

Statement

of

William J. Lynn, III
Deputy Secretary of Defense

before the

House Armed Services Committee

January 26, 2011

Embargoed Until Released
by the House Armed Services Committee

Good morning, Mr. Chairman and members of the committee. Thank you for this opportunity to discuss our efficiency efforts at the Department of Defense. First I would like to extend my thoughts and support to Representative Gabrielle Giffords, her husband Navy Captain Mark Kelly, and the others affected by the events in Tucson. Gabby and Mark are part of our military family. We are cheering Gabby on as she begins her rehabilitation.

Today I am pleased to be joined by the Vice Chiefs of Staff of the Army, Navy and Air Force and the Assistant Commandant of the Marine Corps. I have a brief statement, following which we will all entertain your questions.

The leadership of the Department is well aware that the nation is dealing with significant fiscal pressures. We owe it to the taxpayers to make the most of every dollar entrusted to us. Your committee's recently released oversight plan underscores this point by stating your intent "to ensure the Department of Defense is operated efficiently and with fiscal discipline in order to maximize the return on the taxpayers' investments."

We could all benefit from following the direction of President Eisenhower, who believed we should spend whatever is necessary for defense but not one penny more.

To that end, the Department sought in both the Fiscal Year 2010 and Fiscal Year 2011 budgets to curtail or eliminate programs that were either too troubled to continue or that provided capabilities that were too narrow to justify their costs. We identified more than 20 programs in these categories; had these programs continued as planned, they would have cost more than \$300 billion.

Over the past year we have continued our unsparing evaluation and I will discuss several new program terminations in a few moments. But we have also initiated a comprehensive search for greater efficiencies, particularly in our business operations, our personnel system and our headquarters structure. Specifically, Secretary Gates laid out three key objectives that I will describe today:

- The Services were directed to achieve \$100 billion in efficiencies over the FY 2012 to 2016 Future Years Defense Plan (FYDP);
- The Services could retain and reinvest these efficiency savings in enhancements of high priority warfighting programs; and
- The Department developed additional efficiencies and other changes to accommodate a \$78 billion reduction in its topline, in order to contribute to the Administration's deficit reduction efforts.

Military Services Save \$100 Billion

Over the past six months, the Military Services have undertaken a comprehensive examination of their overhead accounts to achieve the \$100 billion savings objective. The savings come from numerous sources. A portion is generated by reorganizations that reassign personnel and reduce layering in the Department. For example, the Army will consolidate six installation management command regions into four and close the Evaluation Task Force. The Navy will eliminate selected squadron staffs and disestablish the Second Fleet in Norfolk -- transferring needed functions to its Fleet Forces Command. The Air Force will consolidate two air operations centers in the United States and two in Europe. It will also consolidate three Numbered Air Force staffs in areas where major Air Force commands can assume the workload.

The Services also will achieve savings through implementing better business practices. For example, the Army will leverage efforts of other organizations to reduce the number of data centers. The Navy will take steps including selective manning reductions at about 290 shore commands and shifting 6,600 billets to increase shipboard manning. At my direction the Air Force will implement better business practices in satellite procurement, establishing more stability in the development process and utilizing block buys for acquisition.

In addition to these business practice efficiencies, the Services garnered savings through reductions in programs that cost too much or provide too little capability. The Army, for example, will terminate procurement of the SLAMRAAM surface-to-air missile and the Non-Line-of-Sight Launch System. The Marine Corps will terminate the Expeditionary Fighting Vehicle (EFV). The EFV program would have consumed \$12 billion in future procurement costs -- the bulk of Marine Corps procurement funding for a decade -- while providing only a fraction of the needed amphibious assault capability. Instead the Marine Corps will sustain its amphibious assault mission by reinvesting EFV savings into upgrades of existing vehicles and other initiatives.

Military Services Reinvest All Savings

As directed by the Secretary, all savings realized by a Military Department will be retained and reinvested by that department. Approximately \$28 billion of the total savings will be used over the next five years to deal with higher-than-expected operating expenses, including costs for sustainment of weapons systems, depot maintenance, base support and flight hours and other training. Without our efficiency initiatives, we would have been forced to reduce procurement or cut force structure in order to cover these costs.

The remaining savings -- some \$70 billion -- will be used to enhance high priority military capabilities. Let me cite a few key examples to give you a sense for these important initiatives:

- The Air Force will begin development and acquisition of a new long-range bomber, part of a family of long-range strike platforms. The Service will also maintain maximum procurement of Reaper UAVs, increase procurement of the Evolved Expendable Launch Vehicle to ensure access to space, and buy more Joint Strike Fighter simulators.
- The Army will invest more heavily in modernization of the Army's battle fleet of Abrams tanks, Bradley Fighting Vehicles, and Stryker wheeled vehicles, accelerated fielding of a new tactical communications network and purchase of more UAVs. In another important initiative, the Army increased funding for its suicide prevention and mental health counseling programs.
- The Navy plans to use its savings to buy six more ships than were in last year's plan, including an additional destroyer. The Navy will also develop a new generation of electronic jammers, increase repair and refurbishment of Marine equipment, and develop a new generation of sea-borne unmanned aircraft.

In sum, our efficiency initiatives will permit improvements in warfighter capability in ways that would not have been fiscally possible in the absence of the efficiency campaign.

Accommodating the Topline Reduction

The strength of our national defense ultimately depends on a strong economy. The level of today's deficits threatens to undermine the strength of the American economy. As part of the Administration's broader effort to address the deficit, the Department reduced its topline budget for FY 2012 to 2016. This reduction – which totaled \$78 billion compared with last year's plan – will still result in a defense base budget request of \$553 billion in FY 2012 and modest real growth in the near years of this FYDP.

In order to protect warfighter capability, we accommodated this topline reduction through additional efficiencies and other changes outside the warfighting accounts. Substantial savings were achieved through defense-wide personnel changes. Secretary Gates has imposed a freeze on civilian personnel levels in the Department through FY 2013, with limited exceptions to accommodate growth in the acquisition workforce and a few other areas. The Secretary also mandated a reduction of 10 percent per year in FY 2011 through FY 2013 in the number of contractors who augment government staffs. These limits apply not only to the military departments but also to the Office of the Secretary of Defense, the Joint Chiefs of Staff, the Combatant Commands, and the Defense Agencies. We expect to accommodate these limits through personnel efficiencies and reductions in unnecessary or lower-priority work.

The Department will also reduce the number of general and flag officer billets by about 100 (out of approximately 900). Our civilian Senior Executive Service billets will be reduced by about 200 (out of a total of about 1,400). The reductions will take place over the next two years. We will also implement the President's guidance, which the Congress agreed with and mandated in law, and freeze civilian salaries for two years.

We have sought to address the enormous growth in our medical costs through management efficiencies, while continuing to provide high quality military health care. But we believe it is time to lift the 15-year freeze on TRICARE enrollment fees for working-age retirees, phase out subsidies that DoD currently provides to a relatively small number of non-military hospitals, make adjustments to pharmacy co-pays, and implement other management efficiencies.

Finally, we are taking steps to streamline our organizational structure. As the Secretary announced last August, we are disestablishing the Joint Forces Command and the Business Transformation Agency and eliminating the position of Assistant Secretary for Networks and Information Integration. In addition we will pursue efficiencies in intelligence operations and in our information technology investments.

I have focused today on program changes that we believe will substantially increase efficiency. Unfortunately, if the Congress leaves the Department on a year-long continuing resolution (CR) for FY 2011 at reduced funding levels, we will likely see a drop in both effectiveness and efficiency this year. Operating under the significantly reduced funding level now being debated would cause severe problems, likely requiring us to curtail critical activities needed to support our troops and carry out our national security mission. A year-long CR would also rob us of the flexibility needed to meet warfighter needs. I strongly urge the Congress to enact a defense appropriation bill for FY 2011 with sufficient funding to meet requirements.

Mr. Chairman, the proposals we are describing today are the result of a detailed, comprehensive budget and program review led by Secretary Gates and involving the entire senior military and civilian leadership of the Department. I know that some will argue that our proposals cut defense too much; others will argue that we have not cut enough. We believe this budget strikes the right balance for these difficult times. In the words of Secretary Gates, "This budget proposal represents a reasonable, responsible, and sustainable level of defense spending for the next five years."

I want to end my statement by thanking the Committee for your support of the Department and the men and women who bear the burdens of our nation's defense. Thanks to you – and the American people – these men and women have the resources to carry out their missions whenever and wherever they are needed.

This concludes my prepared remarks. My colleagues and I welcome the committee's questions.