would be us. I can tell you from the perspective of the Department of Defense, I have under me the Defense Contract Audit Agency, and I have brought them in to review every single contract that is now being awarded.

Mr. SCOTT. And you have no evidence that Halliburton is overcharging?

Mr. ZAKHEIM. I don't believe—OK, in terms of the logistic support contract, that is ours. We have been looking at that. I have nothing right now to prove that they are overcharging or not. We are looking into DCAA's auditing all these contracts; and when they report to us, we will know more.

Mr. SCOTT. Is future ship construction and maintenance part of the $87 billion?

Mr. ZAKHEIM. Future maintenance of those ships that are coming back from the theater is part of the $2.8 billion. I will have to give you for the record how much is going directly to ship maintenance. Ship construction of course is not, because the SCN budget is something different.

Mr. SCOTT. But maintenance is part of the budget?

Mr. ZAKHEIM. The depot repairs would be, yes, sir, and also operating the ships in theater.

Mr. SCOTT. You indicated that Iraq would be hard pressed to pay back the debt. What is the per person debt of citizens in Iraq compared to the per person debt in the United States?

Mr. ZAKHEIM. I don't know what the per person debt in the United States is. There are about 25 million citizens in Iraq. But I can tell you this, that I believe that the average income of the average American is considerably higher than the average income of the average Iraqi, maybe by a factor of, let us see. They are talking about as little as $600 a year for these people per capita and we are at something in excess of $30,000 million.

Mr. SCOTT. Do you know what the per capita debt is for a citizen in Iraq right now?

Mr. ZAKHEIM. I think they have about $100 billion in debt. That is a round number. There are about 25 million citizens. So there it is, 4,000.

Mr. SCOTT. About 4,000?

Mr. ZAKHEIM. I think so. But I can get——

Mr. SCOTT. What is the per person debt in the United States?

Mr. ZAKHEIM [continuing]. I can get that for you in the record.

Mr. SCOTT. Ten? Twenty?

Mr. ZAKHEIM. I don't know, sir. I can get it to you for the record.

Mr. SCOTT. You indicated that Iraq is the center of the war on terrorism. It is my understanding that the CIA wrote Senator Graham prior to the war that Baghdad and Iraq was not a threat to the United States, but if we attacked them they would be more of a threat. They said, and I quote from the letter: Baghdad for now appears to be drawing a line short of conducting terrorist attacks with conventional or BCW against the United States. Should Saddam conclude that a United States led attack could no longer be deterred, it would probably become much less constrained in adopting terrorist actions.

Is it your statement now that that in fact happened and that Iraq is now a terrorist threat?

Mr. ZAKHEIM. I don't think Iraq per se is a terrorist threat. I think what is being said is that there is a terrorist threat inside of Iraq. It has clearly been attracting terrorists. The Deputy Secretary has testified and shown some foreign passports that showed people coming in, particularly for jihad.

As to the rest of your question, that is really outside the turf of a comptroller, so I wouldn't presume to answer.

Mr. SCOTT. My time is running out. I would just like you to comment on your position on concurrent receipts. Can you explain what the concurrent receipt policy now is in terms of what a disabled veteran can get and how high a priority it is for this administration to see that they get what they deserve in terms of compensation for their service-connected disability?

Mr. ZAKHEIM. Right now, as I understand it, when they get the Veterans Affairs payment for disability, there is a reduction in their retired pay so that there isn't in effect a double payment. There is no intention whatsoever to denigrate or diminish the priority of our veterans and particularly those who have disabilities. The real issue is whether there is a need for having these effectively double payments, which will clearly come at the expense of the people in uniform today.

Mr. SCOTT. If you have two veterans, one disabled and one not, and they get the same amount of money because of the offset, the disability is essentially not being compensated. The person that is not disabled can go get a job; the person that is disabled can't get a job. And that is what they are being compensated for, the fact that they can't get a job. Some of these people are retiring at 38, 40, 45 after 20 years of service and they are getting nothing for their disability notwithstanding the fact that they can't work, and that is apparently not a priority. Other priorities like tax cuts are a higher priority than properly compensating our veterans.

Mr. ZAKHEIM. Well, I believe that certainly within the Department of Defense compensating the veterans is an extremely high priority. The real question for the Department is—are the veterans already being compensated for their disabilities and their retirement, and is it appropriate to in effect take money from other Defense Department programs, including personnel programs—that is to say for the people who are now serving—in order to have this additional benefit, and so that in fact there is a cost that attaches to the benefit that is sometimes overlooked. There is no intention to diminish the priority of veterans.

Mr. SCOTT. How about offsetting some tax cuts——

Chairman NUSSLE. The gentleman's time has expired.

Mr. SCOTT [continuing]. And making sure that the disabled veterans——

Mr. ZAKHEIM. I am not in the position to address the issue of tax cuts, sir.

Chairman NUSSLE. I am going to recognize Mr. Baird and then Mr. Brown in that order. Mr. Baird.

Mr. BAIRD. I thank the chairman, and I am very grateful that he held this important hearing on a matter of profound impact to the budget.

Were you advising Mr. Wolfowitz at the time he made the statement that was illustrated earlier on the slide?

Mr. ZAKHEIM. I don't recall working specifically on the statement, but I certainly have been in this job while he was saying that, yes.

Mr. BAIRD. So one of my questions is, we have asked for a number of projections from you, and Mr. Wolfowitz said essentially that, in spite of your arguments that it was honest, I don't think it was honest that he told this body and the American people that we wouldn't have to pay for the cost of reconstructing Iraq. Now, you tried to put it relative to how much we paid for the war, but as I read that statement I think he is saying we wouldn't have to pay for the cost of that.

Now, it seems to me that he dissembled, at the very least, and if that is the case do we have confidence in future projections from this administration?

Mr. ZAKHEIM. I would take issue with that. I don't think Paul Wolfowitz dissembles. On the contrary, I think that one of the things that everyone says about him, whether they agree with him or not, is that you know exactly where he stands.

Mr. BAIRD. Well, I think he stood here before this body before this war started and refused to give us an estimate of the cost. So how is that straightforward?

Mr. ZAKHEIM. Simply because there wasn't a good estimate to give at the time. I think any estimate he would have given you would likely have proved wrong. I think the honest answer when there is no answer is to say there is no answer.

Mr. BAIRD. So it is sound policy for an administration to take a nation into war without estimates of the cost to human lives or economics and who would pay for it?

Mr. ZAKHEIM. Let us break those down. I think it is a fair question, but there is also a fair answer to your question. In terms of estimates of cost and lives, no one can estimate those. We have been very, very fortunate in that we train our people well. We have the best fighting force and the best equipment in the world. That is why our losses are so low. No one can estimate that. I remember before the first Gulf War there were talking heads who predicted 10,000 casualties that didn't happen. That is because we are good at what we do. But no one can say precisely or even in general terms what the losses are and any military analyst that does is usually wrong.

As to the economic situation, I think it was quite clear that there were some terrible things that could have happened based on the previous Gulf War that didn't happen. The cost, had there been huge oil fires like there were in Kuwait and southern Iraq, or flooding, or the use of any kinds of unconventional weapons or mass destruction——

Mr. BAIRD. Let me, rather than using all my time with a bunch of hypotheticals, let me move on to something else. In my district we face 10 percent unemployment. We were told a few months ago that the Veterans Administration may close one of our vets hospitals that serves 6,000 people plus 72 inpatient beds. We are told that there is not enough money for transportation projects, we are told there is not enough money for flood control projects. The list goes on and on. We are told that our police will have to get by without COPS and Byrne grants, and yet we are asked to send $87 billion to Iraq.

Last night on the House floor—I honestly don't know how to vote on this, and I will tell you why. I have been to Walter Reed and I have met the troops who are burned, have double amputations, brain injuries they are going to have for life. But I don't have assurances from this administration that it takes the responsibility seriously, because if it took it seriously, it would tell us how to pay for that. It has never, from before this conflict started to this day, leveled with this Congress or with the American people about how we pay for this. Do we cut Social Security? Do we borrow from our children? Do we do something with the tax cuts? If it is important, be honest enough with the people to tell us how we pay for it. I will tell you right now, if you will tell me how to pay for it I might know a little bit better how to vote on this. And I would ask you, as a citizen of this country, do we have to pay for this in some fashion?

Mr. ZAKHEIM. Well, clearly if we are spending money, we are spending money. I can't argue with that. Most of the question you asked really isn't for someone like me in my position to answer. One thing I can tell you, to put it in some perspective, with this additional supplemental, at least the defense part, we will be

spending 3.9 percent of our gross domestic product. Right now, our GDP is growing faster than the Defense budget. The economy is on some upswing. Put that in historical perspective. That is considerably less than——

Mr. BAIRD. Well, I appreciate that. But I have got to tell you, it is hard for me to put it in historical perspective when one out of 10 of my constituents are unemployed, when we can't keep our VA hospitals open, when we can't invest in transportation.

Let me ask you one final question. When I asked a question, a member of the other party came to me and said I would have answered that. I would have said take that money out of my salary. We have got to fund this.

OK, fair enough. Let us suppose every Member of this body gives $1,000, which I would support. How many Americans would have to give $1,000 for us to make $87 billion?

Mr. ZAKHEIM. Well, it sounds to me like 87 million people.

Mr. BAIRD. So we are asking 87 million people to pitch in $1,000, or we are passing that debt on to our kids?

Mr. ZAKHEIM. Again, sir, all I can say to you is you are looking at the cost side of the equation, and that is certainly a fair point. On the other hand, you have to look at what would be the cost in terms of troops to begin with if we didn't sustain the Iraqi economy and get it back up so that it could function on its own.

How long would we be there? You know, estimates of how long we are in places tend to be radically short. I understand that. But at least here we have a situation where Iraqis are under arms, where more Iraqis will be trained, where the international community is ready to pitch in. I don't know if you know this, Congressman, but the Security Council voted 15–0 to support the resolution. 15 to nothing. All the talking heads yesterday were saying, "well, maybe somebody will veto, the French will abstain, the Chinese will abstain."

Mr. BAIRD. Does that mean you are cutting back your request to the taxpayers for $87 billion?

Mr. ZAKHEIM. No. What it means is that we are part of a much larger international effort, and everyone recognizes that what we are doing right now is an investment in the future.

Mr. BAIRD. I thank the chairman.

Chairman NUSSLE. Thank you.

Mr. Brown.

Mr. BROWN. Thank you, Mr. Secretary. I know that you have a tough job, and I know there have been some tough questions asked today. I was just trying to reflect back. I wasn't around during World War II when we were invaded by the Japanese. I am just wondering if the Congress sat around at that point in time and said how much it will cost us to get involved in this war? You know, how many dollars will it cost? How many lives will it cost? We know what happened, you know it cost a tremendous amount of lives and a tremendous amount of dollars. But our security was at risk, our freedom was at risk.

Even is such today. Now, $87 billion compared to an $11 trillion economy is not very much and I don't know how much our freedom is worth, but I am certain in prior situations it is a small amount compared to what it was like then.

When we passed the resolution giving the power to the President to go after the terrorists, we didn't know how big that picture was going to be, how widespread. But we do know down in Guantanamo there are 42 countries represented in the prison population down there. So we know that we are at risk not only in Afghanistan and Iraq, but in other parts of the world too. And so as we pursue the enemy, the terrorists, we don't know what the cost is going to be and we are not sure where the next station is going to be when we move from Iraq.

As we debate this bill today, which is on the House floor, the $87 billion, I know there are some questions about how much it is going to cost and how we are going to pay for it. But is there a cost for freedom? And how much is that worth?

Mr. ZAKHEIM. Obviously, Congressman, I can only give you my personal view. I think the cost of freedom is priceless. I think any of us who have ancestors who escaped from countries where there was no freedom, you cannot put a dollar value on it. And you are absolutely right, we didn't on December 7, 1941 start looking at what is was going to cost us to defeat the Nazis and the fascists in Italy and the Japanese. We just did it. And, at the same time, I certainly understand the concern of Members, that they want to know as best they can what it will cost, and we try our best to provide the information. We are not being secretive, we are not being cute. Ultimately what we cannot predict, we cannot predict. But we can say with certainty that the benefits of what we are doing, the stability that we can bring to that region, the control of a threat that, as you point out, is worldwide and right now seems to be centered in that part of the region and that part of the world, are something that is truly invaluable.

Mr. BROWN. Thank you.

Chairman NUSSLE. Thank you.

Ms. Majette.

Ms. MAJETTE. Thank you, Mr. Chairman, and I thank you for calling this hearing. I think it is very important, and it probably couldn't come at a better time. Mr. Under Secretary, I thank you for being here and for the work that you are doing.

With many of our soldiers engaged in Iraq and Afghanistan and elsewhere, we are seeing a future that looks very different from the one we envisioned before September 11. And I know, Mr. Under Secretary, that you understand how concerned we are about, as a practical matter, how we are going to bear the cost of freedom. And I think all of us understand—I know all of us understand that there is a cost to that. It is in lots of ways really incalculable. But our responsibility is to put a dollar figure to some of these things and figure out how we set the priorities for this Nation with respect to defense.

And, of course, to their credit, members of the administration have mentioned that they understand that we need to modernize the Department of Defense, including Under Secretary Wolfowitz when he was here earlier this year to testify before us.

My concerns, one of my concerns addresses the issue of how we are going to make sure that we are operating in a 21st century world. I mean, a lot of the things that we have been doing have

been based on 19th century and 20th century models. But clearly we are in a different era right now.

There is no question that our soldiers are being forced to act as policemen despite the fact that that is not what the administration intended, and that they are being required to do so without the adequate training that they need and they are in exceptionally dangerous neighborhoods. So my question is, specifically, what is the Department of Defense doing to prepare our soldiers not just to win the battles, which they obviously do extremely well, but also to maintain the peace and the order in a post war situation like we have in Iraq and like we can expect to have as we are moving further into the future? What specific changes are being made and what kind of dollar amounts are being applied or projected for those changes that will have to be made?

Mr. ZAKHEIM. You are absolutely right. The conditions that we are now facing are really quite different from what we had been used to almost over the last 40 or 50 years. Let me give you one specific example, or actually two, that address your point head on.

Under the system that we still have, virtually all of our civil affairs people—those are the people who will interface with the locals and deal with town mayors and local sheikhs or whatever it may be—are Reservists. The vast majority of our military police are Reservists. Those folks are clearly being used in a way that was not anticipated when we shifted all these tasks to the Reserves. The Secretary of Defense has made very clear that he thinks there should be far more active folks who should be doing these kinds of things.

Now, what is the price tag? We haven't developed that yet. But we clearly have to move some of these kinds of functions, precisely the functions you just were talking about, into the active forces to make them more capable of dealing with the day after the war, and we intend to do that. The Joint Chiefs of Staff are taking the lead on that.

Ms. MAJETTE. How long is that going to take?

Mr. ZAKHEIM. There is every effort to accelerate that for two reasons. One, because we need the Actives to do it, and two, because we know the burden on the Reserves is huge. As the Secretary keeps saying, the one thing a Reservist needs to know is when he or she can go home.

Ms. MAJETTE. OK. And the other question I guess is really sort of a practical matter. As a practical matter, why was it that the troops were sent to Iraq without the basic items that they needed, and how difficult was that? Tell me why it was so difficult to figure out that if you sent 150,000 troops, you need 150,000 vests. Why wasn't that planning and provision made so—and what can you say that will assure us that that is really going to be taken care of this time? Because I have talked to Reservists and people who have returned, and they didn't get what they needed. And they are very concerned that if we go vote for this, that they are still not going to get what they need. So I need for you to address that, please.

Mr. ZAKHEIM. Certainly. Part of the reason was, as you hinted at, when they went out to fight the war they did have what was needed. In other words, you only had a provision for people who would operate in a dismounted fashion or operate in a very light

vehicle that needed some protection from 7.62 millimeter rounds. What has happened since is that you have a lot more people in a lot more of these light vehicles, and you have a lot more people operating dismounted. That is where the difference took place. So when the Reserve comes back and says to you, "my goodness, we are out there exposed," he is or she is not making up a story. It is just that things changed from the time we were fighting the war itself to where we are today.

We will have these vests, we will—everybody who needs one in theater will be having them by November. I think it is November 30, I may be off by a few days. I can get that for you for the record. But they will have vests. We are then going to buy more so that no one else in any of the other theaters is caught without them under any circumstances.

So we have a lesson learned here. The money will be spent. You know, the Reserves should be coming back to you the next time you see them in a few months saying, "yes, we have got the stuff," with the ceramic, by the way, which is critical to make these vests really work.

There is every effort to learn from the lessons and to move quickly. I mentioned that there is an ongoing—it is almost actually completed—effort by our head of defense research and engineering to identify the key force protection elements that we need to have, whether it is an unmanned aerial vehicle that can track a terrorist a couple hundred yards away, whether it is devices that can locate where mortars are coming from, whether it is body armor, whether it is up under Humvees. We are putting a package together and I have been instructed and I saluted smartly and said, yes, I will find the money and find it fast, and we will have a package that will be sent out to the Hill very, very soon. I mean really soon, and I mean days not weeks, to outline how we are going to move monies around to deal with precisely the concern you raised.

Ms. MAJETTE. Thank you.

Chairman NUSSLE. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Zakheim, let me try to cover just a couple of things in the 5 minutes that I have. The first one, one of my concerns is the degree to which the engagement in Iraq and the budgetary consequence of the engagement in Iraq is going to hamstring us in making decisions about other potential engagements around the world. Just as we did not necessarily contemplate that we would be in Iraq 2 years ago, I look at Iran, I look at North Korea, and certainly those are threats that are very much on the horizon now. It doesn't take someone who is a conspiracy theorist or a war games novelist to imagine that we could under some realistic scenario have to contemplate engaging either one of those countries in a second Bush term or a new Democratic administration.

Can you talk for a second about whether or not the Pentagon has done any cost estimate in terms of scenarios of what an engagement in a North Korea or an Iran would cost, and how that might relate to the projected 10-year consequences that we envision in Iraq? Because it seems that obviously if we make the kind of extended commitment in Iraq that some people contemplate, that

that could put practical constraints on our ability to engage what might be immediate threats that might arise.

Mr. ZAKHEIM. Obviously people are always studying scenarios. What we have tried to do particularly with our new approach to the way we size our forces is to develop capabilities rather than predict where we actually will fight. It gives us the flexibility to deal more effectively with a conflict wherever it might arise. Many of the systems we have contemplated that we are buying, that we intend to buy, are really very flexible systems for that reason, so that you can use them under a host of different circumstances.

What we have done with Iraq and Afghanistan up to is fund outside the regular budget. What we have in the regular budget enables us to acquire the systems and of course provide for the personnel, the training, and their support to deal with the contingencies that we cannot foresee. Now, maybe there will be a Korean contingency, maybe not. Certainly not too many people predicted an Afghan contingency. Frankly, had they predicted it, they wouldn't have predicted that we dealt with it the way we did. We actually have more forces in Afghanistan now than we did when we were fighting the war.

So predictions in terms of how many people we need or what kinds of systems, and how many systems we need are difficult. A lot has to do with how you actually plan the conflict and what you are fighting against and so on.

What I can say with confidence is that the program we have put together puts us in a position to deal with a host of 21st century threats and to deal with them every bit as decisively as we did with Iraq and Afghanistan. That I can say——

Mr. DAVIS. Let me stop you at the 2-minute mark just to kind of make these observations. One thing that I think has been fairly obvious to you from the Chair's comments to the comments from a lot of people on this side of the aisle is that there is a continuing, I don't want to say resentment, but continuing frustration with the administration's failure to have addressed some of these budget consequences in its last budget.

Let me remind you of something that was striking to me when Mr. Wolfowitz was here. The administration in its budget had a fairly detailed estimate of what a prescription drug benefit plan might cost, although at that time the administration said that it didn't yet have a prescription drug benefit plan and didn't know its contours. At the same time, the administration indicated that it could not make an estimate of what an engagement in Iraq would cost, although it was very clear that we had a scenario in place and that we had spent a lot of time war gaming that contingency.

What I think has triggered a lot of the frustration here, and I hope that you understand this, is that the whole notion of budgeting requires making extrapolations and guesses. The administration obviously did it in a variety of contexts. The very notion of budgeting itself makes certain assumptions about economic growth. It strikes me that there was no particular reason whatsoever that the administration could not have made assumptions about the cost of an engagement in Iraq given the political situation in January and given a range of other scenarios. And I think that that may explain some of the frustration that you see here. There is

genuinely no reason—I do want you in the limited time that I have to speak to that. Could you give me any sense, Mr. Zakheim, why the administration was not willing to engage in intelligent guesswork on Iraq when it was willing to do so in virtually every other single area of the budget?

Mr. ZAKHEIM. Obviously the other areas of the budgets are not my areas to address. But let me try to give you an answer to what is a very good question, Mr. Davis.

In January, in February, and frankly almost until the last day prior to the war, we were still making diplomatic efforts. It was not at all clear, there was no guarantee that we were going to war. Much as in hindsight it seems that it was all inevitable, it wasn't.

Mr. DAVIS. I don't want to cut you off. If the Chair will just indulge me just to make this observation, because I knew you were going to say that, Mr. Zakheim. The problem is that with respect to Medicare, with respect to a number of other things, the—and I don't want you as much to respond to this so much as hear the observation—obviously, the administration was still willing to make assumptions despite a wide variety of policy uncertainties. And the same audacity that led the administration to assume we are going to get a prescription drug benefit plan so we are going to give you a cost estimate, I am not quite clear whether that audacity—make no mistake, everybody knew we didn't want to go to war if we could avoid it. But that is not the question. The question is, given the likelihood, why couldn't the administration have at least given us an estimate and they could have put a big giant bold asterisk around it, and you all could have said, you know, we hope this doesn't happen, but here is what it would cost. That is what I think is the source of the frustration.

Mr. ZAKHEIM. Again, all I can say is from what I understand—and I wasn't operating directly in the diplomatic world by any means—but what I understand to have been part of the concern was regarding what kind of a signal would you be sending if you did something along the lines you suggested.

Second of all, when we actually came in with the estimate—and this goes back to my conversation with Mr. Spratt—the fact is that the estimate was pretty much on target, as was the initial estimate on Afghanistan.

Mr. DAVIS. But just to make one last point, because I think this is relevant to what the chairman asked you earlier. And this will be my last point. You agree that that factor doesn't exist now, the factor that we somehow would have sent a signal to the rest of the world if we presumed a war budgeting in January. Earlier in your answer to the chairman's questions you indicated that the decision has not been made as to whether the next fiscal year will actually include a line item for Iraq. I find that as amazing as the Chair did, because there certainly is no diplomatic reason not to have that line item there. Now, you would agree with that?

Mr. ZAKHEIM. The diplomatic reason is not an issue. I certainly agree with that. On the other hand, the point that I made to the chairman and am happy to make it again is that to make an estimate presupposes certain things taking place in Iraq, and we just don't know that yet. I haven't—I certainly don't think that—I haven't any information that has been ruled out, I have no infor-

mation that it has been ruled in to make an estimate. I am simply saying that on the face of it, as a guy who works with budgets and has for many years, there are just so many uncertainties and variables that I could see some very good justification for leaving it outside again and going to the Congress and saying, "look, this is a wartime requirement," or, "the Iraq requirement now I guess would be the better way to put it and this is what we need over and apart from our regular budget."

Again, I don't know the full impact of the resolution that just passed today. I don't know what that will do in terms of troops. Will the Pakistanis now say, "we are ready to come in?" That is going to have an impact. I just don't know.

Chairman NUSSLE. I thank the gentleman.

And just to make it clear, I supported the administration's request leaving out the portion for Iraq for the exact reasons that the witness just stated, that we were not at war at that time. To presuppose that in a budget for 2004 was premature, again, in this member's judgment. But I would agree with you, with my friend from Virginia, that now that that has been made, we need to budget for it. And while it is not easy to forecast the future of these expenditures, we can at least budget for success. Trust me, coming from farm country, I understand very clearly you are not going to know exactly the consequences of the Farm Program for 5 or 6 years or 10 years out. Yet we do it all the time, knowing full well that we may need to come back and discuss challenges in the future.

So I would hope that at least you have read the sentiments of this committee today as one hoping that the administration will come forward and begin to include not only the wars that we know about but the overall global war on terrorism similar to the way we budgeted for the cold war in the 1970s and 1980s as an ongoing expense, knowing that we need to continue to prosecute this.

There were a couple of things that came up during the hearing that I would just like some background on that you indicated that you will be supplying some things for the record, and we appreciate that. My staff will follow up with you and your staff to accomplish that. And maybe Mr. Spratt can ask the question better than I can, but I would like a breakdown of this per troop cost, the 100,000 or 40,000, and exactly what we are talking about here, because that is—it is an issue that I think we need to discuss, particularly when there have been claims made that budgets have been padded or whatever. I think we need to get to the bottom of that so we clearly know what that is all about.

Another member brought up the credit card abuse, and I would just ask as a follow-up to that question, has restitution been made for any of these instances of credit card abuse, or is there prosecution that is ongoing? I am not asking you to comment on that, because if that is the case obviously it is an ongoing case. But is that being pursued in that vein?

Mr. ZAKHEIM. In certain cases, yes. In certain cases, no. It very much has to do with the nature of the card. If you have a travel card and you are a young serviceman or woman and you spent it, used the card inappropriately, not on government business, and then you paid the money back, that is a very different case from

someone who had not a travel card but a purchase card that was for government purchases and then went off and bought a Rolls Royce. The prosecutions are taking place, yes, sir.

Chairman NUSSLE. Have any been done successfully yet?

Mr. ZAKHEIM. I believe some have, yes, sir.

Chairman NUSSLE. OK. Mr. Spratt, do you have anything to conclude this panel with?

Mr. SPRATT. Just to follow up. I am not going to prolong this, but to describe what we would like to have is your analysis of the cost of the war in addition to the per troop per month cost. You gave a $20 billion figure. Whether or not that includes the $30 billion you indicated was sunk cost. It is important for historic purposes and for future reference that we get these costs established so that in the future when we have decisions to make like this we have a reference we can go to and estimate at least on the back of an envelope what the likely cost consequences of our decisions are going to be.

Mr. ZAKHEIM. Mr. Spratt, I happen to know that you are a top budget analyst yourself, so you will understand when I say that in some respects your question and the categories you used and the paper you gave me are slightly different from our categories. So we are going to have to cross walk those.

Mr. SPRATT. I understand.

Mr. ZAKHEIM. And we will try our best.

Mr. SPRATT. Thank you much.

Chairman NUSSLE. Mr. Edwards, do you have a final——

Mr. EDWARDS. Mr. Chairman, I just would like to ask you, I would like to be sure that we have a general understanding of what the administration is agreeing to do. Is it your understanding and Mr. Spratt's that the Department of Defense within a certain time period is going to give us a general estimate, given whatever assumptions they want to make of the future cost to the Iraqi war? Or have they not made that commitment? If they have made that commitment, under what time period are they going to provide this information back to the chairman and the committee?

Chairman NUSSLE. There is two parts to this right now. We are asking for information about what it has cost?

Mr. EDWARDS. Right.

Chairman NUSSLE. And that has been offered to be supplied. I think we have made our points very clear on what you and I and others hope will be the position of the administration for the future. We may differ on that ever so slightly by the time it comes up. And my point is, I think my point has been made, your point has been made on what we hope for for the fiscal year 2000 budget and beyond.

Mr. EDWARDS. Did we get an answer? I think we are in agreement on——

Chairman NUSSLE. I don't think we got a clear answer. But in fairness to the administration, they are still within the time frame before their submission of the budget, and I think that will be made very clear if and when it is made during that request.

Mr. EDWARDS. Thank you, Mr. Chairman. Thank you for holding this hearing today.

Chairman NUSSLE. I would just say to the witness that I know this is a very difficult time for the entire country, and you are bearing the brunt of all the questions today. And I would just urge you, through you to the Department as well, that the more information you provide, even though it is sometimes difficult to provide it, it is not always easy to take a moment and come up and do so, I would suggest as respectfully as I can will actually do more to lessen the tension that you maybe see today as opposed to exacerbate that. And so I would hope in the future that we can have these periodic meetings to discuss the longer term picture in addition to some of the other committees that obviously have an ongoing responsibility for writing the checks or doing the authorizations.

Mr. ZAKHEIM. Certainly, sir. For my part, that is not a problem.

Chairman NUSSLE. Thank you very much. And with that, we will dismiss this panel. Thank you very much for your testimony today.

Mr. ZAKHEIM. Thank you, Mr. Chairman. Mr. Spratt, thank you.

Chairman NUSSLE. The second panel is our very distinguished director of the Congressional Budget Office, Doug Holtz-Eakin, and we welcome him back to the committee.

The Congressional Budget Office has submitted a full statement, including charts and graphs, which will be made part of the record. And I would invite Dr. Holtz-Eakin, if you would introduce the other members at the witness table with you who may be participating today. I know we have someone new to welcome as part of this. And then you may proceed as you see fit in your testimony.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE; ACCOMPANIED BY ELIZABETH ROBINSON, DEPUTY DIRECTOR; AND MIKE GILMORE, ASSISTANT DIRECTOR, NATIONAL SECURITY DIVISION

Mr. HOLTZ-EAKIN. Thank you, Mr. Chairman, Mr. Spratt, members of the committee. It is a pleasure for CBO to be here today. I did want to take this opportunity to introduce Elizabeth Robinson at my far right, who has agreed to assume the duties as Deputy Director at the Congressional Budget Office. And I am sure that I speak for her in looking forward to working with members of the committee. And we are pleased to have her on board.

Also joining me today is Mike Gilmore, who is the Assistant Director at CBO in the National Security Division and who directly oversaw the two reports that serve as the initial basis for the testimony that we offer to you today. We have submitted a written testimony and the reports are available to members should they seek to have more details. What I had hoped to do today would be to provide you with a brief overview of our findings and then, with your patience, walk through six charts that we think give you a flavor of the nature of the analysis and that might serve as at least a starting point for any questions that we might be able to answer for you today.

Our focus today is on the long-term resource needs that would be implied by current defense plans. And before turning to the bottom lines, let me stress to members of the committee the nature of these kinds of projections. Budget committee members are well aware of the nature of a baseline projection. These are the long-term implications of current plans. They are not forecasts in the

strict sense of precise expectations of what will turn out—they are the implications of current plans. To the extent that future policies can and will be revisited, these projections will not turn out to be exactly correct, but they do provide a good indicator about the long-term implications of current plans, particularly in the area of defense planning, where the time from research, development, testing, evaluation, and procurement to actual deployment of weapons systems can take two decades. Understanding the current status of affairs and their long-term implications will, we hope, be of use to the members.

The main points of our analysis fall in three areas. The first is that current plans will require annual funding adjusted for inflation that will average over the long term about 20 percent higher than it is today and about 10 percent higher than its peak during the 1980s. Thus, current plans are on track to command substantial resources in the economy and the Federal budget.

Second, in terms of the composition, about half of that increase derives from increases in the cost of pay and benefits for DOD's military and civilian employees. The remaining half comes from demands for resources and investment that would both cover the catch-up from the procurement holiday that took place in the 1990s and support the need for systems and forces that would support transformation of America's military.

The third message that comes from the analysis is that to the extent that these resources are committed, they will—over the period that we examine offset—the steady tendency toward aging of weapons systems and in addition to reversing will actually stabilize the systems in their aging trends. But should those resources not be provided, then there will be choices made in terms of either fielding fewer forces or equipping them with older equipment than this plan would envision.

So those are really the three bottom lines. We have a whole series of charts. If we go to figure 1, we can briefly walk you through where we get some of these findings.

Figure 1 summarizes our overview. And if you look at it, what you can see is that under the 2004 Future Years Defense Program, real defense spending is going to rise about 15 percent over the next 5 years, from about $380 billion, which excludes supplementals, to about $440 billion. And then carrying the projection out beyond those 5 years, it will average about $460 billion a year—adjusted for inflation—between 2010 and 2022. At the same time, the red dotted line at the top, shows cost risks associated with that projection. Those cost risks come from two sources. The first would be risks of the need for contingencies of the type we have experienced in Afghanistan and Iraq. And we can explore in greater detail the nature of those, the way we built those into our projections. Those cost risks also include the historical record of weapons systems that in the end turned out to be more expensive than was budgeted at the beginning. We tried to incorporate both of those possibilities in our cost risk.

Figure 2 shows the division of that rise between the demands for pay and benefits for military and civilian employees of DOD and the need for investment and transformation and replacement of existing weapons systems.

Now, if we move to figure 3, what you can break out is basically the rise in the two areas of operation and support versus the rise in investment spending. In the area of operation and support, this is about two-thirds of the Defense budget in 2004. It is used to pay for military and civilian employees, costs of contractors, and operating costs of equipment. And what we see is that the current projected rise in pay and benefits—a key feature of which is a commitment to pay military employees an increase that matches the employment cost index in the private sector plus another half percentage point up until 2006, and then an increase in pay that rises at the rate of the ECI thereafter—would lead to a level about 24 percent higher than current level over the long term. But as with the overall projections, this faces some cost risks as well. Some of those rates are familiar from other contexts. The rising costs of medical care in the military mirror the kinds of costs we have seen in discussions of Medicare in this committee. There are also cost risks associated with quality of life programs, base closure plans, and a variety of other costs associated with operating the equipment.

This is a good place as well to talk a little bit about what is presented in figure 3 as the blue hump in 2003 and 2004. This is the evidence in these projections of the need for supplemental appropriations both in fiscal year 2003 and fiscal year 2004. It has been the topic of a lot of conversation today. But let me say a few words about how CBO has built these into our projections in doing this.

In July, when these projections were put together, we estimated the need for a fiscal year 2004 supplemental of $59 billion, and that is the amount that is reflected in this figure. Built into that was about $12 billion for operations in Afghanistan and about $47 billion for operations in Iraq.

Since that time, two things have happened. The first is that at the request of Senator Byrd, we examined the costs and capability of the U.S. military to sustain an occupation in Iraq and came up with estimates that would indicate that our July estimate of the $59 billion might be a bit too high, that $47 billion for 200,000 troops in Iraq might be on the high side. We did a different kind of estimate from the bottom up and estimated somewhere between $36 [billion] and $41 billion. We also estimated a variety of other scenarios that we could discuss with you if you wished.

The second thing is that the administration actually made a request, which has been discussed at length in this hearing. We of course would love to be able to compare exactly our estimates with the administration's request. To do that however, I would emphasize, we need a great deal of information that is currently not at our disposal. We need a breakdown between active and Reserve troops to be conducted and how that would evolve during 2004. We need a substantial breakdown on the kinds of equipment and the level of depot maintenance that will be handled in fiscal year 2004. And it would be useful to find some information on the actual costs incurred by each service during its time thus far in Iraq and the expectation in 2004.

And so while we have attempted in the spirit of this kind of an exercise to show the actual contingencies that have arisen—that is the blue hump in that diagram—and the potential for future contingencies in the future as reflected in our cost risks, we are not

yet in a position to reconcile the difference between our estimates and our actual experience thus far. We would look forward to working with the committee if that became a project of some priority.

Turning to figure 4, let me talk briefly about the investment side of our projections. Several features stand out in figure 4. The first is that the figure is in a budgetary sense a clear reflection of the procurement holiday that took place in the 1990s. You can see at the bottom of that figure is the funding associated with research, development, testing, and evaluation, which by and large did not drop off dramatically. But above that, for what is labeled other procurement—things like equipment, uniforms, and those kinds of things—and then procurement for weapons systems, and the remaining bars of the graph, you can see a sharp drop-off. And, indeed, the total investment fell from its peak down about 50 percent. In our projection we show the implications of purchasing enough existing weapons systems to reverse that holiday and offset aging trends, and also we build into it, particularly in areas like aircraft, the kinds of investments necessary to support the transformation needs of the Army. The sum total of this is to have investment increase by almost 25 percent, rising from $137 billion in 2004 to $171 billion in 2009. Thereafter, it would peak somewhere in about 2013 and 2014 and diminish somewhat in real terms.

If we turn to figure 5, you can see the impact of these kinds of budgetary figures on the actual age structure of weapon system—in this case, Air Force fighter and attack aircraft. The budgetary outlays in the projection that I showed you are sufficient to stabilize the ages of weapons systems in about 8 of 10 cases by roughly 2010. Aircraft are an example of something that would take much longer to stabilize. You can see in the panel at the top of the figures, the actual history of aircraft purchased and then our projection over the next 20 years. The middle panel shows the real inflation-adjusted cost of those purchases, and the bottom panel shows the average age of the aircraft fleet as a result. The bottom panel shows that this commitment of resources would in fact stabilize the average age of the aircraft by the end of the projection period. The comparison of the patterns in the top two panels shows that this commitment of resources is going to be comparable to that peak in the 1980s in real terms and that it will purchase aircraft are a bit more expensive, on average, as the overall size of the procurement at the tail end of that projection period is smaller than the aircraft purchased with the same resources in the 1980s. Overall, it tells a story where the purchase of these new aircraft will stabilize the average age and equip the forces with planes that presumably have greater capability at somewhat greater cost.

Turning to the final figure that we provided, we step back and try to place this projection and also the budgetary implications of this defense program in the larger historical and economic perspective. Shown at the top is the history and projection of defense spending as a share of GDP. As many in this committee are familiar with spending peaked at about 6 percent of GDP in the 1980s and then diminished by nearly 50 percent. It has since turned upward somewhat in the last couple of years. Under this projection, even inclusive of cost risks, defense spending as a fraction of GDP

would stabilize at about 3.4 percent or so over the next 5 years and then diminish somewhat over the longer term.

In the bottom panel, we show that despite that diminishing share of GDP, the real purchasing power of the resources committed to this particular program would remain constant or rise somewhat.

Now many—including some defense leaders—have argued that the military ought to be given a constant share of GDP as a way of budgeting. We can't speak to the policy issues of that but will simply point out that the history and projection indicate neither any tendency for a constant share of GDP nor any tendency for a constant share of the Federal budget, and that even committing the resources necessary to support current defense plans would produce a diminishing share of GDP, despite the real purchasing power being relatively constant over the 20-year period.

I realize that is both a lot of material and also not nearly everything we could say about these different issues, but I will close there and welcome any questions.

Chairman NUSSLE. Well, first of all, thank you.

[The prepared statement of Mr. Holtz-Eakin follows:]

PREPARED STATEMENT OF HON. DOUGLAS HOLTZ-EAKIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, Congressman Spratt, and members of the committee, I appreciate the opportunity to discuss the long-term implications of the administration's current defense plans. The Congressional Budget Office's (CBO's) long-term projection of the administration's fiscal year 2004 plans is not a prediction of future budgets every annual budget submission brings changes to the Department of Defense's (DOD's) plans and thus to Defense budgets. Rather, CBO's projection indicates the demand for defense resources as well as the ages and inventories of major weapons that would result over the next two decades if current defense plans remained the same. For various reasons, including the long lead times associated with developing and fielding new weapons, the administration's current plans will generally have long-lasting implications even if they are revisited in the future. CBO's projection can help defense decisionmakers understand those implications.

CBO's analysis suggests several major points:

- Carrying out today's plans for defense would require the United States to fund the military through 2022 at annual levels averaging about 10 percent higher (adjusted for inflation) than peak spending during the 1980s and about 20 percent higher than current funding (excluding the costs of contingencies, such as operations in Afghanistan and Iraq).
- Relative to current funding, about half of the need for those additional resources is driven by steady growth in the cost of providing pay and benefits to DOD's military and civilian personnel.
- The other half is associated with substantial increases in future purchases of equipment and weapons to fill the gap created by the "procurement holiday" of the 1990s, and increases in investment funding to develop and eventually produce new equipment with capabilities that support the push for military transformation.
- If those increased resources are provided, DOD will eventually be able to halt or reverse the adverse aging trends associated with much of its current equipment.
- If those increased resources are not provided, DOD will have to either field smaller numbers of forces (or forces with less equipment) or keep equipment until it is older perhaps significantly so than current plans envision.

I will discuss each of those points in more detail, ending with a short discussion of other contexts in which defense spending could be considered.

THE LONG-TERM OUTLOOK FOR DOD'S RESOURCE DEMANDS

In 2003, total obligational authority for the Department of Defense equaled about $449 billion including a total of $74 billion added in legislation other than the 2003 appropriation acts. The administration's 2004 Future Years Defense Program (FYDP), which covers the period from 2004–09, anticipates that defense resources

(excluding supplemental appropriations) will rise from about $380 billion in 2004 to $439 billion in 2009 and will average $411 billion a year over that period. If the program in that FYDP was carried out as envisioned, the demand for defense resources would continue to rise through 2022, CBO projects (see the line at the top of the "Procurement" section in figure 1). That demand would average $458 billion a year between 2010 and 2022. (Those and the other dollar figures in this analysis are shown in 2004 dollars to account for the effects of inflation.) Because that projection is founded on the 2004 FYDP including its current cost estimates for major weapons programs and other activities, where they are available it excludes costs for continuing operations in Afghanistan and Iraq and for other activities conducted as part of the global war on terrorism.

Various factors could push the costs of current plans even higher. In addition to the projection described above, CBO estimated the long-term demand for defense resources if costs for weapons programs exceed initial estimates to the extent that they have since the Vietnam War and if costs to operate military forces grow as they have over the past two decades. That "cost-risk" case also assumes that the U.S. military continues to take an active role overseas, like the one that has resulted in the present engagements in Afghanistan, Iraq, and the global war on terrorism. With those cost risks factored in, carrying out current defense plans could require an average of $472 billion a year (rather than $411 billion) through 2009 and an average of $533 billion a year (rather than $458 billion) between 2010 and 2022. About $40 billion of the $75 billion increase in the 2010–22 average results from potential growth in operation and support costs (including $20 billion for future contingencies). The rest comes from growth in costs to develop and purchase weapons.

The analysis I am discussing is covered in more detail in two CBO reports. One, The Long-Term Implications of Current Defense Plans, was published in January 2003. This past July, CBO released an update of that analysis in a paper titled The Long-Term Implications of Current Defense Plans: Summary Update for Fiscal Year 2004. Both reports are available on CBO's Web site (www.cbo.gov).

The projections in those reports are based on the defense plans that underlie the two most recent budgets that the administration submitted to the Congress. (DOD's plans continually evolve, and CBO's analyses of them are snapshots, rather like the budget snapshots that the Congress works with each year.) The January report reflects the plans underlying the 2003–07 FYDP, on which the President's 2003 budget submission was based. CBO's July estimate reflects the 2004–09 FYDP, which was the basis for the 2004 budget request. In drawing up the later plan, DOD reduced its funding projection for the years common to both plans (2004–07) by an average of about $7 billion, or 2 percent, per year. Many changes contributed to that decreased funding, including reductions in operation and support accounts, some of which are associated with DOD's decision to liquidate its Defense Emergency Response Fund. (DOD now expects to request annual supplemental appropriations, as it has in the past, to pay for the costs of activities, such as the occupation of Iraq, that are not included in its FYDP.)

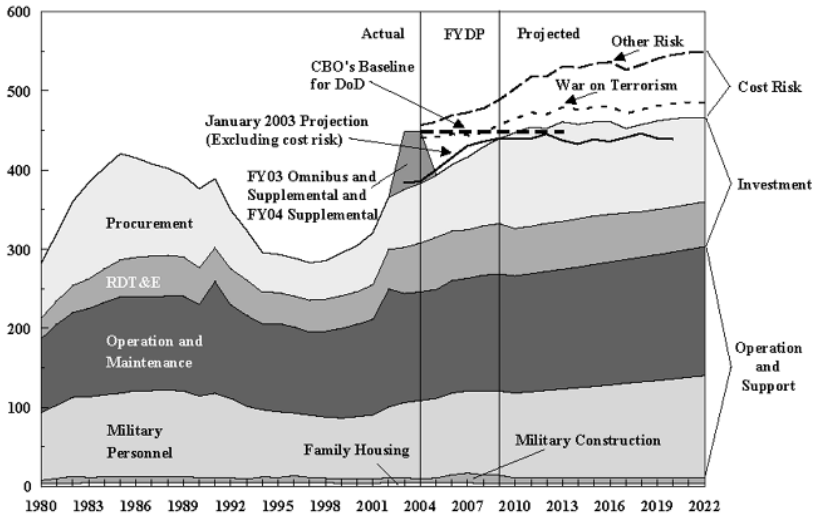
Not surprisingly, CBO's projections of resource demands beyond the FYDP period also differed between the two reports. CBO's July projection exceeded its January projection by an annual average of about $19 billion, or 4 percent, for their common years (2010–20). Several of the most significant changes underlying that difference are discussed below.

To avoid confusion, I should note that in both the January and July reports, CBO projected defense funding at a lower level of aggregation than the one used in the Congressional budget resolution. CBO projected funds only for DOD's budget (subfunction 051), whereas the budget resolution projects funds for the national defense budget function (function 050). DOD's budget makes up the lion's share of function 050, but the latter also includes dollars for defense in other agencies' budgets. In the 2004 request, those additional dollars totaled about $20 billion, mostly to fund activities of the Department of Energy related to nuclear weapons.

Figure 1.

Past and Projected Resources for the Department of Defense

(Billions of 2004 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; RDT&E = research, development, test, and evaluation; FY03 Omnibus and Supplemental and FY04 Supplemental = funding provided for fiscal year 2003 in the Consolidated Appropriations Resolution (Public Law 108-7) and the Emergency Wartime Supplemental Appropriations Act (P.L. 108-11) and the President's request for supplemental appropriations for fiscal year 2004 to fund ongoing military operations in Iraq and Afghanistan and other activities in the global war on terrorism.

PROJECTIONS OF RESOURCE DEMANDS FOR OPERATION AND SUPPORT

About two-thirds of the 2004 defense budget covers what DOD terms operation and support (O&S), which is the total appropriations in the military personnel and the operations and maintenance accounts. O&S funding pays the salaries and benefits of DOD's military and civilian employees, the costs associated with many of DOD's contractor personnel, the operating costs of military equipment, and many of the costs to operate and maintain defense facilities. The 2004 FYDP envisions that spending for O&S will rise from $236 billion in 2004 to $254 billion in 2009 (see figure 2). Despite that increase, the administration's plan projects that O&S spending will decline as a share of the total defense budget: from about 62 percent in 2004 to about 58 percent in 2009.

CBO made two projections of the costs of current plans for operation and support with and without risks of cost growth. Both projections assume that military and civilian end strengths are fixed at the levels they would reach in 2009 under the 2004 FYDP.

O&S RESOURCE DEMANDS

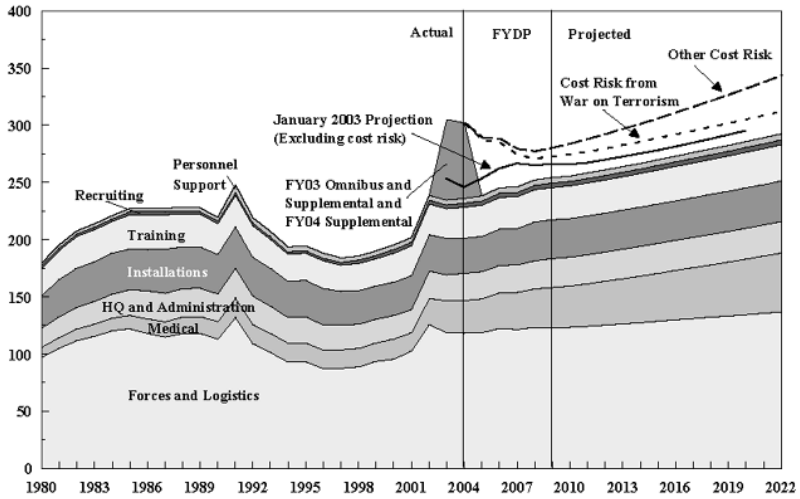
CBO projects that carrying out current defense plans would require O&S spending to average $273 billion over the 2010–22 period, if no adjustments are made for cost risk. Such spending would end that period at an annual level of $292 billion. In that projection, O&S spending grows by an average of about 1 percent per year between 2004–22. Virtually all of the growth results from personnel-related in-

creases specifically, the growing cost of medical benefits and rising real (inflation-adjusted) wages for military and civilian personnel.

Figure 2.

Past and Projected Resources for Operation and Support

(Billions of 2004 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; HQ = headquarters; FY03 Omnibus and Supplemental and FY04 Supplemental = funding provided for fiscal year 2003 in the Consolidated Appropriations Resolution (Public Law 108-7) and the Emergency Wartime Supplemental Appropriations Act (P.L. 108-11) and the President's request for supplemental appropriations for fiscal year 2004 to fund ongoing military operations in Iraq and Afghanistan and other activities in the global war on terrorism. CBO estimates that the majority of that additional funding for 2003 and 2004 will be used to fund forces and logistics.

Medical Costs. If current military health care benefits remain unchanged, DOD's costs for medical care will almost double over the next two decades, CBO projects. Including accrual payments for the medical benefits of military retirees over age 65, total medical costs will rise from $28 billion in 2004 to $35 billion in 2009 and $52 billion in 2022. By the end of that period, DOD would be spending 73 cents on medical benefits for each dollar it spent on cash compensation for its personnel, compared with 55 cents today.

Those projections assume that no legislated increases in medical benefits occur but that medical costs for retirees grow at the nominal rate of 6.25 percent a year, the rate DOD's actuaries currently use. The estimates also assume that medical costs for other DOD beneficiaries increase at the rates now projected by the Department of Health and Human Services for per capita medical spending in the U.S. economy as a whole.

Pay for Military Personnel. Current law dictates that over the next 3 years, pay for DOD's military personnel should grow at a rate 0.5 percentage points higher than the annual change in the employment cost index, which measures pay in the civilian economy. After that, DOD plans to have military pay grow at the same rate as those civilian-sector increases. CBO's projection assumes that such growth rates will continue over the long term, resulting in roughly a 30 percent real increase in military pay between 2004–22.

Costs for Facilities. DOD included a total of about $11 billion in military construction funding in its most recent FYDP to pay the up-front costs of the proposed 2005 round of base realignments and closures (BRAC). Judging from past rounds, a 2005 BRAC round with those up-front costs could eventually produce annual savings of $3 billion. CBO's projection assumes that any savings realized from the 2005

round are reinvested to pay for increased levels of maintenance on DOD's remaining facilities.

O&S RESOURCE DEMANDS WITH COST RISKS

With various possible sources of cost growth factored in, resource demands for operation and support would average about $313 billion per year during the 2010–22 period under current plans, CBO projects. That figure is about 14 percent higher than the average for O&S spending without cost risk. By 2022, spending would reach $344 billion, or about 18 percent more than in the projection without cost risk. Roughly one-third of the projected O&S risk is associated with the potential costs of contingencies. The rest reflects growth in the cost of medical care, personnel-support activities, and the operating of weapons as well as forgone savings from delays in closing additional military bases.

Medical Costs. Changes in technology, medical standards, and overall prices for health care in the U.S. economy could drive DOD's medical costs higher than the department's actuaries anticipate and than CBO assumed in its initial projection. In particular, the future growth rate of per capita medical spending in the U.S. economy as a whole (on which CBO's projection of medical spending without cost risk is based) is uncertain. If that rate turned out to be 30 percent higher than expected which is consistent with the record of differences between some past projections and actual growth DOD's medical costs would be about $13 billion higher by 2022. (Conversely, if growth rates were 30 percent lower, which is also consistent with the historical record, medical costs would be $11 billion lower in 2022 than projected.)

Personnel-Support Costs. Another risk to projections of O&S costs is that resource demands for personnel-support activities which include many high-priority quality-of-life initiatives will continue the upward trend seen in recent years rather than remain at the levels that those activities are projected to receive at the end of the 2004 FYDP. A continuation of that upward trend could add $1 billion a year to the long-term cost of the administration's current plans by 2022, CBO projects.

Costs for Facilities. The possibility exists that the 2005 round of base realignments and closures will not occur. In that case, DOD would save a total of $11 billion between 2005 and 2012 from not implementing the round, but its costs for facilities would be about $3 billion per year higher after that.

Equipment Operating Costs. CBO's projection of O&S resource demands without cost risk assumes, as DOD generally does, that new generations of weapon systems are no more expensive to operate and maintain than the systems they replace. But in the past, new generations of weapons have usually cost more to buy than their predecessors did. They also commonly cost more to operate and support. Unfortunately, the cost of operating existing weapons also typically increases as systems age.

CBO's projection with cost risk takes those factors into account. For aircraft and ships, CBO incorporated estimates reflecting the cost growth that DOD experienced as it fielded new systems or as systems grew older. CBO lacks historical data to calculate similar factors for the Army's ground combat systems, so it could not include detailed estimates for them. But the Army's operating costs, like DOD's total operating costs, have grown on a per capita basis for a very long time, and CBO assumed in its projection with cost risk that those trends would continue for Army systems. The combination of those effects could add $14 billion to the annual operating costs of the administration's current plans by 2022.

Near-Term Costs of Contingencies: CBO's July 2003 Projections. Neither the 2004 FYDP nor CBO's projection of O&S spending without cost risk includes funding for ongoing operations in Iraq and Afghanistan. The President has requested about $66 billion in supplemental appropriations for DOD in 2004, including about $52 billion for the occupation in Iraq and $14 billion for operations in Afghanistan and other global antiterrorism activities. In its July projection with cost risk, CBO estimated that those activities (excluding the rebuilding of Iraq's infrastructure) could cost as much as $59 billion in 2004. That amount would be enough, CBO calculated, to maintain an occupation force of 200,000 troops in Iraq and Kuwait (at a cost of about $47 billion) and to continue activities in Afghanistan and in the global war on terrorism at their current level (about $12 billion).

Near-Term Costs of Contingencies: Estimates Consistent with More-Recent Analyses. After CBO had completed its July estimates of the near-term cost risk associated with contingencies, it produced an analysis for Senator Robert Byrd of the size and costs of occupation forces that the United States could sustain indefinitely in Iraq without harming the readiness and quality of the all-volunteer force. That analysis used a more detailed cost-estimating methodology than CBO had em-

ployed before for estimating occupation costs. Applying that methodology to an occupation force of 200,000 military personnel yields yearly costs of about $36 billion to $41 billion or $6 billion to $11 billion less than CBO's previous estimate. However, CBO's analysis, which was consistent with plans that DOD had announced in July, indicated that the military would be hard-pressed to sustain a 200,000-person occupation throughout 2004. (The current U.S. occupation force comprises about 140,000 military personnel.) That analysis concluded that unless DOD took such actions as mobilizing a large number of additional reserve units on a continuing basis or extending the deployments of active-component forces beyond 1 year, it would be able to indefinitely sustain force levels of no more than about 67,000–106,000 military personnel (at a cost of $14 billion to $19 billion per year) in Iraq beyond the winter of 2004.

The administration's recent request for supplemental appropriations uses different assumptions than the ones CBO has used over the past year to estimate the potential costs of occupying Iraq. To reconcile its estimates with that request, CBO would need information that it now lacks, including (but not limited to):

- A breakdown of the active- and reserve-component personnel and units to be used in Iraq throughout 2004 by each of the four services;
- A breakdown of the types and amounts of depot maintenance to be conducted on equipment as a result of activities in Iraq; and
- A breakdown of the actual costs that each service has incurred to date for activities in support of the occupation that have been conducted since the end of major combat operations in Iraq.

Long-Term Costs of Contingencies. Over the longer term, cost risk associated with the global war on terrorism could amount to about $20 billion a year, CBO projects. That amount is based on the assumption that, between 2005 and 2008, the size of the U.S. force in Iraq declines to 50,000 troops, the intensity of operations in Afghanistan drops to the level of the operations now taking place in Bosnia and Kosovo, and other activities now being conducted as part of the war on terrorism continue indefinitely at their current funding levels. That $20 billion estimate is simply a proxy for the budgetary impact of continued engagement by the U.S. military in such operations abroad. If the global situation changes in the future in a way that increases or decreases the need for U.S. military engagement overseas, then costs will rise or fall as well.

Projections of Resource Demands for Military Construction and Family Housing

The military construction title of DOD's budget contains funds to build and refurbish the department's facilities. The family housing title contains funds for the same purposes for the housing provided to service members; it also covers some of the maintenance of that housing. For 2004, funding in those accounts totals about $5 billion and $4 billion, respectively, or about 2 percent of DOD's budget request. CBO projects no significant changes in those annual costs through 2022 at least in part because any added costs are assumed to be offset by savings from closing or realigning bases and from privatizing family housing. (Historical funding and projected resource demands for those accounts are shown in figure 1 on page 3. The increase in military construction funding during the FYDP period is intended to cover the costs of the 2005 BRAC round.)

Projections of Resource Demands for Investment

In 2003, the one-third of DOD's budget not devoted to operation and support, military construction, or family housing went to investment. That category consists of funds in the research, development, test, and evaluation (RDT&E) and procurement accounts, which pay for developing, testing, and buying weapon systems and other equipment. The 2004 FYDP envisions that spending for investment will rise from $137 billion in 2004 to $171 billion in 2009. That funding averages about $3 billion more per year over the 2004–07 period than it did in the 2003 FYDP, with much of the increase coming from funds that the administration added for transformation; higher spending on command, control, communications, and intelligence systems; and higher weapons costs.

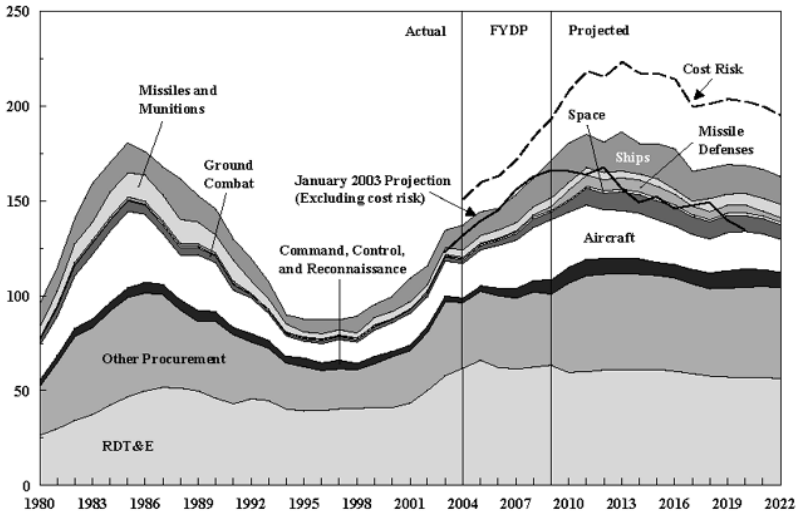
CBO projects that under current plans, resource demands for investment not including cost risk would continue to rise after 2009, peak in 2013 at about $186 billion, and then decline modestly (see figure 3). Over the 2010–22 period, the demand for funding would average about $175 billion a year, CBO projects (see table 1). Factoring in possible sources of cost growth pushes that average to $209 billion a year, with the demand peaking at $224 billion in 2013. Purchases of new ships and air-

craft (primarily tactical fighters) account for more than half of the funds for procurement of major systems in CBO's projections.

Figure 3.

Past and Projected Resources for Investment, by Type of Weapon

(Billions of 2004 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; RDT&E = research, development, test, and evaluation.

ARMY INVESTMENT

The Army has historically spent more of its budget on troops, largely funded in the O&S accounts, than it has on their equipment, which is paid for in the investment accounts. As a result, the Army has received the smallest investment funding of the services: an average of about $22 billion a year from 1980–2003, compared with $43 billion for the Department of the Navy (which includes the Marine Corps) and $48 billion for the Air Force. (The Services' investment budgets exhibit the same cyclical trends as total investment spending rising in the mid-1980s, falling through the late 1990s, and then rising again; see figure 4.)

TABLE 1.—INVESTMENT SPENDING BY SERVICE

[In billions of 2004 dollars of total obligational authority and in percent]

	2003		Average, 2004–2009		Average, 2010–2022		Peak spending	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Year
Without Cost Risk								
Army	20	15	22	15	38	22	42	2014
Navy	41	31	50	33	47	27	64	2010
Air Force	47	35	55	36	65	37	72	2021
Defense Agencies	26	19	25	16	24	14	28	2009
Total	135	100	152	100	175	100	186	2013
With Cost Risk								
Army	20	15	29	17	53	26	59	2014
Navy	41	31	55	32	56	27	74	2010

TABLE 1.—INVESTMENT SPENDING BY SERVICE—Continued

[In billions of 2004 dollars of total obligational authority and in percent]

	2003		Average, 2004–2009		Average, 2010–2022		Peak spending	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Year
Air Force	47	35	59	35	74	37	84	2021
Defense Agencies	26	19	28	16	26	12	31	2009
Total	135	100	171	100	209	100	224	2013

Source: Congressional Budget Office.

Note: Numbers may not add up to totals because of rounding.

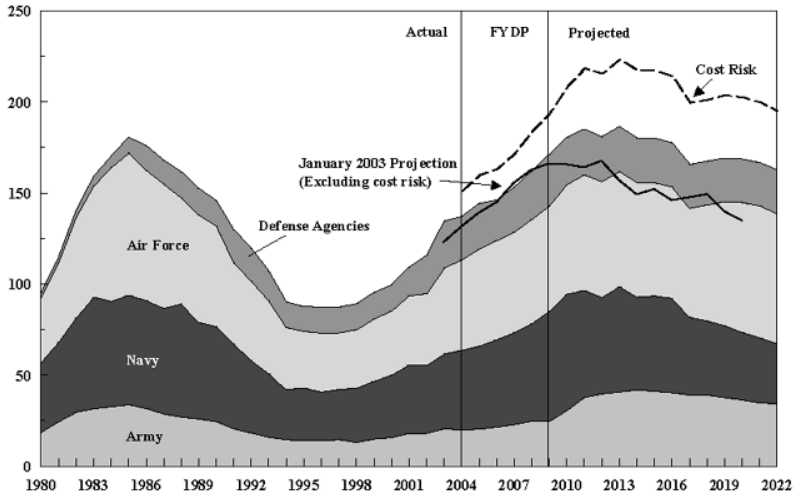
In the 2004 FYDP, the Army's investment budget increases gradually through 2009. After that, continuing to carry out the plans in the FYDP would cause Army investment to jump by more than $13 billion in the next 2 years, CBO projects. It would reach a peak in 2014 of almost $42 billion 24 percent higher than its previous peak, in 1985. The Army's investment budget would decline modestly thereafter, staying within $8 billion of that peak through 2022 and averaging $38 billion over the 2010–22 period.

The increase in Army investment spending is driven by added purchases of new helicopters and upgrades to existing helicopters, funding for missile defense programs (such as the Patriot PAC–3 and the Theater High Altitude Area Defense System) that transfers to services' budgets when the systems enter procurement, funds to increase the computerization of Army systems, and a variety of other actions that the Army would like to take to transform itself. The single biggest cause of the increase is the Army's plan to purchase a family of ground combat vehicles, which it calls the Future Combat System (FCS). The Army wants the FCS to eventually replace virtually all of its ground combat systems, including the Bradley Fighting Vehicle and the Abrams tank.

Figure 4.

Past and Projected Resources for Investment, by Service

(Billions of 2004 dollars)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; RDT&E = research, development, test, and evaluation.

If historical patterns of cost growth persisted, resource demands for Army investment would be much higher, averaging $53 billion over the 2010–22 period, or about 40 percent more than in CBO's projection without cost risk. The FCS program is

responsible for much of that difference. Ground combat systems have experienced greater cost growth than any other type of weapon both development and procurement costs have turned out to be about 70 percent higher than early estimates. And the FCS's costs (to which that percentage increase is applied) make up a large share of the Army's future demand for investment spending.

NAVY AND MARINE CORPS INVESTMENT

The current FYDP would increase investment funding for the Navy and Marine Corps (both included here under the term "Navy") from $44 billion in 2004 to $60 billion in 2009. Under that plan, resource demands for investment would peak the next year at $64 billion (excluding cost risk), CBO projects, and then gradually decline to $33 billion by 2022. Overall, the Navy's investment costs average a little more than $47 billion a year over the 2010–22 period in CBO's projection without cost risk. If costs grew as they have in the past, however, investment demands could peak at about $74 billion in 2010 and then fall to about $39 billion by 2022, averaging $56 billion a year during that period.

Funds to purchase battle force ships make up the lion's share of the Navy's procurement increases. The Navy plans to expand its fleet from about 300 ships today to 375 by 2022, in part by adding a relatively large number of smaller littoral combat ships (LCSs). The Navy's plans are outlined in the Report to Congress on Annual Long-Range Plan for the Construction of Naval Vessels. That report envisions spending an average of $16 billion a year (in 2003 dollars) between 2004–25 to build new ships and upgrade old ones. CBO's projection is roughly consistent with that report because it too projects that the Navy would need to spend slightly more than $16 billion a year (in 2004 dollars) between 2004–22 to build a 375-ship fleet, including the LCSs. If past trends in cost growth continued, they would drive that annual average to $19 billion.

With respect to aircraft procurement, the Navy and Marine Corps now plan to integrate their tactical aircraft forces more fully, resulting in less need for new planes than in last year's plans. Despite that integration, spending on naval tactical aircraft would need to rise. Fully funding the program of aircraft modernization envisioned in the 2004 FYDP would require the Navy to spend an average of $9.7 billion a year between 2004–22, CBO projects, or $11.4 billion a year with cost risk. By comparison, the Navy spent $8.6 billion on tactical aircraft in 2003.

AIR FORCE INVESTMENT

The Air Force typically has the largest investment budget of any of the services. Over the past two decades, it has received an average of about $48 billion per year (38 percent of DOD's total investment spending), compared with $22 billion (17 percent) for the Army and $43 billion (35 percent) for the Navy. (The other 10 percent was spent by defense agencies.)

In DOD's current plans, Air Force investment would increase from $50 billion in 2004 to $58 billion by 2009. After that, the service's demand for investment resources would continue to grow, CBO projects, reaching about $63 billion by 2011. It would then remain relatively constant (or decline slightly) through 2017, after which it would grow rapidly to a peak of $72 billion in 2021. Over the 2010–22 period, Air Force investment would average about $65 billion a year, CBO projects.

The increases during the next decade or so occur partly because the Joint Strike Fighter (JSF) is scheduled to move from development into production and because funds for intelligence and command-and-control capabilities are projected to rise. The growth after 2017 comes from CBO's assumptions about two new strategic systems that would replace or augment today's bomber force and replace today's land-based intercontinental ballistic missiles (ICBMs). DOD is now conducting concept studies to determine what those replacements might be, and plans for their development and purchase are likely to change from year to year as those studies progress. In the absence of firm plans, CBO used experience with the costs and schedules of previous bombers and ICBMs to guide its projections. In timing the beginnings of those programs, CBO considered the ages of the fleets, the time it took to develop and field today's systems, and the potential impact that DOD's transformation efforts might have on the future demand for those systems.

If the past cost growth in Air Force investment programs presages future increases, the service's investment needs could be greater. Incorporating historical cost growth for Air Force programs into CBO's projection indicates that annual spending could average about $74 billion over the 2010–22 period, or 14 percent more than in CBO's projection without risk. Peak spending could equal $84 billion, or 17 percent more than CBO projected without cost risk.

INVESTMENT FOR DEFENSE AGENCIES

In addition to funding the Departments of the Army, Navy, and Air Force, DOD's budget provides money for a variety of specialized agencies that are responsible for performing advanced research, developing missile defenses, overseeing special operations, and developing and managing information systems. DOD plans to spend almost $24 billion on those activities in 2004 and an average of $25 billion a year over the 2004–09 period. Thereafter, CBO's projection of annual defense agency investment averages $24 billion between 2010 and 2022 without cost risk and $26 billion with such risk.

Funding for defense agency investment in the 2004 FYDP exceeds the level in the 2003 FYDP by an average of almost $2 billion a year. CBO's projection of resource demands for such investment over the 2010–20 period was about $8 billion greater in its July update than in its January report, for two main reasons. First, the administration created a new defense agency investment account for programs that would transform the U.S. military. Because transformation has been such a high priority of this administration, CBO assumed that spending for those programs would continue at the 2009 level. Second, the Missile Defense Agency added funds through 2009 to develop new ground- and space-based interceptors. Given the high priority accorded to such activities in the administration's plans, CBO projected that funding for those interceptors would hold steady through the end of the projection period.

TODAY'S PLANS AND TOMORROW'S FORCES

Will the level of investment resources that is necessary to carry out the plans in the 2004 FYDP over the long term buy enough equipment to keep forces at desired levels and to keep the average age of equipment at acceptable levels? The answer to that question depends to some extent on the condition of today's forces. For most major types of military equipment, average age has been increasing since 1990. It will continue to grow through 2010 or, in the case of some aircraft, through 2020 CBO estimates (see table 2).

TABLE 2.—AVERAGE AGE OF MAJOR EQUIPMENT, BY SERVICE AND TYPE OF SYSTEM

Type of Equipment	Examples	Half-Life (Years)[1]	Average Age (Years)			
			1990	2000	2010	2020
Army						
Ground Combat Vehicles	M1 Abrams, Stryker, FCS	10–15	6	10	17	17
Helicopters	AH–64, UH–60, Comanche	12–18	17	18	19	13
Navy and Marine Corps						
Battle Force Ships	CVN, SSN, DDG, CG	14–18	17	14	17	16
Fighter and Attack Aircraft	F–14, F–18, JSF	10–15	11	12	14	11
Helicopters	AH–1, V–22, CH–53	16–23	17	22	18	9
Ground Combat Vehicles	LAV, AAV	10–15	5	13	19	11
Air Force						
Fighter and Attack Aircraft	F–16, F–22, JSF	10–15	10	14	20	15
Bombers	B–1, B–2, B–52	35–40	22	24	35	45
Airlifters	C–5, C–17, C–130	18–23	20	23	23	27
Tankers	KC–10, KC–767	28–33	28	37	40	34

Source: Congressional Budget Office.

[1] The half-life is one-half of the full expected service life of equipment. If the average age of an inventory of equipment is within the half-life range, that inventory is not composed of large amounts of old equipment potentially nearing obsolescence.

CBO has made projections of weapons inventories and their average ages for more than 20 years, using a simple method. We start with data from each service about how many weapons of different types it has and how old those weapons are. For each year of a projection period, we add to the inventory the deliveries that result from planned purchases, subtract the losses from planned retirements or peacetime attrition (again using the services' estimates), add a year to the age of each individual weapon, and calculate an average age for the total inventory. That simple arithmetic suggests that average ages should fall when DOD purchases large numbers of systems and rise when it buys few systems. Average ages will also decline if large numbers of older systems are retired, which can occur when forces are cut.

Between 1990 and 2000, nine of the 10 weapons inventories shown in table 2 grew older, on average. The average age of the Army's ground combat vehicles nearly

doubled during that period, and the average age of the same weapons in the Marine Corps more than doubled. Air Force fighters' and tankers' average ages grew by about one-third.

That aging occurred because DOD's investment budgets, which peaked at $180 billion a year in the 1980s, fell to less than $90 billion a year in the 1994–98 period. Not surprisingly, the decline in funding resulted in fewer purchases of major weapons for the military services. For example, procurement of Air Force tactical fighters averaged about 16 planes per year from 1992–2001 well below the steady-state level of purchases (106–149 aircraft per year) necessary to keep the average age of Air Force fighters from increasing (see figure 5). On the basis of DOD's current plans, CBO's projection incorporates rapidly growing purchases of fighters beyond 2009. The large deliveries of new aircraft that result from those purchases cause the average age of the tactical fighter fleet to decline after 2013.

Increases in the average ages of DOD's weapons stocks between 1990 and 2000 occurred despite the retirements made possible by the substantial force cuts that followed the end of the cold war. For example, the Army reduced its number of combat divisions by about one-third, and the Air Force cut its tactical air wings in half, allowing those services to retire large numbers of older tanks and fighters, respectively. Fleets of Navy battle force ships also shrank during that period, and those retirements, combined with continued Navy ship purchases during the 1990s, reduced the average age of battle force ships the only category of weapons in table 2 that actually decreased in average age over that period.

DOD may be able to make further reductions in forces. The administration cut naval aviation forces this past year with its move to incorporate Marine Corps fighter forces into Navy air wings. But such reductions may be much too small to eliminate the resource pressures that CBO's projections indicate.

DEFENSE SPENDING IN OTHER CONTEXTS

I would like to close with a few thoughts about how defense funds fit in with the rest of Federal spending and about the impact that economic trends might have on the availability of those funds.

DEFENSE AS A SHARE OF GROSS DOMESTIC PRODUCT

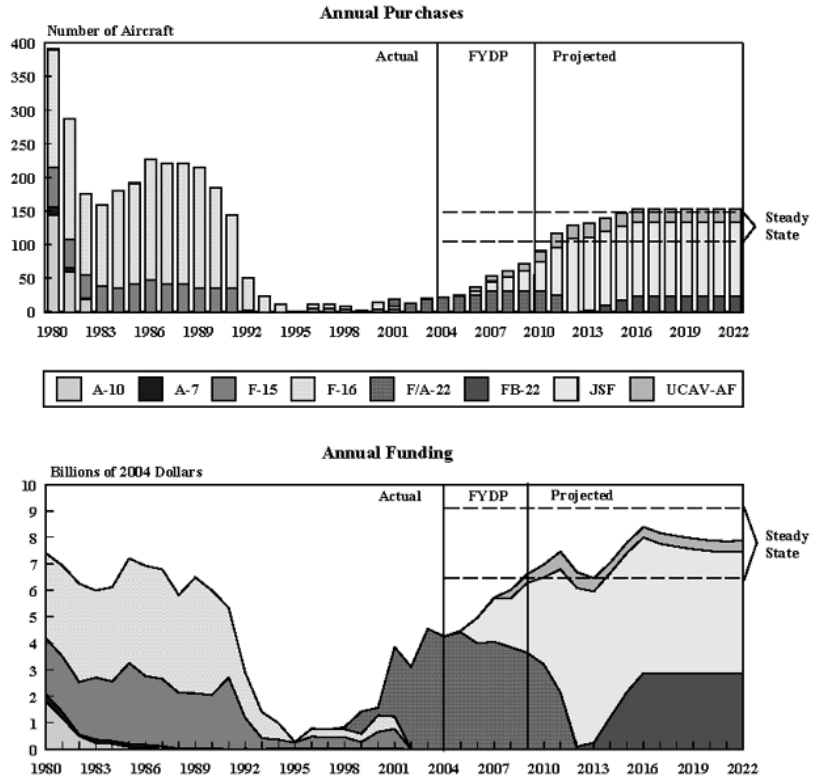
Some defense leaders have argued that DOD should receive a constant share of the Nation's income as measured by its gross domestic product (GDP). For instance, General Gordon Sullivan, a former Chief of Staff of the Army, suggested pegging a floor for the defense budget at about 4 percent of GDP. Proponents of spending a constant share of GDP argue that defense spending is an investment in security that should grow along with the nation's wealth.

DOD's share of GDP has not exhibited such constancy in the past (see figure 6). That share stood at about 5 percent of GDP in 1980, approached 6 percent in 1983, and remained close to that level through 1987. It then declined as defense outlays dropped in the late 1980s and fell further after the cold war, eventually reaching a nadir of about 3 percent in 1999. In recent years, DOD's share of GDP has been increasing, and it is likely to grow again in 2004 when all supplemental funding is added in.

If the plans in the 2004 FYDP were carried out through 2022, DOD would still not receive a constant share of GDP, CBO projects. The funding proposed for DOD in the FYDP absorbs a roughly stable share of gross domestic product (as projected by CBO) through 2009 an average of 3.4 percent per year over that period. But CBO's projection of the growth of real GDP in 2010 and beyond exceeds 2 percent per year, whereas its projection of DOD's resource demands grows by an average of only 0.5 percent per year over that period.

Figure 5.

Procurement of Air Force Fighter and Attack Aircraft



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; JSF = Joint Strike Fighter; UCAV-AF = unmanned combat air vehicle for the Air Force; steady state = the amount of purchases (and funding) needed to keep the average age of the Air Force's fighter and attack aircraft from increasing.

DEFENSE AS A SHARE OF FEDERAL SPENDING

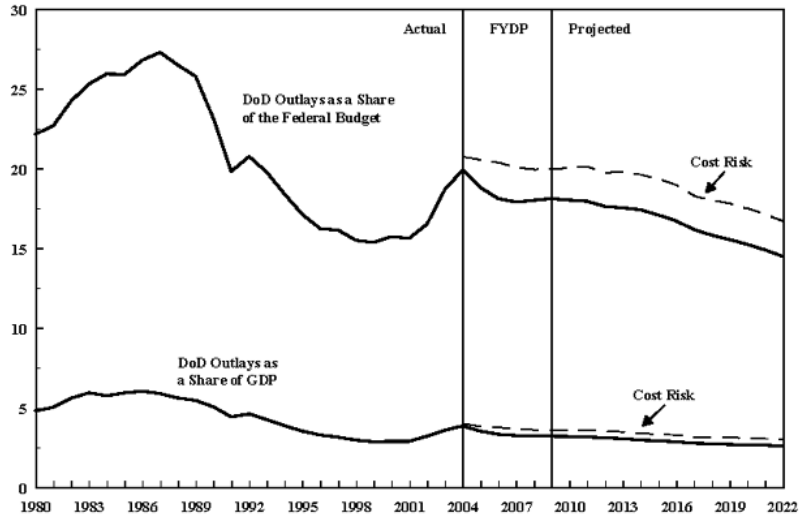
DOD's share of Federal spending has not been constant either. In the past 5 years, it has grown from about 15 percent of the Federal budget in 1999 to about 19 percent of the budget in 2003 (see figure 6). That increase followed more than a decade of declines from the peak in the late 1980s, when DOD received about 27 percent of Federal spending.

The administration's budget request for DOD in 2004 (including supplemental funding) represents about 20 percent of Federal spending. If the administration's current plans were carried out, defense would make up about 18 percent of the Federal budget through 2009. Thereafter, its share would decline, falling to about 14 percent by 2022, according to CBO's long-term projection of the resource demands implied by current defense plans. That decline occurs because projected increases in spending for mandatory programs such as Social Security, Medicare, and Medicaid outpace CBO's projection of growth in defense.

Figure 6.

Total Outlays for the Department of Defense as a Share of the Federal Budget and of Gross Domestic Product

(Percent)



Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program.

DIFFERENCES BETWEEN CBO'S LONG-TERM PROJECTION AND CBO'S BASELINE

Committee staff asked me to point out that the long-term projections presented today are different from the defense projections in CBO's 10-year baseline, which appeared in our update to the Budget and Economic Outlook, about which I testified in September. In CBO's baseline estimate, defense discretionary funding equaled about $465 billion in 2004 $83 billion more than in the long-term projection of defense resource demands without cost risk.

Two factors account for the difference. First, as noted earlier, CBO's long-term projection looks only at funding for DOD (budget subfunction 051), whereas its baseline projects all national defense spending (function 050). Funding for agencies other than DOD adds almost $20 billion per year to defense spending (see the line in figure 1 labeled "CBO's Baseline for DOD"). Second, neither the 2004 FYDP nor CBO's long-term projection without cost risk (which is based on it) includes the $74 billion that was appropriated in 2003 for contingencies and other purposes. However, as directed by law, CBO's baseline estimate of future defense outlays does include that supplemental appropriation.

Differences between CBO's baseline and its long-term defense projection diminish over time because CBO projects real growth of about 2 percent per year for DOD through 2013 in its projection without cost risk, whereas CBO's baseline projects no real growth for DOD in those years (see figure 1). The specifics of CBO's baseline projections which adjust discretionary funds only for inflation are directed by law.

Chairman NUSSLE. This is excellent information that you have provided today, and I want to go into a couple of things here real quick. Just to understand, and I think I can guess, but let me have you illustrate what is meant by the upward potential of risk. You have a red dotted line on each—almost every one of these charts, and what are you trying to point out with that risk element here?

Mr. HOLTZ-EAKIN. Well——

Chairman NUSSLE. Why don't we talk about one particular chart and figure one as an example.

Mr. HOLTZ-EAKIN. We can do it in two pieces. For example, in the figure for investment, there is a cost risk associated with the development, testing, purchase, and deployment of weapons systems. That risk is strictly a reflection of the historical record in that some systems end up costing more than they were originally projected to cost. And using that historical record of cost increases during the various stages of research and development, and then testing and evaluation before final purchase and deployment, we can sketch out the kinds of upward additional costs one might experience for current plans to develop and deploy weapons systems.

So that is strictly a cost risk in the conventional sense of the term. If one goes to figure 1, the overall risks associated with the projection include not only those kinds of risks but also risks of greater activities necessary for the same troops and weapons that would be in the program, and that is experiences much like those in Iraq and Afghanistan. And those kinds of risks for spending we have attempted to quantify by starting with the experience that we have had, to the best of our understanding, in Afghanistan and Iraq and eventually phasing them down to something that is roughly reflective of about 50,000 troops in Iraq, plus a level of activity in Afghanistan that is comparable to Bosnia or Kosovo, plus a maintenance of other activities like air patrols in defense of military facilities. And that is something like $20 billion a year in real terms.

Again, I stress that is not a forecast of the nature of the costs associated with a global war on terror, but it is an attempt to reflect in these projections what has been an inconsistent position on the part of the administration—that this will be a long-term endeavor, that it will require efforts over many years. And we attempted to put into the cost risk as a result some of the budgetary implications of a sustained effort of that type.

Chairman NUSSLE. Now on figure 1, you have a CBO baseline that is based off of the previous supplemental request for DOD, as I understand it. The blue hump in the chart is what we are assuming the dollars that we are appropriating for that. And the CBO baseline is the line that builds that into the budget over the next number of years.

And I guess a couple of questions. One is why are you doing it that way? And the second is do you have a better handle on what one-time expenditures are a part of the requests that have been allocated under these appropriations?

Mr. HOLTZ-EAKIN. Well, the answer to the first question is that we build into our budgetary baselines all discretionary spending that is on the books at that time, including any supplementals, and we include them in a way that inflates them at the rate of inflation. And in this case, since it is an inflation-adjusted chart, it appears as a flat line. We basically follow the convention that each year we will spend the same discretionary funds in real terms over the course of the horizon.

You notice that black dotted line goes out the conventional 10 years and stops. That is the standard for presentation and budget,

and it answers the question from a larger budgetary perspective: What are the implications for the budget as a whole of devoting this amount of resources to discretionary programs—defense discretionary and nondefense discretionary? It is a useful convention to make sure that the overall budget presentation is comprehensive and inclusive of all the demands from many sources.

This particular projection is really meant to show the implications of a particular policy, not a budgetary stance, and for that reason, we did not carry it forward. We showed only what we know about the blue hump and then discussed the implications of the Future Year Defense Program, and it is meant to be illustrative of the implications of that particular policy stance.

In terms of cross-walking from one to the other, one of the things that we would be interested in finding out—and we have a whole list of questions that will be a starting point—is the degree to which things that are reflective of that blue hump are one-time and thus not actually appropriate to carry forward, versus those that are. As I said, I would love to work with you on that. We are not in a position to draw clean lines of that type.

Chairman NUSSLE. I wanted to get to those questions as well. Before I leave this, and I am not trying to quibble with your chartmakers as much as I want to understand this, but currently it would be just as easy for illustrative purposes to fill in that dotted line with blue and not make it a hump, but make it a policy that is built out into the baseline for the next 10 years; isn't that right? I mean, there is no hump right now. There is nothing that I am aware of in our budget or in our appropriations or in the Defense Department or anywhere that suggests the spending on that blue line is going to go down at any time in the near future.

Mr. HOLTZ-EAKIN. I am sympathetic to that. Again, what we wanted to do, the objective of the exercise was to the best of our ability to show the budgetary implications of the Future Years Defense Program as updated. And in those situations where we knew something more than was literally written into the FYDP—and there is one FYDP in particular—we include it. We put into this projection the 100 tankers that would be included in the lease deal, which received some attention, and indeed, we did that because it was widely discussed by the administration, had been approved in some cases by committees in Congress. And further, given the open position of the administration that this was just the beginning, that the intention was to replace the entire 500-odd tankers, this projection includes the 100 tankers in the initial lease and then subsequent leases until the entire tanker fleet is replaced.

To the extent that we have firm policy direction on what the administration intends, we are happy to bring that into this kind of an exercise. We felt that in the absence of firm policy direction about the scope and scale of activities in the global war on terror, it was difficult to do that for those activities. But the dotted line is a reflection of what is out there.

Chairman NUSSLE. And while I would love to see it displayed as a hump in this instance, meaning that there was actually a cost associated to this, and then there is a decrease in the costs associated to this, there is nothing currently that I am aware that would suggest that that is going to go down; that that cost is actually

going to follow the dotted line, and we might as well fill it in with blue as far out as you can see as opposed to assuming that there is actually going to be a decrease at sometime in the future.

I understand that is quibbling with your chartmakers, but visually I see it—it looks like a one-time expenditure, and I am happy to see it displayed that way. But my understanding or my perception of history here is that it will not be a one-time expenditure, but that this will be absorbed in the budget.

And you kind of went to my last question in your answer and that is, you have a list of questions.

Mr. HOLTZ-EAKIN. We do.

Chairman NUSSLE. And I will work with you to get those questions answered. And I guess the only thing I would like to know from you is there—are you at all confident or are you confident that these questions, left to their own devices, will be answered, or do you need us to step in on your behalf and to make these a specific request from Congress? Because I will do that. But I want to know if this is a process that is ongoing, and you are getting your questions answered, et cetera, et cetera?

Mr. HOLTZ-EAKIN. Certainly we would appreciate any involvement that any member of the committee might wish to have to understand better what has happened both historically in the budget and then going forward. I think we can say that we will get these questions answered. It is an issue of how quickly we will get the information you need, and I think we should probably work with each other on making sure it is done in a timely fashion.

Chairman NUSSLE. Without speaking for him, I will bet you that this might even be done as a bipartisan project, because I have a feeling that the questions you are asking are the questions I am asking. And from sitting next to him for the last few years, I have a feeling that there may be very similar questions to the one Mr. Spratt is asking.

Mr. SPRATT. I assure you, Mr. Chairman, I accept the bet.

Chairman NUSSLE. We will work together with you on that project. As I say, I appreciate the good information you are providing us, and I am sure there is a lot of background and details that went into this presentation. I appreciate the work that you and your staff has done.

Mr. Spratt.

Mr. SPRATT. I have seen this before, and it is an excellent piece of work, and I want to thank you for it. It has its limitations, and it is the limitations of those you have to deal with all the time in this work.

As I understand you have taken the FYDP and extended it as if it would be fulfilled over its 6-year period of time. You haven't tried to backfill it, as I understand it, with weapons systems that aren't adequately included in the FYDP. For example, I mentioned earlier, and I may be wrong about this, but I will risk being wrong twice, if the THAAD is not fully included in the FYDP, I understand there is some money in the outyears that is not nearly enough to procure the batteries of the THAAD that we probably want to have for theater missile defense.

Mr. HOLTZ-EAKIN. I know we have some discussion of it, but Mr. Gilmore is more familiar with the details.

Mr. GILMORE. The FYDP is the FYDP. So if that is underfunded in FYDP, it is underfunded in our projection. Beyond the FYDP, beyond 2010 and thereafter, we assume, based on what people in the Missile Defense Agency are saying anyway, that you would buy bad batteries and bad radars. So in the years beyond the FYDP, beginning in 2010, we buy bad batteries and we buy bad radars. I can't remember off the top of my head exactly how many batteries and radars, but we can get that for you.

Mr. SPRATT. You issued an opinion about the purchase of tankers for the Air Force, 767s from Boeing. What would be the outlay difference between renting and purchasing outright? I know you would have to have a big BA number to authorize the execution of a multiyear contract, but would there be any outlay difference of the budget in the near term?

Mr. HOLTZ-EAKIN. In our analysis of the existing lease contract compared to a direct purchase, it would be $6-billion cheaper over the——

Mr. SPRATT. Over the life of the program.

Mr. HOLTZ-EAKIN. To purchase as a direct outlay, and that is assuming the terms of the contract as negotiated under the lease.

Mr. SPRATT. But what I am getting at is the simple solution to this is to go ahead and bite the bullet, put the amount of budgetary authority necessary. We just appropriated $80 billion in April, and we have $87 billion more; $167 billion in the last 6 months has been added to the defense budget for the situation in Iraq and Afghanistan. Why not go ahead and just add $20 billion in additional BA, particularly if the outlay effect, which is a number that goes to the bottom line and swells deficit, is no different?

Mr. HOLTZ-EAKIN. Well——

Mr. SPRATT. I am preaching to the choir, I know. Am I wrong about my assumption? Is there any other reason for this hesitation to have such a big BA number added to the defense budget?

Mr. HOLTZ-EAKIN. The effect of the current treatment is to shift the pattern of BA requirements from the front end to the back end of this particular arrangement. As we said in our analysis, we feel the appropriate budgetary treatment is to indeed include the activities of the trust set up to finance this entire purchase. We feel it is a governmental activity, and that would reverse that treatment. And we certainly feel if one were to view it as a lease, it does not meet the requirements to be an operating lease and should be treated again as a capital lease with the costs reflected up front. So in the end, we believe the appropriate budget treatment is reflective of the kind of solution you are suggesting.

Mr. SPRATT. Let me read one paragraph in your opening conclusions because I think it ought to be put on the record. "Carrying out today's plans for defense would require the United States to fund the military through 2022 at annual levels averaging about 10 percent higher *** than the peak spending during the 1980s," which was a peacetime record level, "and about 20 percent higher than current funding." And we are currently funding excluding the cost of Afghanistan and Iraq. In other words, if we leave these deployments out, which are extremely expensive, as we have seen, we still got a budget that requires 20 percent more just to procure and operate at the level the FYDP proposes.

Mr. HOLTZ-EAKIN. That is correct.

Mr. SPRATT. That is pretty daunting.

You also indicate over the longer term, cost risks associated with the global war on terrorism could amount to about $20 billion a year. That is Iraq, Afghanistan and elsewhere, but that is not included in here. That is your cost risk number. That is the broken line that you are indicating is a risk of incurring?

Mr. HOLTZ-EAKIN. We include that as a risk without any particular reason to believe we have got the number exactly right, but reflective of the ongoing potential for that kind of an outlay.

Mr. SPRATT. And you did an excellent job, by the way, on the force study, bringing the details together to explain to everybody in language we can understand how the Army is stretched out and how our resources are being extended in order to maintain deployment there of 110,000 troops.

You heard our conversation earlier about the costs per month of these deployments. We have heard from CBO that the best breakdown of the cost per month that you can derive is around $3 billion; not $3.8 [billion] or $4.3 [billion], but $3 billion for the deployment that we have in Iraq right now. Can you account for the discrepancy?

Mr. HOLTZ-EAKIN. As I mentioned to the chairman, we are not in a position to completely reconcile our estimates—which were built from the bottom up using our best information about the kinds of activities that we understood were going on and the costs for the equipment and the troops—with the actual experience in Iraq. To the extent that we got better information about the actual experience, we might be able to reconcile them, but right now we cannot.

Mr. SPRATT. Could you give us for the record your accounting for the $3 billion for what you estimate to be the expense of maintaining the troop levels that we have right now?

Mr. HOLTZ-EAKIN. We can certainly provide details that underlie our estimate of $36 [billion] to $41 billion.

Mr. SPRATT. We would like to have major cost elements, how it adds up to that substantial sum of money.

Mr. HOLTZ-EAKIN. We can do that easily.

Mr. SPRATT. I mean it could be things we can't talk about. It could be intelligence money buried there.

Mr. HOLTZ-EAKIN. We can show you what we have put into our estimates.

Mr. SPRATT. Having worked for a comptroller before, there used to be a slogan in the comptroller's office that our duty is not to let the costs run over and the cash run out. And every good comptroller was to put something in there so when the commander needed something unexpectedly, there would be enough money in the kitty to cover it. Surely it is not $1.3 billion a month in padding, but it would be interesting to know. If we could get your reconciliation of that, we would appreciate it.

And just one final thing. Quite a few of these numbers don't include the Department of Energy. Some do apparently when you get over to total defense spending at the end, but quite a few of these are just DOD.

Mr. HOLTZ-EAKIN. Only in the end does it include that. The remainder are focused on subfunction 051, which excludes DOE and defense spending elsewhere outside the Department of Defense.

Mr. SPRATT. There is a $15 [billion] to $20 billion increment on top of these things?

Mr. HOLTZ-EAKIN. That is correct.

Chairman NUSSLE. Mr. Edwards.

Mr. EDWARDS. Thank you, Mr. Chairman, and thank you, Dr. Holtz-Eakin. Seems to me listening to Dr. Zakheim's testimony earlier just reconfirms what we all understood, whether we practice or put it into place or not, and that is the only certainty with defense spending is uncertainty. And I think where we make a mistake is we project out budgets for defense for the next 10 years; assume some inflation, small inflation, factor; totally underestimate the cost, whether it is production cost overruns or contingencies that we never assume in a 10-year budget; combat situations we never assume in a 10-year budget; and then we spend on other programs, including tax cuts; and then our children and grandchildren will pay the price for our repeatedly making the same mistake over and over. And that is why I appreciate what the chairman is doing in this hearing to try to get as honest of an estimate as any human can of what our Iraqi and defense costs are going to be so that as we build the budget over the next couple of years, it will be more realistic numbers that we have used in the past.

My question to you would be, would it be difficult to go back and look over, say, a 20-year period or so, maybe start at 1980 and give us an average of for every 5-year budget projection for defense, or if they use 10-year budget projections at that point, how off in percentage terms and dollar terms was each projection? My guess is that each decade we make the same mistake over and over and over and over again, and we ought to stop doing that. We ought to stop assuming there will be—I assume Dr. Zakheim's budget projection assumes no funding for combat operations in the next 5 years or, projected out to 2013, over the next 10 years. Would that be correct that the defense budget, future years defense projections, don't assume one dime for combat operations?

Mr. HOLTZ-EAKIN. They certainly include the costs of active troops and equipment and weapons systems. The cost risks that we show include deployment TEMPO, things like that.

Mr. EDWARDS. They assume no future Iraq. We didn't predict the invasion of Kuwait 5 years before Kuwait, so that 5-year budget projection didn't assume the cost of that. Five years ago, we didn't assume or predict this combat in Iraq, so there was no funding for that. I assume—the Department of Defense's budget projected out to 2013 doesn't have just an estimate or a plugged number for possible combat contingencies, does it?

Mr. HOLTZ-EAKIN. No. I think if you go back to your original question, could we do the math and compare actual outlays in the defense budget with projections 5 years earlier, certainly one could. However, I would caution you that the spirit of this kind of a projection is to ask what are the implications of current policy if unchanged for the future, and indeed when one looks at the difference between what actually happens and what was projected, policies

change. The degree to which that would be illustrative depends on what question one is asking.

Mr. EDWARDS. I understand. And I understand we would have to subjectively evaluate the data, but I would love to see the data, because my guess is, over that 20-year period, we don't overestimate future defense expenditures, and there are several risk factors. Some is cost overruns for a particular procurement programs. Other is projected costs, such as medical care costs, prescription drug costs, going up. We didn't predict that to the extent it has occurred 5 years ago, and we don't assume costs or contingencies.

One thing we know for certain: Somewhere in the next 10 or 20 years, American forces are going to be fighting in a war somewhere. I don't know if it is going to be Iraq, Iran, North Korea or someplace, but I didn't predict the last two Iraqi wars, and that wasn't all that long ago. But our budgets don't assume any costs for that.

I guess what I am asking you for would take into account the accumulation of all of the risk factors for underestimating the true cost of national defense.

Mr. HOLTZ-EAKIN. We would be happy to look at that and put together a comparison of what was expected at each point in time and what actually transpired. That would be limited by data in some cases.

Mr. EDWARDS. Make whatever assumptions you need to make.

Mr. Chairman, I will finish just by saying that I would bet right now what little net worth I have versus what little net worth anybody else has that that the CBO projections on defense costs over the next 10 years, if we go revisit this 10 years from now, will be far closer to reality than the FYDP for the next 5 years and then projected out for 5. And that is not a criticism of anyone purposely trying to mislead the American people, but it certainly has budget implications.

And I thank the chairman.

Chairman NUSSLE. Mr. Scott.

Mr. SCOTT. Thank you, and I appreciate you coming back.

Are you aware of how much more this war is going to cost after the $87 billion? Have you heard suggestions that there will be a request of tens of billions more in the next few months?

Mr. HOLTZ-EAKIN. I haven't heard anything that you haven't heard in this hearing, I am sure.

Mr. SCOTT. One of the things we have been hearing recently, 60 Minutes, National Public Radio, are sweetheart deals, corruption with contracts. What can we do to ensure that we are getting our money's worth for the money we are spending?

Mr. HOLTZ-EAKIN. I think that is a question that is most appropriately directed at David Walker, the Comptroller General, who is much more conversant with the auditing and contracting functions under Congress. But as a general matter, I think systems need to be and have been put in place to ensure that there are appropriate awards of contracts and performance measures in the conduct of those contracts. Those are the general prescriptions for getting your money's worth.

Mr. SCOTT. And if we are not getting our money's worth, that is how you would find out?

Mr. HOLTZ-EAKIN. Generally that is revealed in either a financial or performance audit.

Mr. SCOTT. We have heard that Iraq could not afford to pay back what we are going to spend for reconstruction. Do you know the amount of debt per person in Iraq versus the amount of debt per person in the United States?

Mr. HOLTZ-EAKIN. Those are certainly numbers we can certainly do our best to get to you.

Mr. SCOTT. Bulletproof vests were apparently not part of the $79 billion we spent earlier this year for the war on Iraq. Is there any excuse for not projecting the need for the bulletproof vests?

Mr. HOLTZ-EAKIN. The projection really depends on the structure of the policy, and I am not in a position to know what the expectations were at the time of the request made for the supplemental.

Mr. SCOTT. You have a chart on aircraft purchases.

Mr. HOLTZ-EAKIN. Figure 5, I believe.

Mr. SCOTT. I was wondering if you have a similar chart for shipbuilding? Can you say how close we are or how much more it is going to cost us to build enough ships to maintain the number of ships—first of all, what is the projection for the size of the Navy?

Mr. HOLTZ-EAKIN. This projection reflects the expectation of raising the fleet size to 375 ships from 300.

Mr. SCOTT. Budgetwise, how are we doing in making progress?

Mr. HOLTZ-EAKIN. This projection assumes about $16 billion per year in shipbuilding costs in real terms, adjusted for inflation. In terms of the projection, that is a number about which both the Navy and CBO come down in the same place.

Mr. SCOTT. That is $16 billion a year construction.

Mr. HOLTZ-EAKIN. On average.

Mr. SCOTT. How much are we spending?

Mr. GILMORE. They are requesting $12 billion in 2004 and planning on going up to $20 billion by 2009 it then trails off a little bit, but it averages about $16 billion a year in our projection.

Mr. SCOTT. But $12 billion in 2004. And we need to average $16 billion?

Mr. HOLTZ-EAKIN. The near term, 2004–09, it ramps up from $12 [billion] to $20 billion, and then it goes down to average about $16 billion. So it is a profile that runs up and then down, quite similar to the pattern you see in these projections where there is a ramp-up peak and then a ramping down to a lower level.

Mr. SCOTT. I have noticed that there is not much concern being expressed about the fact that we are not paying for the $87 billion. Can you give us an idea of what that does, what a $87 billion expenditure with no pay-for does to the future of the budget?

Mr. HOLTZ-EAKIN. As a one-time matter, it is very different than if it were on a sustained basis. As a one-time matter, $87 billion in a $2.2 trillion budget is not large in percentage terms. A flavor of this size on a sustained basis is given by our summer update where you can see that the inclusion of last year's—the 2003, $79 billion supplemental for a full 10 years adjusted for inflation is about $800 billion over the 10-year window, and that excludes any additional debt service associated with it.

Mr. SCOTT. You have to include debt service as part of the calculation; do you not?

Mr. HOLTZ-EAKIN. If one does that, you get to about $1 trillion.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you.

Mr. SPRATT. Can I look at one chart?

Chairman NUSSLE. Could we have this chart just for the record, because this chart has been referred to on battle force ships.

Mr. HOLTZ-EAKIN. Indeed. We are happy to submit the entire set of charts, which include these for many kinds of weapons.

Chairman NUSSLE. So we have them for the committee and the record.

Mr. SCOTT. Mr. Chairman, I think this was in a prior submission. Wasn't this in your January report?

Mr. HOLTZ-EAKIN. Earlier versions appear in the January report, and we have them for the update that occurred in the summer reflecting the 2004 FYDP.

Chairman NUSSLE. And Mr. Spratt has a follow-up question.

Mr. SPRATT. Let me flash a chart at you because it is pertinent to what Mr. Scott just asked. It is about the cost under three different scenarios. Once again, who knows how many troops will be deployed and for how long. Scenario A assumes that the final troops will leave around 2006, but there will be a steady phase-down to two or three division equivalents. As a cost of the postwar military presence of $93 billion for that deployment, we are assuming that reconstruction costs will be 20, which is in the package before us today, plus 3- and the April supplemental plus 5. Assuming that if we are there for a couple more years, we will probably be soaked for at least another $5 billion in reconstruction assistance. And then the comeback costs are carrying forward mainly the cost of the war and adjusting for intelligence and things like that for an ongoing presence. Most of that is previously incurred costs.

And then there are some savings. You have to acknowledge that if we subdue the country and it becomes a friendly country, then we don't have to have no-fly zones that will cost about $1.5 billion to maintain. However if we don't pay for the deployment, if we instead charge it up to the deficit, obviously that adds to the national debt, and there is a debt service cost to be added, and we compute that to be $83.9 billion. So the total impact over 10 years if we don't pay for the deployment, we come up with $238 billion. And that is for the most benign of the three scenarios.

I would hope that scenario C is the worst case, which would include deployment until 2010. But if you look at Kosovo and Korea and other places around the world where we have had military engagements followed by occupation, it could happen. I hope it doesn't, but $238 billion is enough, and it is not unrealistic or unlikely at all.

Would you comment on this chart? Can you give us any impressions about the—I will tell you what. May I give you a copy of our study and get your comments on it?

Mr. HOLTZ-EAKIN. It would probably be better for us to have the details of the postwar military presence, year-by-year, so we understand the profile underneath those numbers.

Mr. SPRATT. We will do that.

Chairman NUSSLE. Mr. Spratt and I will work together with you. If you will get us the questions that the Congressional Budget Of-

fice would like to submit, we will work together to try and submit them in a bipartisan way so we can get answers to these questions so that our analysis improves.

Mr. HOLTZ-EAKIN. Thank you.

Chairman NUSSLE. If there is nothing more to come before the committee, we stand adjourned.

[Whereupon, at 2 p.m., the committee was adjourned.]

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