

**Center for Strategic and International Studies (CSIS)
Global Security Forum 2012**

Defense Planning Under the Threat of Sequester

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Former Chief of Staff of the Air Force

General Peter W. Chiarelli (Ret.)

Former Vice Chief of Staff of the Army

Sean O'Keefe

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DANIEL BERTEAU: (In progress) – silence your cell phones. This room has tremendous acoustics; it'll pick it up very quickly, but it won't identify the culprit very easily. So you can get away with it, but I'd prefer you not.

For those who are joining us on the Web, welcome also. If you are watching us online, there's actually a spot where you can download the charts so you can follow along with me as I do the initial presentation here this morning, and I'll call out the numbers so it'll make it easier for you to go. Those in the room, you're just stuck with looking at the screens, and so that's – afterwards you'll be able to get it.

My note says that we will be live tweeting from @CSIS_org. That “we” doesn't include me in the antecedent, but CSIS will be doing the tweeting this morning. And we're using #GSF2012 – Global Security Forum 2012.

We're going to take questions, both from the floor – and we'll be asking you to follow the normal procedure – wait for the microphone, identify yourself and your affiliation, and pose your question. I'm going to help the panel by fielding questions that are – whose vision is blocked by the podium, so those of you on the left-hand side of the room won't get left out, if you will. If you're online and you're watching, you may email me your questions at DBerteau@CSIS.org, and I'll field those questions that come in by email during the question-and-answer session.

I probably should also note that there's later on today a lunch. It'll be served at – during the third session, starting at 12:30. That's part of the reason why we have these rooms configured with tables, so we'd be able to do that.

As I said, welcome to the sequestration session, if you will. Last June, at the previous CSIS Global Security Forum, we convened a panel that looked at past defense drawdowns, for lessons learned. And we're reconvening a similar panel today – in fact, a number of our panel members were on that group last year. But today, instead of looking back for lessons learned from the past, we're looking forward to the challenges that face defense today and what advice we might give them in terms of trying to deal with that.

Let me introduce the panel now, then I'm going to walk through some charts very quickly and then I'll turn it over to our moderator to actually run the panel session. The moderator this morning is just to my right, the Honorable Kim Wincup. He is a senior adviser with CSIS. He is following a long career in public service, both in the legislative and executive branch.

Let me – I guess I'll introduce them in the order they're sitting there, because that'll be the easiest way to do it.

Next to Kim is General Pete Chiarelli. He is most recently the former vice chief of staff of the Army, and he's now the CEO of One Mind for Research. I actually wish this entire

session were on that, and we'll have to do that at some future point. Next to him, General Ron Fogleman, formerly chief of staff of the Air Force – also a long and distinguished public career.

Next to – I have to look, because my cheat sheet is out of line here. Next to General Fogleman is the Honorable Sean O'Keefe, also a distinguished career in both the executive and legislative branches and now the head of EADS North America. And then at the far right of the panel, Dr. David Chu, the Honorable David Chu, formerly the undersecretary of defense for personnel and readiness, a host of other executive and legislative branch positions, and now the head of the Institute for Defense Analyses.

They come with both experience in this business and a perspective from today that allows them to look back at that experience and add some value to our discussion this morning.

Now, the human-machine interface will be tested here. And if I'm supposed to aim at the computer, it's not picking it up. There we go. You know, I have this Band-Aid on my finger; it's probably got that iPhone interface that won't go through a Band-Aid. (Laughter.)

We want to put the drawdown in perspective. This is what past drawdowns have looked like, if you will. That's Korea on the left, Vietnam – kind of the next peak, if you will. The next growth in the blue bars is the money associated with the Carter-Reagan buildup – and then the final, the blue bars and the red bars is the post-9/11 buildup.

You'll note that in the three previous drawdowns, the black line, which is active-duty military personnel, tended to go up and down roughly in parallel with the money going up and down. A little less so during the Cold War, where we made a conscious decision to hold end strength relatively flat and invest in equipment during the Reagan-Carter buildup. And, of course, dramatically less in the post-9/11 buildup, where military end strength is essentially flat, and a tremendous increase in spending, if you will. You can see that from the chart.

So far, the post – I don't know what drawdown we're in right now. I understand post-Korea, post-Vietnam, even post-Cold War, but somehow post-Budget Control Act doesn't quite have the same ring to it. And so we're looking for a better name; we're actually going to hold a contest for that, I believe.

But the reality is, in the current reduction, if you will, we've completely lost that parallel reduction of end strength with the size of the money. And the question is, well, it's not been as deep or as steep in either money or personnel as before.

There are a couple of big differences between this drawdown and the last one, just to refresh your memory. One is that, in fact, as I mentioned, the Reagan buildup did increase dramatically the inventory of platforms – ships, planes, tanks, et cetera. That has not been the case in the post-9/11 buildup.

The second is that there's some question as to what the floor is today and whether or not the strategic guidance that DOD has promulgated in January constitutes a definition of a capability that creates a strategic floor for the drawdown. And the third, and probably most

unusual, is the presence of the global financial markets as part of the consideration as we go forward. And among other things, that makes it more difficult for punting or gimmickry to fix our problems.

Let me go to chart three. The first dynamic that this shows is the growth after 9/11, and it shows that while some of it was in the base budget, or the blue budget down at the bottom, the majority of the growth was in the red budget. That's the – what we called emergency supplementals for much of the decade, and now the Overseas Contingency Operations Account, or the OCO. And so a lot of the growth was actually not in the base budget; it was in OCO. And, of course, there were many things funded in OCO that might have been appropriately funded in the base budget. It was a nice safety valve.

What this chart also shows, though, on the right is that the cuts are not really cuts in the traditional sense of the word. The cut budget is a flat budget for FY '13 on out through '17 – with adjustments for inflation, it essentially stays flat during that five-year period. The cut is from that white space, if you will, that's above FY '12, '13, '14, '15, '16, on the right-hand side of the chart. That's the reduction between what the Pentagon was projecting in its FY '12 FYDP and what it actually has now in the FY '12 appropriations and in the FY '13 to '17 FDYP. So that white space, if you will, is essentially the \$230 billion that Secretary Panetta talks about having cut from the Budget Control Act.

The third dynamic worth pointing out here is the OCO spending. That's the red bar, if you will. You'll notice it goes away after FY '13. Now, most years the administration has not made a specific commitment to out-year funding for OCO. The last couple of years, there's been a placeholder of \$50 billion a year. This year, officially, it's a zero. We actually didn't put a zero on there; we put a question mark, because we're pretty sure it's not zero. And in fact, the Pentagon even had one chart that showed 44 billion (dollars), which is essentially half of the FY '13; 89 billion (dollars). But Mr. Heyl, in response to a question, said that 44 billion (dollars) is not a real number. It's just sitting there. And so we prefer question marks, if there is in fact no reality, if you will.

This is a challenge, because for the last decade OCO, or the supplementals, have been the safety valve. Whatever couldn't be handled but was required in the base budget could be dealt with through OCO – and as you can see, that flexibility sort of disappears.

Let me go to chart four. This allows you to look at the base budget – this is not OCO – the base budget, by account. And what it shows is that flat that we showed on the previous chart, essentially the budget's pretty flat in DOD from FY '13 through '17. That flatness, essentially, is true even at the account level – RDT&E at the top; procurement is the green in the next bar; the red is operation and maintenance, military personnel; and the other, of course, is MILCON and family housing.

There's a little bit of reduction in RDT&E, an increase in procurement that's reflected on this chart. But if you adjust that for the migration of the F-35 and a couple of other big programs from R&D into procurement, essentially all four of the accounts are flat. So when we look at a flat budget overall, you also have flat by account.

That's not true, however, if we go to chart five, because inside that flat we've got a number of potential challenges. This chart refers to them as the fiscal time bombs. This is what is pending for us to deal with the rest of this year and early into next year.

First, all the tax cuts expiring December 31st. The cumulative impact of that in terms of revenue or deficit reduction or tax burden is about \$6.8 trillion over 10 years. That's nearly six times as much as the sequestration target itself. The second is the debt ceiling. We're currently probably going to hit that early next year.

You know what happened that last time we hit the debt ceiling; we came within hours of default. It took a great rescue mission, which has led us into sequestration. Interestingly, of course, if the tax cuts do expire, we don't hit the debt ceiling nearly as early as if they don't. There is an economic impact, obviously, but not a debt ceiling impact.

The most important thing, though, is sequestration. Currently, the law is that we will sequester, beginning on January 3rd, 2012 – (20)13 – \$492 billion in DOD. That's the 1.2 trillion (dollars). Take out the reduction in expenditures on lower interest on the debt, divide by the fair share, and it's 492 billion (dollars) over that 10-year period, roughly 52 billion (dollars) in the first year, in fiscal year '13.

But there is significant ambiguity abundant inside this law – not necessarily in what the official positions that the Defense Department and the White House are taking, but in a careful reading of the law itself. The two biggest elements of ambiguity have to do with the baseline, from which the reductions will come. One reading says that's going to be the FY '13 budget request, or whatever Congress has appropriated by the time we get to January 2nd, 2013.

But another reading says it actually could be the budget caps that were set by the Budget Control Act, which is about \$19 billion higher in fiscal year '13 than the FY '13 budget request. There's a big difference between taking \$52 billion out of DOD and \$33 billion out of DOD.

The second level of ambiguity has to do with the account. Now, those of you who have been through a sequestration before or who go back to Gramm-Rudman-Hollings when it was first put into place, know that all our prior sequestrations have been done at an extremely detailed level of precision. It's a chain saw with very fine teeth, OK? And so it's program, project or activity – essentially every identifiable line item.

Again, a careful reading of the act uses the word “account” in some places. It could be interpreted as, in fact, appropriation account. One would be inclined to agree with that because the only actual account defined in the law is the account that the president can exempt from sequestration in Defense, and that account is the Military Personnel Account. And so that definition could be interpreted and would give the president substantially more flexibility in terms of implementation of sequestration, should he in fact so choose to do.

However, all indications today are that the Office of Management and Budget is exercising its expected prerogative of refining to the nth degree the implementation precision.

And I think, politically, that's to be expected, because you want this to look as impossible to achieve as you can in order to encourage Congress to change it.

So implementation is in fact a difficulty here, and I think it really creates what I call on this chart the strategic political dilemma that the Pentagon is under today. You've all heard the secretary of defense say, almost from the time the Budget Control Act was passed, that we can take the first tranche of cuts – the 230 billion (dollars) over the FYDP, the 489 billion (dollars) over the 10-year period – but we cannot take and absorb the cuts from sequestration. And in fact, there've been a lot of quotes as to what the secretary and the chairman have said in that regard, but regardless of the precision of those quotes, they say the sky is going to fall if we have to sequester.

On the other hand, you have the president, who has stated repeatedly and unambiguously, I will veto any attempt to rescue the Pentagon by removing sequestration. Now, that doesn't mean exactly what it says, but it is in fact the position he's taken, and it puts the Pentagon in a very tough political dilemma. And of course, none of that deals with the deficit and the budget pressures and the global financial market pressures.

You know, when the “super committee” announced back on the Monday before Thanksgiving that it had not achieved its objectives – that in fact the only thing they had agreed on was that the other guy was to blame – then the global financial markets didn't hiccup at all. Because even though the “super committee” had failed to identify the cuts to meet its target, sequestration was going to meet those cuts. And so from the market's point of view, 1.2 trillion (dollars) is 1.2 trillion (dollars). It doesn't really matter to us where you take it out.

If Congress starts to monkey around with that, the markets cannot ignore it. And it is not hard to conceive of a scenario where a downgrade of the U.S. debt ratings would create an increase in the interest rate that we have to pay so that the total outlays would actually grow instead of – greater than the amount we'd be cutting under sequestration. That's a fundamentally bizarre outcome, but easily conceivable.

You can see it on this next chart, actually. The green line at the top is the president's budget request from last year. The red line is his budget request for this year. The gap between those is that \$230 billion taken out over the FDYP under the Budget Control Act. The blue line at the bottom is the sequestration. Now, that sequestration uses the FY '13 as the baseline. It would be a higher bar if you had a different baseline.

On the right, you'll see the corresponding strategy. We had the QDR in 2010; that was the basis for the fiscal year '12 budget. The reductions under the Budget Control Act prompted the Pentagon to say we need to revise our strategy. That produced the January 5th strategic guidance, where the president came over to the Pentagon and announced it.

I was delighted to see the vice chairman say that pivot is not a word they're using, in terms of the pivot to Asia. But of course we all have seen that in print. To me, it's a little more like a pirouette, because we are – we were already there, so we're just turning in place, and it implies an elegance that I think is appropriate for dealing with the Chinese. (Laughter.)

But the reality is that it raises the question, if we had to take additional cuts, whether through sequestration or through some deal that replaces sequestration, how does that affect the strategy that we have on the table there? Does it push us to, in fact, have to revise the strategy again? This is a very powerful and important question. CSIS actually has a working group under way – it's co-led by Kim Wincup and Clark Murdock – that's looking at that very question. And we expect to have a speaker series in our Military Strategy Forum later this year on some of those points.

Let me quickly dash through the real impact of the current cuts. This is chart seven now. It basically shows it by account. Procurement, which is the green here, is only 18 percent of the FY '13 budget, but takes 38 percent of the cut. Military personnel, on the other hand, 24 percent of the budget, only takes 12 percent of the cut. That same proportion is essentially replicated over the FDYP, so we're taking much more out of procurement, much fewer out of military personnel.

By service, if you look at FY '13, it's not the same over the FYDP. In '13 alone, the Army's taking 53 percent of the cut, even though it's only got 30 percent of the budget. The Navy's taking 7 percent of the cut, even though it has 28 percent of the budget. But lest you think that the Navy got off easy here, let me go to chart nine. Over the FYDP, it's much more proportional. The Army still takes a slightly bigger share and the Navy a slightly smaller share, and the Air Force in between. But actually, if you removed FY '13 from this chart, essentially in the out-years of the FYDP, it's a fair-share reduction across the Defense budget, not a strategy-driven basis.

Let me to go chart 10. So what are we doing now? Well, we're in the political season, of course. I only start this chart on August, because that's when the Democratic convention will be in Charlotte, North Carolina. The Republican convention is in Tampa in September. I wish them well; Tampa actually gets hurricanes on Labor Day more often than one would hope. But I'm sure the Republicans have built that into their planning.

The – October, we start a fiscal year. You know, the House has a budget that actually restores money to Defense. They're going to mark it up. It'll go into the appropriations markup. The Senate, though, is going to basically probably mark to a level that's equal to the FY '13 Budget Control Act, and so it's unlikely – by the way, if you're in line for more money that's coming out of the House markup, I would advise you don't spend it yet. It's not likely to show up by the end. We'll probably get to a continuing resolution to start the year off until after the election. We'll have lame duck session – the tax cuts looming, the sequestration looming – and it will be a fun December in Washington.

But there are two big questions that this raises, and this is the question we've asked our panel to look at here this morning. The first question is, I guess, in a sense a prognostication question: Do you think sequestration will happen? But probably more importantly, is that whether it's through sequestration or some other agreement, are more Defense cuts likely than what have been taken so far?

And then the second question is: What should DOD be doing? What guidance would you give DOD if you were asked to give them guidance today? Because ultimately, that's the reason we're here today, is to help figure out how to have our national security establishment and our national military establishment deal with the future that's staring them in the face now.

So with that, I'm going to turn the floor over to Mr. Wincup, and I'll step down. So join me in welcoming the panel.

(Applause.)

KIM WINCUP: Well, David, thank you for setting the stage for an extremely difficult situation. Admiral Winnefeld used the term – the term “enigmatic challenge,” talking about Iran this morning. I think this fits the same title, trying to figure out what to do with sequestration. It is in fact a puzzle that we're all in the middle of, trying to figure out what it means.

One of the reasons this panel was scheduled was based on Admiral Winnefeld's comments and the decision the Department has made is to delay thinking about this. They are thinking about it, he said, but they're not planning for it. We thought it would be helpful to get a group of really seasoned, distinguished and very thoughtful people to offer some thoughts in this period, as we work up closer to what may or may not occur, about how do you plan for sequestration that may or may not occur, and what occurs up to that point.

So I'm delighted to be here. We have a great group of people here who've really been around the track a number of times. Why don't we – I guess, why don't we just start in the order – I'm going to ask each of them to offer a couple of thoughts, to maybe address the questions that David posed, or offer any thought they'd like. And then once they each have a few comments to make, we'll open the mic up – and I say mics, because there will mics to you because this is being webcast; we need you to be able to hear questions and make sure those that are not here can hear them, also.

So David, since you're all the way on the end at this point, do you mind starting with your thoughts in this regard?

DAVID CHU: OK. I'd urge an – let me start with the second question, which is how would you think about this? I'd urge we keep our eye on the long run, very much in keeping with Admiral Winnefeld's points this morning. What kind of military do we want? What do we want the military to do? What resource space would be necessary to achieve those outcomes? And here we get back to the sequestration issue: If we don't get that amount of money, how do we cope with that in the meantime?

I am reminded of the former White House chief of staff's phrase: A crisis is too good an opportunity to waste. And so if you were inside the Department, I think you ought to be reflecting on how would you use the pressure of sequestration, or any kind of short-term cut that might occur in the Defense budget, to make some painful decision – that might be otherwise politically one you couldn't reach – actually go through. That's been the Department's tactic in the past, through a variety of – a variety of ways. It's a tactic that's very helpful, because

otherwise it's very hard to change things inside an organization as large the Department of Defense.

In terms of will it occur, I personally am dubious it will occur. What the deal will look like to change this picture, who knows? Again, I keep my eye on the long run. The long-run problem is not sequestration. The long-run problem is what both parties, despite their bitter differences, largely agree is our national situation. We promised more in the so-called title problems – programs – than the tax structure can deliver.

Now, they disagree bitterly how you're going to solve that problem. But interestingly, neither one – neither one is saying the Defense budget is the problem, and that's different from some of the debate in the 1980s.

MR. WINCUP: Sean, you've been on, really, three sides of this, as an appropriator at OMB, in the Department, and now in the private sector. Help us understand.

SEAN O'KEEFE: I'm not sure that's going to happen. (Laughter.) But this does fit the very, very classical, traditional definition of a typical budget year – worse than last year, better than next. And it just inevitably works out that there is always a look-back on, gee, things were a whole lot better at that point; next year is going to be much, much tougher. And there's no doubt. I think David's description of looking at the long term is precisely the right focus to this.

That said, I think there's a – and in terms of the first question, of prognostication of whether this is going to happen or not, I think, you know, the issues are certainly going to be driven more by the political dynamics that David Berteau described at the beginning, which I would call more like the fiscal perfect storm, and it's all converging at precisely the same time.

And the legislative dynamics that occur when you have that many competing objectives all occurring at precisely the same moment – all of which are going to happen post-election and early into the next calendar year – inevitably means there's going to be breakage. So exactly how it turns out, what it looks like, what the composition of something like this will be when you have this many competing objectives that I think David described very specifically, in terms of the focus of that time, it's going to be a real crapshoot in terms of trying to figure out exactly what the consequence will be.

So rather than trying to speculate on whether it looks like the sequestration provisions that are in law today under the Budget Control Act or not – rather, look at whatever gradation. Whether it's as stark as what David Berteau's presentation would suggest or anything in between, there's no question the scope of what we're talking about is serious. There's no doubt it's a very, very significant number trying to achieve, driven again by the fiscal pressure involved.

But the secondary factor that he alluded to, I think, that is equally important, is just the mechanics of how that process works. It is an incredibly laborious, very inefficient, bureaucratically time-intensive effort that creates the absolute greatest level of inefficiency you could ever conceive. It is an obsession that takes over. And the few times, as David referred to,

in which this has been implemented in the past at far smaller sequestration levels of just, you know, decimal dust by comparison, it nonetheless created some incredibly inefficient perturbations that then motivated lots and lots of discussion and, in turn, lots of alternatives that never really took root until they absolutely had to – which is the worst possible way to do decision making.

So that's – it's designed, as originally conceived at the time of Gramm-Rudman back in the mid-'80s, as the Sword of Damocles. The very prospect that it might exist was supposed to be sufficient deterrent to never use it, or have it happen. Well, that's certainly not been borne out historically, and here we are on the brink of exactly seeing it implemented yet again. So the inefficiency is one factor I think that really resonates throughout the process, even regardless of scope and size of what's involved, that ought to be moment for pause, as well.

The second proposition though, I think, that was raised and, really, is quite specific here is that in looking at what the strategic framework is that's now been released, this now defines, for good or for ill, whether you agree with the strategy or not, whether you like the guidance, you think it's the right one, whatever – it does exist. And this now establishes somewhat of a floor, of a determination of exactly what the framework of the national security strategy debate will take hold of. And it will all be measured relative to that, whether you – again, whether you agree with the strategy or don't, there are elements of it that are – that are endorsed or not, it nonetheless does establish some of that.

So as a consequence, it illustrates a stated set of priorities. There is no question that it identifies exactly where those priorities exist, and that means definitionally, there are some priorities that are higher than others, and that provides some frame of reference. The emphasis, to be sure, on what has been (proposed ?) – and you could describe it in lots of different ways – does put a specific emphasis on power projection and a capacity to project U.S. military influence as an instrument of foreign policy, as dictated by the president of the United States and the national security framework. There's no question that it is – that is the primary focus of what's involved, and each priority enumerated thereafter thereby descends relative to that.

So it really sets – and I'll conclude with this – three very stark alternatives, that if any of this comes to pass when the fiscal perfect storm occurs – and it's going to – and whether the scope is X versus Y, the issue more is, is it executed based on this mechanical dumbbell extension of what a computer-driven model can do for you – which is what sequestration is. It takes all the, you know, the choice out of the issue, and by doing so it also creates, ironically, bureaucratic absolutism. I didn't do this; it was created by the model. We didn't make that choice; it was driven by the political dynamics of the model selected – which is an abdication of governance, to be sure. Absolutely the worst possible extension of it.

But the three alternatives turn out to be: We will implement sequestration or some variation thereof, of whatever size and magnitude, that yields a force structure, a capacity, a capability and systems that are completely out of balance with the stated strategic objectives that were articulated as part of the fiscal – as part of the strategic guidance. So that becomes the first absolute.

The second is this choice of a fair share, which is always a default option, as if somehow fair share, or fair, is part of a strategic guidance equation. It has always been the argument and the traditional debate and the cultural dilemma within the national security framework of arguing what's a fair cut versus what is a strategic emphasis of where you want to go? And that will be played out as well. That will also yield, as we saw illustrated just by the stark numbers, a consequence of a force structure, systems capability, operational capacity, all that, that is out of sync with the strategy itself.

Or the third alternative is a strategy-driven kind of focus that follows that blueprint that was released in January. And again, for good or for ill, making selections that grade those priorities and recognizing that in the end, whatever the scope and size of that reduction will be, that all those priorities will not be financed. But they will be isolated and identified as not sufficient to carry out the strategy objectives to whatever limit or extent.

This creates the quintessential Hobson's choice. There is no clean alternative to this, there's no doubt about it. And – but in the end, the Hobson's choice alternative that's best selected, I think, in a situation like this, inevitably, is to follow that strategic guidance and let it hold as the basis upon which those determinations ought to be made.

And that doesn't bode particularly well for those who advocate for fair share or those who advocate for strategic force or those who advocate for any number of different capabilities that do also encompass what that strategy would imply.

MR. WINCUP: Thanks, Sean.

General Fogleman?

GENERAL RONALD FOGLEMAN: Well, I will – I will take the approach that people from the hinterlands and not necessarily the folks who live in Washington might take. I'm going to be pretty straightforward in my answers. I would say that to start with, to answer the question of, will sequestration take place. There's no way that it won't take place – OK – and now, because it begins in FY '13. And if you look at all the timelines, FY '13 begins in October of this year.

So there will be some kind of sequestration that will impact FY '13. It's going to perturbate the program, and the problem is if you – if you keep your head in the sand and don't respond to it, all of us who have been in the budgeting and programming business know that if you're 90 days into the year in which you're going to maybe get swacked and you haven't done anything, it's going to make the rest of the year all that much more difficult.

So I think sequestration in some form will be a fact of life. It may be that fact of life, then, that will in fact lead to some congressional relief as we go forward that'll be acceptable to the White House. That would be my view on sequestration.

On the second question – what advice might you give to the folks involved. Keep in mind that the elements of this thing are force structure, infrastructure, readiness, modernization.

And wrapped around that are people, OK? And so this is what it's going to really be about, in a sense.

I think Sean O'Keefe did a great job of talking about the strategy and the elements of it and that, so I'm not – and to have a strategy is a wonderful thing. And so while it may not have taken a long time to put it together, the fact that we have a strategy as we start to transition out of Iraq and Afghanistan, going forward, I think is a real plus.

Now, what advice would an old guy, you know, sort of throw out there? The first thing I think that I would say is that the strategy, one of the elements of the strategy that's stressed real hard up front is it's a – it's a strategy for a joint force in 2020, OK? So the idea of jointness – I think there's been a lot of progress made in the area of jointness, but we have – we have a long ways to go.

And so one of the sub-elements that – one of the traps we may fall into and people may do as a way to kick the can, is we may decide we want to do another roles and missions study, OK? Well, I have – (chuckles) – I have never seen a roles and missions study produce anything except sort of, we like what we got, we're proud of what we do, don't screw with us. (Laughter.) I mean, you know, that's kind of the bottom line in roles and missions. And it doesn't matter who the people are that you put on the commission or whatever that goes and does it. It's – the answer's always the same.

But I think we may have reached a point where instead of – as the joint staff and the DOD folks are thinking their way through this thing and not yet planning, I hope they're doing some analysis. And the analysis should be what does it take to really support this strategy? And so one of the things I think they need to look at – they ought to be doing – is maybe not a roles and missions study so much as a matrix of capabilities – you know, who brings what to the table? How much – you know, where do we have maybe too much? Where do we have not enough?

And while I never want to send U.S. troops into the field with less capability than somebody else, we have to understand how much risk we want to take in these areas. You know, is an 80 percent solution enough, or whatever. So the first thing I would do is, you know, I would look at some kind of a matrix.

I think, if you look closely at the FY '13 budget, there were some accounts that were protected, OK? Now, you can argue about percentages, because it depends on how you slice it.

Personnel. I think personnel is 30 percent or more of the budget, if you ever got it out. But the fact of the matter is it took the smallest cut. Now, that was for a lot of reasons. You know, one is you don't want to rapidly demobilize and put people out in the streets – these sorts of things.

I've got to tell you that I understand that, and I understand the jobs thing and I understand what the troops have done for us. But, you know, I think that there's a way that we ought to be working this. The largest unspent part of educational funds in America is the GI Bill. And I

think if we had people working, really looking at transition programs and how you could take people, we have the opportunity to take and make another “greatest generation.”

But we have to help these troops make this transition into education institutions where they're not getting ripped off and these kinds of things. And if we can do that, then we need to accelerate the manpower drawdowns – I just think that, you know, we're too big in this area.

Because the reality is the O&M accounts were protected, because we don't want a hollow force. O&M accounts, my budgetary friends, we know become slush funds when you get into – (drafting ?). Because you can argue about how much it impacts readiness. The other things that really – while they were hit, they weren't hit real hard – were procurement and modernization. And so I think there's another shoe to drop, kind of, in that area.

And so what that translates to is a lot of people are going to have to do with legacy systems for a long time. And so I think that's a known. I've already talked about the personnel side of it, and so I think I'll stop here and wait for the questions.

MR. WINCUP: OK.

General Chiarelli?

GENERAL PETER CHIARELLI: I'm not – I'm not feeling a lot of love up here.
(Laughter.)

I think some form of sequestration is going to take place. I think it's inevitable. The Army's position throughout this is that whatever we do needs to be balanced. We have learned from the past and realized that we have made mistakes in previous drawdowns by not maintaining a balanced approach to budgeting.

We've got three dials we can turn. We can turn personnel, we can turn procurement and we can turn O&M. And my hat's off to the chief and the secretary, because they have stayed true to the fact that they are going to turn all three of them at the same time.

I think we are on a personnel glide slope that is the right glide slope. We've never tried to do what we're doing right now in the middle of a fight. And I will tell you, we're still in the middle of a fight. Army rotary wing pilots are – have a BOG:dwel – boots-on-the-ground/time at home – of less than 14 to 16 months at home. They were at one-to-one for the longest period of time, and they will remain at that for the foreseeable future.

I think we need to ensure that we don't force the Army to leave its new policy of nine-month rotations. We've moved from 12- to nine-month rotations, and I think that's absolutely critical that we are able to do that. So I would take issue that personnel can be cut much faster than they are being cut right now.

As far as OCO, if there's been one constant that we have made throughout the 10 years of this war – I think we've all made it; all the services have made it – is that we will need OCO

funds for reset two years after the last soldier, sailor, airman and Marine comes home from Iraq and Afghanistan. That is absolutely critical so that we in fact can reset the equipment that is over there.

I'll stop there.

MR. WINCUP: Well, thank you. Great comments. Not always in agreement, but I think that's kind of where we stand. I'm going to take the CSIS moderator's prerogative here and ask the first question before we open it to the floor. And I'm going to do that because largely what we're talking about is hypothetical, it's planning an environment that we don't know what's going to happen.

But there is a group of people that this is much less hypothetical for, and that's the people that own programs both in the government and the private sector, who have to manage money, have to anticipate what's going to happen. They have to have spend rates, and they have to be accountable at some point in terms of developing this program.

So what do you think they should be doing – and maybe more pointedly, what do you think they are in fact doing now as they watch this same thing unfold? And Sean, if you don't mind, I'm going to ask you first, because we had a brief conversation about it and you thought it was a fairly straightforward answer.

MR. O'KEEFE: Well, I think from an industry standpoint, the only answer that can be derived in this case is to suspend investment. That's it. And to the extent that you're going to invest in the activities for either infrastructure or capacity, innovation, independent research and development, whatever it is – withhold. Because there is no way to know exactly how that would apply. And as a consequence, the only prudent course would be to stand back and watch and see how ultimately the breakage occurs. Otherwise, you've made investments now leading up through early next year that are committed to areas that may turn out to be absolutely nothing more than a bet.

That's regrettably what we see happening, I think, throughout industry. It's not a novelty that I'm suggesting. It's already occurring. The mere fact that we're sitting on cash reserves in the U.S. in corporations and independent individuals that is now at an all-time historic level is in part because of this dynamic of the perfect storm that's anticipated for the end of the year.

No one wants to make a choice on what may ultimately prove to be the wrong bet. So as a consequence, an awful lot of cash is stored in an awful lot of mattresses. Bad way to look at how to motivate economic activity, but that is a consequence of precisely what's occurring in this entire backdrop.

MR. WINCUP: Anybody like to take a stab at how a government program manager might be looking at this, while this is all leading on?

MR. CHU: My expectation is, just as Sean's – argues, they're going to be cautious. And they're going to try to make sure that they have enough funds to finance what's absolutely essential, if the political process deserts them in January and does not provide this – the budget.

At a more senior level – not that anyone could admit this – I'd be talking to my fiscal lawyer to ask what options does the exec branch really have under the statute. As Dave pointed out, they can exempt military personnel. Now, I understand politically that it's not helpful to say that we could make this less painful, because the whole point is everyone's argument is to make it as painful as possible. (Laughter.)

Senator Graham has argued, as some of you may recall, much earlier in The Wall Street Journal, that actually under the underlying statute on which this all rests is the president has the latitude – and I'm not the lawyer to say whether it's right or wrong, but he's argued the president has the latitude to propose an entirely different budget. So I think the real issue is what's the FY '13 Defense budget truly going to be? Which ultimately, and as Sean reminded us, turns on the appropriation power of the Congress, not at the request from the executive branch.

And I think that's the interesting issue. To what extent are people going quietly, privately, offline, to think about, as part of any deal that's constructed, what does the real budget look like?

GEN. CHIARELLI: I'm sure that what Sean has said is true in some items, but I would offer a counterpoint that we in the Army have seen. Because we cut in a balanced way and maintained priorities, we've seen a real move by industry to invest in certain systems and do R&D in certain systems.

One, particularly, I'd point to is the Network Integration Exercises that we're holding out at Fort Bliss, Texas. We've seen a tremendous response from industry in using their own R&D dollars to fill needs that the Army has and bring network systems to the Network Integration Exercises. A totally different way of doing business. I always used to say if we were in charge of building the iPhone that we'd be four years away from iPhone I. (Laughter.)

But the fact of the matter is, when you go to industry, you tell them what you want, particularly in the network area, the communications area and many other areas, they start to bet on themselves. And when you give them an opportunity to – as we have out at Fort Bliss, Texas – to put those systems on the grounds, in the hands of real soldiers, we've found some very, very good results in changing the model of the way we buy these – this kind of equipment.

MR. O'KEEFE: I'd like to just, again, from an – you know, one of the hats I wear is I am the chairman of the board of a Fortune 500 company which is described as aerospace and defense – mayhaps not accurately, but we're in that – we're in that category.

What I – what we are doing is both tactical and sort of strategic discussions, if you will. And clearly, with the guidance that has come out on how programs are going to be procured in the future, et cetera, we're doing exactly what Pete says in terms of we're stepping up and

probably putting more money in our own – our own money on – in development, where we see, you know, the possibility of that paying off down the road.

On the other hand, because we're faced with all kinds of headwinds that most people in defense never think about, like pension benefits and, you know, all of these kinds of things that have a draw on your cash, we are trying to hoard cash, one. Two, we're trying to take that cash and look for ways to, if you will, expand our portfolios and have, quite frankly, more in areas that are not strictly defense-related.

And as relates to FY '13, we're having tactical-level discussions about, you know, what if you get to the point where, you know, the government doesn't pay its bills for three months? Or, you know, you're in some kind of a situation, and what do you do there? What do you have to have in terms of cash reserves and programs? How are you going to approach that?

So it really does have a big impact across what you're – what you're doing with industry here. It's more than just a larger industrial-base discussion. That's – you know, that's up here, but how are we together going to survive, you know, and wait till we come out of this, if we do – this period of uncertainty?

MR. WINCUP: OK. I'm going to open this up to the audience for questions. Let me remind you that we have folks with microphones that will get to you as quickly as possible.

First question right here, up in front.

Q: I'm Harlan Ullman, and thanks for your presentation. An observation, and then my question.

You talk about a perfect financial storm. I would just suggest that this has got global implications. China's got ticking time bombs. What's happening in Europe – you may not know, but the European Central Bank has flooded Europe with about a trillion euros in cash, which could make the CDS explosion seem timid by contrast. So my guess is that this is going to come home to roost, and the situation that you're forecasting in the United States is likely to be a lot worse. And defense cuts, in my judgment, are going to be huge over the next two or three years, under what format.

My question comes after what Ron Fogleman talked about – people. I'm very much, like some of you, a victim of the hollow force after Vietnam. And when I take a look from afar at our people, our troops, it seems to me that after repeated tours of duty in Iraq and Afghanistan, 10 years of war, we're looking at possibly a military that's going to be psychologically hollow. And I'm using that word charitably.

I wonder if you could comment about how you really see the people side in terms of the stress and strain of war, what that means for the future and what we ought to be doing about it now that we're not?

GEN. CHIARELLI: Well, there's no doubt that we have a stretched force, but we also have a tremendously resilient force. I don't think anyone would have sat here 10 years ago and said that we could do what we've done with an all-volunteer force and have the retention rates that we have today. They're absolutely amazing. I mentioned Army aviators. I have – one of the highest retention rates in the Army is in Army aviators, and they have the shortest BOG:dwel.

There's a lot of talk today about post-traumatic stress and traumatic brain injury. It's all over the press. And quite frankly, I've been asked to comment a lot about it, and it bothers me at times. It bothers me at times because I think it becomes the public narrative that repeated deployments mean that somebody has post-traumatic stress, traumatic brain injury.

I immediately look at veteran unemployment rates and see them running, at least in the Army, at above 30 percent and wonder how many employers are following in the line that says every single person that comes back from Iraq or Afghanistan that has multiple deployments has got a problem, and that's just not the case.

We've got tens of thousands of soldiers, sailors, airmen and Marines that have been on multiple deployments and don't have these issues. There's no doubt that the kind of fight that we're in, a very non-linear fight, is much, much different than the linear fights we've had before. There's really nowhere you can go to get away from the fight in Afghanistan today. It's everywhere, and that has taken a toll.

I hope what this does though is cause a larger national dialogue, that we need to understand what's going on here better than we do today. You know, if I was to ask the folks in here how many of you have high blood pressure and none of you raised your hands, we could end that argument real quick with one doctor and blood pressure cuff. But that's not the case when it comes to post-traumatic stress and traumatic brain injury, which I think you were alluding to. The fact of the matter is we just don't have the good diagnostic tools that we need.

You know, I had somebody look at me the other day and say, well, just stop deploying them as much. But as the guy who sat there and deployed them, it's simply a math problem. If you're at a fixed end strength and you have a certain requirement – we didn't go to 15-month deployments in 2007 because we wanted to go to 15-month deployments. It was a simple math problem. The demand was greater than the supply, which required us to go to 15-month deployments. It was that simple.

And Secretary Gates took what to me was the honorable position of rather than every kid that was over there knowing when he got to his 11th month that he was going to get that call at some time to say guess what, you've been extended for three or four more months, as was happening for a while, you just laid the cards on the table and said, for the foreseeable future we're going to have to go to 15-month deployments.

Now, if the country as a whole, given the demand, wants to change, well, then we're either going to have to have a higher end strength or we're going to have to look at some other form of filling the ranks. And I'll let you judge what those might be.

MR. CHU: Let me pick up on what Pete said endorse his comments and emphasize this is an issue of the career force. Remember, depending on the service, a sixth or more turns over every year. That's about roughly the new recruit fraction. And interestingly to me, the Army – at least some of the Army's leaders – are more worried about how they keep the best talent engaged – which has risen to this challenge so nobly, as Pete has described, not that it's all broken and tired, worn out, et cetera

Yes, there's a set of issues there. I don't want to dodge those. They may be much more on the family front than they are on the serviceperson, because as Pete points out, the military has enjoyed extraordinary retention rates in the face of extraordinary demands. But it's not a broken force. I think that's a serious misrepresentation of what we have.

GEN. FOGLEMAN: Could I pick up on this too? I – you know, I can't pass up the opportunity to. And the reason I stay focused on the people issue is I think there is more than one way to solve it, but somebody's got to step up and solve it. The fact of the matter is that the all-volunteer force, as it is presently sized and comprised, is unaffordable.

You know, I don't deny that the troops deserve all that they've got and all that they've had in terms of pay raises and that. But you look at a budget that makes an assumption that we're not going to give pay raises to troops in the out-years, that's absurd. You know, it's a wedge, if you will, or a negative wedge that's in there.

And so I believe that, you know, you're either going to – and maybe a combination – you're going to have to, on a national level with a strategy, you're going to have to reduce your appetite that doesn't force folks to make the kind of decisions that they had to. Now, that's easy to say because – but it's hard to execute, because it's not always in your hands.

But I must tell you, over the length of my career I saw us too many times do things because we could, not because we had to. And so we've got to get a little reality into what is it we, no kidding, have to do, and where we have to do it.

The other thing I think is – and I think the Army has done a good job on this this time around, as they face this – is we have to make better use of our Reserve forces as we look at this strategy that's laid out there. And that gives us an opportunity.

I worry about, do we really know what Reserve forces cost us now, you know? Because they've even almost operating at an active-duty pace in some cases. But this – we have to address this issue of cost.

And, you know, I know I'm hearing rumors that the services are starting to have to put bonuses out there. Every cost now, as I calculate it out of the budget for a – you know, if you just do it across – is \$100,000 a year, and that's not a fully loaded cost for a troop. All you have to do is multiply the numbers in there and you get to 1.5 billion (dollars).

But now we're starting to pay big bonuses to keep people in certain – in certain positions. And it's just – it's going to eat the rest of the budget, I'm afraid. And so we have to address this somehow. That's my real point.

MR. WINCUP: OK. Right here in front?

Q: Hank Gaffney from CNA.

Sean noted that the strategy is really that we're going to sustain our emphasis on power projection. That's – you know, strategy can vary all over the place. But it's always going to be power projection, whatever we've got left, because we have no real threat to the U.S. except maybe the Mexico drug problem, which is hard to work into defense planning.

But we're – one of the things that's stopping us from looking at that cleanly is that we're still stuck in Afghanistan – 2012, 2013, 2014. And we're – all this sequestration and new recession and all of that thing is going to happen in between. Is there anybody on this panel that would say maybe we should really accelerate this withdrawal from Afghanistan?

MR. O'KEEFE: Let me at least observe, I think, just as a basis framework, that again, whether you like the strategy or don't, whether you think it's a good idea or not, whether there's a subscription to the view that that's the right approach, that's what was published in January. That's what it says. That's just a clinical statement, all right? And that is the primary emphasis that's involved.

Now, whether or not that's a fallacy, I think, what both Pete and Ron and David, I think, have raised just on this last issue, is do you really have the capacity, the capability, the wherewithal from a personnel management standpoint, to actually support that? That's a different issue. That's a tactical question that's terribly important.

But in terms of what the strategy says, that's what the statement is, and you follow it or you don't. And that was my only proposition involved there. But in terms of how you then look at various, you know, force employments, that is a key question. And I think each of these gents have described the consequences that occur by maintaining the fallacy – that yes, indeed, we have the capability to do this, but the way we'll do it is simply extend tours, abuse the force, whatever.

And (others ?) persuaded most, I think, by the philosophy that was doggedly insisted upon during the base force drawdown at the end of the Cold War by Colin Powell, then the chairman, that whatever size that force is – and it's going to definitionally be a whole lot smaller – that we really adhere to a series of principles of exactly how that force is treated.

And in your – in the case that you've described, that does augur in favor of a very clear policy choice to be presented to the national security authorities – say, can you really maintain this position there, or does it mean you've got to revise and consider a different approach on the strategy? That's not an unfair proposition to lay on the table.

GEN. FOGLEMAN: May I try to answer the direct question relative to what do we do with Afghanistan?

Q: Yeah.

GEN. FOGELMAN: First of all, I haven't been on the ground there; I don't know what – you know, I don't have personal perspective on how effective we're being or how effective we're not being.

But I will speak from a guy who lives out in the hinterland and what it looks like out there and what it looks like to a lot of people who are not in the know. And if they were given the choice, I think we would be out of Afghanistan sooner rather than later. Now, those people are not paid to make big decisions relative to what the consequences of that might be, you know, down the road.

Earlier, David Chu and I were having a little conversation and, you know, I raised the issue of we have now been at war for 10 years in the Middle East and in Afghanistan. And it is not for the lack of courageous, dedicated people serving – soldiers, sailors, airmen, Marines – that whatever the outcome may be, it is not going to be because that force didn't step up and more than make the sacrifices and do what it had to do. And it may be that we won't know the answer to what their sacrifices were worth until 50 years down the road or 25 years down the road.

Certainly, in the near term, it doesn't look real bright, OK? And that's why I think you're getting this ever-increasing percentage of the American public out there that's saying look, we ought to – we ought to do this sooner rather than later. And I would just incidentally, you know, when – every time I talk to David Chu, going all the way back when he used to steal money from me when he was the PA&E.

(Laughter.)

MR. CHU: Now, now. It was only small amounts.

GEN. FOGLEMAN: You know, in the good old days.

MR. WINCUP (?): Gee. Never hold a grudge –

GEN. FOGLEMAN: No – never – never forget.

I think about – and I see the Korean defense attaché here – I think about the Korean experience. You know, when we came out of Korea it was an armistice. And, you know, it was the first big one we didn't win, you know? It was a tie.

And I know personally, from entertaining Americans who had been in Korea, who came over under that program that they have to bring veterans back, who personally told me when they came over there 40 years later, gee, I am glad I came back, because when I left here this was a

broken country that did not look like it had much of a future at all. And now, suddenly, my sacrifices and the sacrifices of my friends make a hell of a lot more sense. I feel better about having served there. And that may well be the outcome that we have from what our troops have done, and it may take that long.

But unfortunately, we live in a society that's got a short attention span. And I think their attention is starting to drift on – in that.

GEN. CHIARELLI: Well, we live in a democracy, and democracies don't fight long wars. They don't like them. We're –

When I think of Korea, I think of when we went into Korea. I think of Task Force Smith. I think of an Army that was untrained, ill-equipped and, literally, almost defeated when we first went into Korea.

When I think of Iraq, I think of a former chief of staff of the United States Army, who'll go nameless, in the tank who told me in June of 2003 that we would have three brigades in Iraq by December of 2003. And the idea that I had that I was going to command a division and not get to take it to war was kind of sinking feeling, because we were going to be out of there.

And I agree – we have a strategy. But you know what? These things tend not to play out the way we always think they are going to play out. And the folks that end up paying the costs normally are those folks who were at a lower priority because we didn't get the strategy right. And more often than not, that's been the guys on the ground.

MR. WINCUP: The lady in front, and then we'll go to the gentleman right here.

Q: Thank you. My name is Jeannie Nguyen. I'm with Voice of Vietnamese Americans. I'd like to come back to Dr. Chu's keep your eyes on the long term, on the vision. And I heard a lot about strategy. And I'd also like to emphasize global impact and the people.

This is April and – Vietnamese-Americans, I'd like to propose that we cutting the troops overseas and let the people of that country fight the war. I respectfully remind you that there are 200,000 Vietnamese soldiers died. Only 49,000 – 59,000 American soldiers died. Please let it known that the war in Vietnam was fought between the Vietnamese soldiers against Communists, and they still fighting now. Many Vietnamese – many Vietnamese soldiers are still fighting back in Vietnam, and they're fighting wherever they are around the world.

So the American troops do not – they do not have to take the burden of sacrificing their lives in soldier – in foreign soils. But however, we do need to utilize our power projections. It's very important. In 2015, China has claimed that they doubling their budget for defense, and we are now talking about cutting budgets. And we're cutting it without choices, without strategic choices.

So I advise, I suggest, I request respectfully all of you who make the decision to put the people first. Put the people first. And I would like to again today, in April, sincerely appreciate

the death of 59,000 Vietnam vets, American soldiers who died in Vietnam. We do not – we do not have to sacrifice our troops' lives overseas. Cut the troops, but keep the base. Keep the base. Support our allies. Support our allies. Do not withdraw the bases and the support from Afghanistan.

You can – you can withdraw the troops; you can train the Afghanistsans – build the capacity of Afghanistsans so they can fight for their own countries. I talked to many Afghanistsans; I talked to the ambassador of Afghanistan. They need your support to build the capacity. They have to fight for their own lives, their survival.

Don't put Americans – young, talented people out there. Let the Afghanistan fight for themselves, but support them. Build alliance globally, strategically, long term, and keep our eyes on our right strategy. Make right choices. Don't let the sequestration cut budgets, cut our choices. That's undermine all of your think tanks by those minds here.

Thank you.

MR. WINCUP: The gentleman right here – I'm sorry; just go back to the same place you were.

Q: Yes, I – Bill Courtney.

In July of 2011 the blue-ribbon Defense Business Board issued a report saying that if the Defense Department followed corporate-style downsizing practices that it could save 5 (percent) to 15 percent of its budget without affecting readiness.

In recent years, a lot of corporations have streamlined their organizations, outsourced more non-core functions, modernized inefficient business systems. Do you think the recommendations of the Defense Business Board are the right way for the Pentagon to go, at least to some greater extent?

MR. CHU: I think that's what Ron has been talking about in the sense of people. Ultimately, it's a question, I think, of the Department looking at its operating costs, of which people are the most important part. Take all the people costs – they're roughly half the budget. It's been true for a long time. That includes the civilians. It includes personnel practices. It includes things that Congress, by statutes, mandates, the Department must do. Davis-Bacon is an example of that. There's other restrictions.

And so I think, back to the original question, what might you do in this circumstance, if you could get one thing to happen, it might be very useful to the Department to have a holiday from various statutory regulatory restrictions – (laughter) – a month in which you could do it in a more efficient way, just see what it could do in that period of time, as a foundation for reconsidering some of the restrictions which are laborious.

Of course, as we all appreciate, the Department is not a business enterprise. It's a political military organization, and it operates under political direction. Doesn't mean it likes it

all the time, but it does know how to salute and obey orders. And that does account for an important part of the costs.

Take the people. The biggest part of the people-cost change in the last decade is not for the active force, although it did get more. It's for those who had already served; it's TRICARE For Life. It's concurrent – repeal of concurrent, the ban on concurrent receipt, the so-called widow's tax issue, and so on and so forth. It's one of our choice programs. It had very little to do with current capacity of the American military.

And the bottom-line question is: Is the political system willing to countenance a reconsideration of those commitments? If it's not, you're stuck with the kind of costs we see. If it is, you can get to lower operating costs. But it's not mechanistic, so I do take some difference with the Defense Business Board prescription that you can specify a percentage and just get there. It's not that easy.

GEN. FOGLEMAN: No, but at the same time, I would – I totally agree with your caveat, what the backdrop needs to be in working through this and looking at just the range of challenges of doing business with the United States government. That's just a – you know, a phenomenon that's not, frankly, unique to the – to the Defense Department. It's across the – (inaudible, background noise) – and in part because it's a manifestation of every, you know, social policy, what we believe are regulatory fairness provisions, export control – whatever. You know, whatever the various policy objectives are. It translates into about 20-percent differential of doing business with the United States government versus the same commodities sold to anybody else, or anywhere else.

So – now, that's a repetitively documented phenomenon that – in fact that turns out to be just about exactly what the price of doing business is. So while I agree with you that there is – there are some real difficulties in trying to make a translation between what the Business Board did propose as really efficacy in terms of its applications to a business process within the Defense Department – because it is, in fact, a political military establishment; I agree with you entirely – it nonetheless is important to keep the emphasis on this area, lest we just let this grow like topsy.

Because we did have the experience periods, I think, of our history in which we, you know, tolerated a range of different provisions that not only Congress implemented, but the executive branch did by executive order or whatever else, that served a whole range of agendas other than to actually yield product, service, commodity, support, whatever it was that was actually being contracted for.

So to keep an emphasis on this, they've done a tremendous task, I think, of highlighting that fact that you've got to stay focused on that proposition – recognize that yes, indeed, structurally we're talking about a 20-percent differential. And if you could chip that down in any way, shape or form, take a holiday – that's a great – (laughter.)

(Cross talk.)

MR. CHU: Well, I agree, I agree – if boards like this were willing to take the political heat for naming the culprits. Don't just name the percentage – help the political process change the – (inaudible).

GEN. FOGLEMAN: That's fair.

MR. CHU: Be specific.

MR. WINCUP: Ladies and gentlemen, I sort of was watching with dread the ticking of time here, because actually I'd like to listen to this panel for a while longer. We've – still have a few more questions left, but we've unfortunately run out of time.

I do think it's useful to note that this has not been a static dynamic. And in fact, if you look at some of the things that this same panel talked about last year at this forum, the Defense Department has taken a number of steps along those lines in the past 10 months. And it's not just because they look at this group and say, well, we're got to listen to those guys, but it's because, in fact, the collective wisdom of how we deal with these issues is moving along.

It's a cumbersome process. It is a political process. I think our hope here this morning was to both shed some light on that dynamic and offer some of the opportunities of how DOD and the national security establishment can move forward.

I would like to ask you to join me in thanking our panel members, and then we'll take a break until the next session. Thank you very much, gentlemen. (Applause.)

(END)