H. ANDREW SCHWARTZ: Good morning, everybody. And welcome to the Center for Strategic and International Studies. Thanks for coming to our briefing on the budget. And you know, we’ve got some serious number crunchers here and some serious policy people here. I think Andrew Hunter will be joining us shortly, but we wanted to get started.

With that, many of you may have seen that, you know, Ryan Crotty’s been promoted to deputy director of CSIS, according to The New York Times. And so we would go to him first, but I’ll go to our Senior Vice President Kath Hicks really first. And you all know Kath, so I don’t – she needs to no introduction. But Kath, of course, came here after serving as principal deputy undersecretary for policy from 2009 to 2013. And so we’re really glad that Kath came back to CSIS because, you know, we just need you.

KATHLEEN H. HICKS: Well, thanks very much and – (off mic) – microphones, right – gave you all an opportunity early, before the real press of next week is upon us, to get some insight into what we expect to have in the budget and what you might want to be looking for. We’ll be doing some pieces more immediately after the budget comes out that gets into the specifics of what we’re going to see in there. So this is really a framing discussion, focused largely on what Ryan’s going to tell you this morning.

I’ll just say three very quick things up front before turning it over to Ryan. There’s some of three – I think everyone knows this – basic elements that are framing the budget issue set as it relates to defense. The first is, of course, the geopolitical. The world is not slowing down. We have the threats currently, of course, from ISIS. We have the Russian-Ukrainian issues that have been hot really for a full year, and heating up again today.

We have continued concerns in the United States about the Chinese in the South and East China Seas. And that’s sort of just a handful. Then there’s the Ebolas of the world, other things that pop up that we maybe don’t anticipate very well in advance. It’s across every region of the world. It’s state and non-state. So the threat environment and the challenge environment is pretty phenomenal.

Second, of course, are the budget dynamics themselves. And I’m going to really let Ryan speak to that, but I would just say one of the things I have heard said by insiders at the Pentagon within the last year, since the last budget came out, the Department of Defense is still using the 2012 Defense Strategic Guidance as its basic strategy framework. It updated that in the 2014 QDR, but it’s essentially the same strategy.

And as I have heard insiders say, that strategy was built $100 billion ago. Sequestration’s effects are not yet fully felt, but the strategy most certainly can’t be executed at those budget numbers. So there is a mismatch underway. And the White House’s approach to that appears to be – to be putting the budget above sequestration which, again, Ryan will speak to.
And then the last is, of course, the political issues. And that’s at the macro level in terms of the partisanship in Washington and the ability to reach a grand bargain. But it’s also at a more micro level in terms of the ability to squeeze more out of the defense budget. And here we get into issues like Base Realignment and Closure, compensation – of course, Compensation Commission will be coming out with its recommendations today – health care issues relating to the force.

All of these areas, that we might categorize as efficiencies that eat away at the ability of the defense budget to fully fund the strategy, are immense political challenges facing the Hill in the next few years. So with those three framing comments, let me turn it over to Ryan for the real details.

RYAN CROTHERY: (Chuckles.) All right. Thanks, Kath. I thought for a second that strategy was going to get to go before budget again. The one time of the year I – you know, I get to lead.

Well – so I’m just going to try to keep this definitely under 10 minutes, sort of go the – get to your questions. But I wanted to sort of put everything in context here. So starting out with just kind of the overall federal budget, you know, I think of sort of the budget season kind of kicks off with Monday’s release of the Economic and Budget Outlook from CBO.

And we saw exactly what we would have expected but, you know, we’re looking at a world in which deficits are back to their historical average as a percent of GDP, back to pre-recession levels. And then CBO says: We’re in sort of a four-year lull here between, you know, deficits flattening out, our costs will then come down, and then before debt starts to rise again in 2018. Debt right now is 74 percent of GDP, which is more than twice the 2007 level back that pre-recession level, over $18 trillion. And again, in 2018 that starts to grow again.

So I think it’s in this climate that we look at the FY ’16 budget process, the final budget that will be both built and executed by this administration, providing a real opportunity to reconsider budget priorities across the federal government and which, more germane to this conversation, I think is going to be acting on what seems to be a broad consensus in both chambers and in the executive that defense spending, as it has been the last couple years, is too low, given the global threat environment that Kath mentioned.

And so tradeoffs between defense and non-defense discretionary spending, mandatory spending and revenues will really be the big questions, because that’s what’s going to be required to increase defense spending above the sequester caps. So to take that down to – now to the defense budget more specifically: So we all know sort of in the federal budget picture this – the positive economic story there sort of has a pall cast over it from the budget caps created in the Budget Control Act of 2011. Those took $950 billion out of the 10-year defense budget.
Now, if you include 2015 we’ve actually – you know, which has already been appropriate – we’ve made it through 40 percent of those 10 years. We’ve made it through four years already. But because of the structure of the caps and the way that relief has been provided by Congress, we’re really only 30 percent of the way through the total dollars that were supposed to come out from that – from that trillion dollars in spending cuts. So in some ways, under sequester, even though the top line starts to rise, the worst in terms of what had to come out of the baseline 2012 budget is still to come.

So the BCA level in 2016 is $499 billion, thereabouts. And that represents a 28 percent cut down from the peak level in 2008 in constant dollars. That’s including the $51 billion that we expect to come in the OCO budget. It’s a 14 percent cut in the base budget from – again, from the peak. And the 2016 BCA cap is about $110 billion lower than the baseline, which I was just referencing. So that would be the biggest one-year cut so far.

So if that’s what sequester looks like, we know that the president’s budget is going to ignore that. You know, as Kath mentioned, it’s clear that, you know, he sees the prerogative that if he’s going to support the strategy that the administration and DOD has been relying on since early 2013, then $499 billion doesn’t cut it. And he’s been very clear.

And I think actually the chiefs yesterday on the Hill were very clear. They went so far as to say things like, we can no longer do two of the 10 missions at an acceptable level of risk. And there might have even been stronger statements than that. But that is a – I think, actually General Odierno might have even said that we can no – or, excuse me, the Marine commandment said he was no longer sure that they would be sized to be able to do one major theater war, much less do a – sort of a win-hold situation.

So you know, those are pretty stark reminders of what the budget goes to in supporting the strategy. But in that, the president has given us a budget that’s supposed to be $534 billion. So that’s 34, 35, depending on the decimals end up in the final budget, billion (dollars) above the cap. The OCO budget will be 51 billion (dollars), which is $13 billion less than last year – 20 percent less. It’s actually almost the same amount for the counter-ISIS campaign, 5.3 billion (dollars). I think it was just an even 5 (billion dollars) last year.

Interestingly, they’re bringing back the European Reassurance Initiative at about the same level it was funded last year, which I found interesting because I know that there were definitely some officials quoted last year that this was a one-time ask. And that is clearly not the case. I mean, it’s obviously an important issue, and we can talk about that in terms of what needs to be done with this budget. But, you know, that has clearly changed.

Again, counterterrorism partnerships fund has an ask again. They asked for 4 billion (dollars) last year and got something like 1.3 (billion dollars). They’re asking for just over 2 (billion dollars) this year. So all things combined here, we’re looking at a
total budget of about $585 billion, which is equivalent, if look in constant dollars including OCO, at about the 2003 level, which is significantly lower than what we’ve seen in the past couple of years. Even with this increased base budget, you know, we’re seeing sort of a shifting back to a less wartime footing.

So what’s inside that top line? The FY ’15 budget sort of provided a road map to what we should already expect this year. The high and low priorities, those first in, first outs, I think we already kind of have a sense of because the Opportunity, Growth and Security Initiative last year provided that $26 billion of unfunded priorities, the first things that the president would have put back in had he not been restrained by the bipartisan Budget Act.

So those were things like Army rotary aviation, Reapers, P-8s, C-130s, you know, restoring some of the readiness funding to especially Army and Navy, and bringing back some of the MILCON that had been cut very deeply. Similarly, they provided, you know, those first outs, the estimated impacts of sequester-level funding.

We know that procurement took the most significant hit under the sequester scenario. For the FYDP, procurement is something like 18 percent of the budget, but it would have had to take about half of the cut to get down to sequester over the FYDP. And so I think that road map is largely what we should expect in FY ’16. You can see many of those exact programs popping up in the early sort of leaks coming out.

But I think the last question that we have to ask is what are the priorities that need to be fit in for FY ’16 that we didn’t have in ’15, because there’s been a lot that have popped up over the last year. I mean, the European Reassurance Initiative is one, but things like, you know, increases for modernizing the nuclear enterprise, R&D plus-ups for the Long Range Research and Development Plan, the Defense Innovation Initiative, the Aerospace Innovation Initiative just brought up yesterday by Secretary Kendall.

You know, those are significant initiatives, plus the efficiencies that were rejected in FY ’15. You have – whether that was the carrier overhaul – remember that the Army and the Marine Corps were actually funded in the FYDP at a lower level, at 420,000 (dollars) and 175,000 (dollars) respectively. Those need to come back up to the levels that have been agreed on. And then see what efficiencies will be resubmitted.

And I think we all expect to see the A-10 again, probably. BRAC will probably be back in there, maybe the U-2. Let’s see what they do with Navy surface ships, whether they offer up the cruiser lay-ups again. You know, one of the things that we did see is that there was a few places where Congress sort of took half-steps toward allowing some of these efficiencies to be pulled in. One of those was allowing a couple of the cruisers to be put into phase modernization. See if DOD will start to try to put more money back into readiness accounts again, which Congress sort of pulled back in the actual appropriation, they shifted some of that money away.
So there are a lot of other long-term issues that we can talk about in your questions, but I want to make sure that we get to those. So just a few things to remember coming up: You know, we have our budget release on the second. The public release of the Retirement and Compensation Commission is going to be on the third. On the fourth is Dr. Carter’s nomination hearing. So a lot of big things.

But then we also hit – end of February is about when we’re hearing the appropriation subcommittees are going to start pulling in. And then in March, supposedly, the authorizing committees will have their hearings. And then March 15th debt ceiling and April 15th budget resolutions are due. So those are some – a lot of things to get through in the next couple of months.

You know, I think one of the things that I’ve been happy to see is that February 2nd, the statutory date of the budget, it’s coming out. So the first step toward sort of a regular debate and order of the budget has started. So we will see and hope if that continues. But I’ll turn it back over to my colleagues here, and then you guys can go to questions.

MS. HICKS: Why don’t we let –

MR. SCHWARTZ: Andrew, do you want to?

ANDREW P. HUNTER: Yeah. Actually, Ryan covered a lot of what I’m going to talk about, so I’ll be very brief. But just to magnify a little bit some thoughts on modernization and acquisition and research and development –

MR. SCHWARTZ: If you all don’t know – if you all don’t – I’m sorry. I didn’t get a chance to introduce Andrew. But if you all don’t know Andrew, Andrew just joined CSIS recently. He worked for a guy named Ash Carter at the Pentagon for a few years. And now we’ve got him here. So we’re very fortunate to have Andrew leading our defense industrial practice.

MR. HUNTER: I’m sorry. I should have introduced myself. Thank you, Andrew. Andrew Hunter, head of – director of the Defense Industrial Initiatives Group at CSIS and lately – three months ago out of the Pentagon. But excited to be here at CSIS.

So some thoughts on acquisition and modernization, things to look for. Ryan indicated several. Let me just amplify a little bit. You know, the decline and – I want to focus mostly on the decline in the R&D budget. It’s actually been almost exactly followed and traced the pattern that Ryan described overall, which is a 28 percent decline from the peak year to where it was in 2015. And of course, we’ll see what happens in 2016.

But I would draw you attention, within that – within that budget there’s a significant magnifying effect that’s happened to the R&D funding that actually goes to industry to deliver technology for future procurement. And that’s because the S&T
portion of the R&D budget has been protect, which is I think on the whole a good thing, but the necessary effect of that is fewer and fewer R&D budgets then are able to go out for the development of technology into military capabilities. You’re doing more on the research – basic research side. That means you’re doing less on the end-item development side.

And also, a portion of the RDT&E budget is kept internal to the department. And my suspicion, based on what we’re seeing in the contract numbers, is that that internal portion of the R&D budget has also been relatively protected, which is understandable because you don’t just, you know, go out and fire all your civilians who are working in your government labs. That’s not really possible, and maybe not wise. And so that effect of that R&D decline is significantly magnified for industry, possibly as much as double the impact.

And certainly for the Army, that has been the case. The Army’s – the contract spending the Army has put out for research and development contracts has fallen by 60 percent since the peak. So your 28 percent decline basically doubled in the case of Army’s modernization, as it goes to industry for developing capability. So it’ll be interesting to see essentially what happens in 2016. Does that decline continue? Even if the R&D budget, as a whole, stabilizes, that portion going to industry, I suspect, will still probably be on the decline unless there were heroic things that were able to be done. And I know there were some attempts there.

On that end, Ryan mentioned some of the potential investments for the Defense Industrial Initiative. That’s definitely something to look for. Along those lines, I would look and maybe ask about whether there are specific efforts relating to prototyping that are funded in the FY ’16 budget. That’s something that presumably would support the Innovation Initiative and potentially support retaining some of the design capabilities within industry that are at risk in an – in an era when we’re procuring so few new build systems.

I would also, you know, keep your eye on programs that have maybe been indicated by the services in the past may be on the bubble or historically been on the bubble. And I think the thing to look for there is, given that the budget request is coming in above sequestration, might consider that a little bit of a high-water mark. So then, how good are things? How good do things look in this budget, keeping in mind that it’s probably the best-case scenario?

And my takeaway from Ryan’s comment was the worst is still to come – a very cheery – a very cheery thought for this morning. So you know, as good as this budget may or may not be on some of these systems that have been on the bubble, you know, that’s the best case scenario. And I’m thinking of things like T-X, Joint Light Tactical Vehicle, the procurement of AM-FIBs – thing that either historically have been right at the cut line and maybe haven’t made or have just squeezed in, or that the services have actually said, you know, this is right at our bubble and right at the edge. It’ll be
interesting to see where those are in this budget and then extrapolate what it means if we go back to the sequester levels for things like that.

Two more things. It’s worth, I think, looking at the acquisition workforce and the funding that affects it in this budget. So that’s the Defense Acquisition Workforce Development Fund, which is the mechanism for continuing to professionalize and increase the professionalization of the workforce. And then, just what’s happened to the size of the acquisition workforce in this budget in terms of their numbers, and what does that look like compared to what happened in the ’90s to that workforce.

And then lastly, on rapid acquisition, the department has been trying to create a – some enduring mechanisms to help finance rapid acquisition. And obviously, the pace of operations has – with the counter-ISIL mission – has stayed relatively high, although not quite as high as it was. But that is not going away. And so things like the JIEDDO, the budget for JIEDDO, the department has struggled to get that into the base budget, but it has included base budget funding in some prior years for that. And that’ll be something to look for.

MR. SCHWARTZ: Great.

With that, I’d like to open it up to your questions. Please use the microphone if it’s near you and identify yourself and your news organization. It’ll be very helpful for the transcript. And we will have a transcript out later this afternoon, as well as some audio from this event – audio and video from this event. So questions, please.

Jeff.

Q: Thank you. Jeff Mason with Reuters.

Many of us have stories out this morning based on info from the White House saying that they are going to propose an end to sequestration and a spending increase, both for domestic programs and for military. Can you give some thoughts about, A, the likelihood of that ever happening and, B, how you see that sort of looking in the actual budget – to the extent that you can on the domestic programs side in addition to the defense side?

MR. CROTTY: So the – as I said kind of earlier with that consensus, of course, the consensus is only one of the three legs of what needs to happen in order for any real change to happen. And that’s one the side that we’re talking about, the defense side. But the non-defense, the mandatory and the revenue, there is distinct disagreement. And certainly the political calculus that says that, you know, the deficit can’t go up is really what actually drives you away from being able to change the spending levels, change the caps.

I am somewhat pessimistic. I mean, I think that you’ve already seen coming out of the State of the Union, and as the budget stuff starts to roll out, the immediate reaction
from Congressional Republicans reacting to what is – you know, seems to be a tax loophole change as the most significant factor in freeing up money for discretionary spending. And there is just a core disagreement between Republicans and Democrats about where that money has to come from.

I mean, I think that the Paul Ryan budget we saw two years ago is really the benchmark for what can be expected out of House Republicans, what they want out of a budget. They’re going to want to find money for defense in non-defense. And that is so clearly anathema to the president and what he sees as his priorities. I actually think that there is not a high likelihood of us getting all the way back up to this – to this budget level of spending on probably either the defense of non-defense side.

I think that the question is, can they get another Ryan-Murray style sort of short fix that actually gets you, you know, maybe $10-20 billion this year and sort of gives you another bridge to making an agreement. I mean, I made the mention of the four-year lull. I mean, I do think that we are in the moment where a grand bargain is – really needs to happen.

And unfortunately, I think the political calculus is still just too hard to get all the way there. And it’s going to be small changes. It’s going to be add two years to the back end of the BCA to find some money there. Maybe because of the way deficits have dropped below expectation, maybe you can find a little bit of money there. But I think that it’s going to be pretty hard.

MR. SCHWARTZ: Sandra (sp), do you have –

Q: Yeah. Sort of along the same lines, Congress or the leaders of Congress from both the House and the Senate have said that we’re going to try to have a regular order budget this year. So is that likely to happen? And as far as a defense budget, how are they going to handle sequestration? At what point in the year are they going to – you know, is everything going to go haywire like – you know, like they did a couple years ago. When is that going to happen this year?

MR. CROTTRY: The – I mean, I think the biggest hurdle in regular order is going to be a concurrent budget resolution. I think it’s going to be very hard, even with Republicans running both houses, to get something that House Republicans are going to put into a budget resolution that Senate Republicans who are largely up for re-election in 2016 are going to be willing to get behind. And it will certainly be hard to find anything that gets the votes.

I mean, Andrew can talk about the potential for reconciliation maybe as a mechanism for finding some areas, but I actually think that regular order breaks down on April 15th when we don’t have a concurrent budget resolution. So I think that we can expect another CR. Now that the caps are slowly increasing each year, you know, a continuing resolution at the beginning of the year doesn’t trigger anything horrible.
So I think that that is probably a likely mechanism. And we start pushing up against, you know, end of December, January, as we’ve seen the last couple years. And that’s when we find a small deal.

MR. HUNTER: Yeah, I would agree. I mean, there’s a strong incentive for both houses of Congress to use budget reconciliation as a mechanism to move their agenda forward because it significantly reduces the burden in the Senate, the number of votes that you have to get. And many of their primary objectives are budget related. So they’re ideal candidates to be included in a budget reconciliation measure.

But as Ryan said, you know, the different political dynamic that faces Republicans in the Senate is probably going to make getting to a consensus budget resolution, which is required to enable the reconciliation process – they don’t need the president’s signature.

But they do need a consensus between House and Senate to start the reconciliation process and to use that mechanism – you know, that’s going to be pretty challenging because I think, you know, consistent with the way the Ryan budget has done it in the past, to the extent Republicans in the House look to increased defense spending, I’ll probably be offset from non-defense discretionary spending.

And that’s going to be a much tougher political sell in the Senate. And they just don’t – you know, then to get to the margins that they would need, that’s going to take some tough votes from people who are up for re-election.

MR. SCHWARTZ: OK, questions?

Q: Hi. Jon Harper with Stars and Stripes. What do you think we can expect to see on the compensation front in terms of proposals to try to limit pay increases for troops, housing allowances, health care spending, that kind of thing? Obviously, in the past, DOD has tried to do that with varying degrees of success. Obviously on the Hill there’s some opposition.

MR. CROTTY: I’ll start. The – I expect that – I actually – it’s a good question, because I’m curious to see what will actually be in the DOD request, knowing that the commission will have – will be coming out essentially simultaneously with the budget. I expect there will be some things in there. We already know what the pay raise is supposed to be. They’ve asked for a 1.3 percent, which is still below statutory but above 2015 – that’s 1.3 percent.

So there obviously will be some – there have to be assumptions built into the budget. And so, you know, we will absolutely have to see some of those. I expect there will not be any big proposals knowing that the fight is to come post-budget. You know, I know that will the commission I think there are some expectations of a really significant
thoughts for changes in the retirement system. I don’t know if you guys have heard any more.

MS. HICKS: I haven’t heard any more details. Have you?

MR. HUNTER: Well, I have not heard more details. I have one maybe borderline speculation to offer, which is of all the components of the compensation piece, you know, the pay piece, it’s a little bit arithmetical. You know, so you can say, well, 1.3 percent versus 1.5 (percent), or whatever the statute would imply. It doesn’t maybe raise hackles in the same way.

But the other thing that I would – I would look at is really the health care budget, because on the pay side – you know, the decision to increase compensation in the early 2000 period was a very conscious one, and something that the committees of Congress and that Congress was promoting. And so sort of shifting direction on that requires a shift – a change of mindset that is not impossible, but that is hard.

And similarly on retirement, there was a lot of decisions made by the Congress to put in place the retirement system that exists today. On health care, I feel like much of the increase on health care spending has just sort of happened. You know, there was no conscious initiative by the Congress to say, we really want to increase the health care benefit for – you know.

It was something that sort of evolved over time and, with the exception to some extent of, you know, TRICARE for Life and health care for retirees, a lot of that health care expense growth has been not something that was driven by any sort of policy decision. So I think it makes it a little easier to then go back and say: I don’t have to change my mind to support scaling back the size of the health care spending budget. So I’m a little bit more hopeful that there’s room for progress in that area.

Q: So, David Alexander from Reuters.

Just to follow up on that, do you anticipate that there will be any movement to incorporate any of those recommendations from the compensation commission this year into this year’s budget by the Congress, or will it be pushed off until next year?

MR. CROTTY: I think that there may be some – it would really take congressional action. And I think that while that is possible, I don’t see any big moves coming. I think that you probably get – DOD reacts and says, man, we’ll have to think about how we would do that and then – and then really not expect much action until 2017.

Q: Can I also just – on another issue – somebody mentioned earlier the Europe Reassurance Initiative and how those funds might be spent. What do you think about that? How is it likely to be spent?
MS. HICKS: Do you want me to comment?

So we already have a stepped-up posture for the United States as part of the overall NATO commitment. And that largely is represented in terms of exercises and troop deployments, naval presence and air presence in the Baltic States and Poland. So I think it would be a continuation of that.

The specific exercises and deployments probably aren’t fully set yet for 2016, but it would be set a level of effort to sustain that degree of U.S. engagement. So Baltic air policing support, for instance, again, troop deployments that demonstrate our resolve for NATO, but I don’t think that they’ll have specific exercises set up at the time that they release the budget.

MR. CROTTY: And I would just add to that, as a broader conceptual issue, and one that Clark Murdock and I – who unfortunately can’t be here today – but just wrote about. You know, it is – we are reaching the point, as we have moved out of Afghanistan – I mean, we know about – you know, the ISIS campaign is the big headline, but it’s really still a very small percentage of OCO. It’s only 10 percent – that we are now getting into continuing to add new things that we consider contingency operations.

And I think that one of the things – obviously the caps have been sort of what has forced a lot of things into that. And it is really important to start thinking about what is it that we – that is our sort of peacetime baseline global presence, because really you – you know, OCO is sort of becoming a reflection of just how the U.S. operates in the world, probably for a long time going forward.

So, you know, whether it’s, you know, Operation Enduring Freedom things that are happening, you know, I think the specific authorizations for use of OCO is, you know, 20 countries, but also any other country you want to. But explicitly, I think it’s something like 20 that fall into it. And it’s really kind of everywhere now. And so starting to rethink about what needs to be something that is a(n) annual, planned part of the budget and what is really emergency and contingency.

You know, I think that very, very gray line, probably – especially if we get some kind of agreement, should probably be something that we revisit as budgets start to creep back up, because right now in which the OCO budget is, you know, $40 billion forever. I don’t think that’s how you want to budget for things.

MS. HICKS: Let me just – let me just comment on that, to say Ryan’s completely right. And I just would say it the opposite way, which is: To the extent that you do not get an agreement, OCO is a politically expedient way, and is particularly expedient to the extent that the line is gray, for all parties to ensure that there’s some funding, particularly for readiness and other near-term requirements, while you are not able to resolve the sequestration problem.
And I suspect – back to the pessimism that Ryan offered earlier, I agree with that – and I suspect that’s the reality that we’re facing for the next few years, is that you’ll have OCO used as relief valve. You won’t get a grand bargain, as much as I would like there to be one. And to the extent that the environment stays rough and tumble, I think that’s the world we’re in. If it gets much worse, it might help push a grand bargain. If it gets much better, you might see OCO come down.

MR. SCHWARTZ: Yes.

Q: Hi. Jen DiMascio from Aviation Week.

I wanted to follow up on the European initiative. Are there any equipment – is there any equipment that might be funded as part of that this year?

MS. HICKS: I’m not aware of any in there. And that’s – it is not related, just to be clear, to any Ukrainian aid. That would be a separate issue. But I don’t – I am unaware of any NATO equipment support that’s in that funding.

Q: OK. And then, also I wanted to follow up on the Aerospace Innovation Initiative. What do you see kind of coming out of that? And when you were talking about the R&D budget and the S&T budget being off balance, do you see that focus on innovation shifting that S&T to R&D balance at all, or just shifting it for those programs, like a future fighter specifically, and then draining accounts for other R&D efforts?

MR. HUNTER: Well, I will confess that I am not really familiar with what the content of the Aerospace Innovation Initiative is. So I can’t really speak to what I think it’ll do.

I think in general, you know, the prototyping initiatives that Frank Kendall has talked about in the past have all been designed not to drain – you know, sort of designed in a way that they wouldn’t drain from ongoing acquisition programs, but they would sort of keep alive that design ability at a time when, you know, the programs we do have are, in a lot of the cases, just upgrades to existing systems. And so they don’t involve a lot of design expertise.

They do at the margins, for whatever subsystem is being upgraded, but they’re not whole system design exercises. So, you know, it’s been – in the past, at least, it has been trying to kind of find that balance between something that is not terribly expensive, keeps the design capabilities, you know, alive, but doesn’t become large enough that it eats into, you know, the base of what small amount of acquisition is still ongoing. And I would – you know, I would expect to see that going forward.

Now, over time as you get out three, four, five years into the future, obviously if this Innovation Initiative – defense or aerospace version – is going to be successful, you’re going to want to start to see some of those ideas that are small turn into programs, or get incorporated into programs of record.
So to the extent that some of these innovations may be more at the subsystem level or at the, you know, sensor level or, you know, the kind of communication systems level, you want to see those things migrate into an F-35 program, or migrate into the LRS-B program and be adopted. And that’s kind of the goal. So I see it happening more that way than, you know, big new programs coming in and crowding out what’s on the table today.

Q: Jon Harper again.

It looks like Ash Carter is going to be up on the Hill, defending a budget that he had no part in drafting. Is that just a statutory thing, where the SecDef has to go up there? And I mean, to what extent is he going to be able to speak to this?

MS. HICKS: It’s not a statutory requirement, but the Congress invites the secretary. The secretary can choose to decline the invitation, but that would be unprecedented, at least in my knowledge.

What – my understanding is what the agreement has been with the Congress is that they have pushed off the posture hearings so that he had time to be – first of all, that he can be confirmed without having to defend it, which is why the confirmation hearing is right after the budget is released and he has no knowledge of that budget, which makes his confirmation hearing much easier. And then he has time to sort of become familiar with it.

You know, I’ll turn this over to Andrew, who’s had experience – I was going to say more experience on the Hill, but I’ll just say experience on the Hill since I’ve had none. But I believe the secretary absolutely could work with Congress and the OMB and the president if there was something he wanted to change about that budget. That’s probably how he would do it, quietly working with the committees.

But it is actually not unprecedented for a secretary to walk in and defend a budget that he has not built. So I think that will be the case here.

MR. HUNTER: You know, two thoughts on that. The first is that, because Ash Carter was deputy secretary basically for the SCMR – does anyone remember the SCMR? (Laughs.) I’m sorry, I just got a –

MS. HICKS: Are you trying to hurt me?

MR. HUNTER: I just got a – yeah, sorry, Kath. (Laughter.) So – you know, which is where essentially I would say the shape of, you know, how the department intends to deal with sequestration and how it – you know, where the department essentially drew its line – you know, snapped a chalk line and said: This is where we think the we don’t want to go below line is, which I think their budget request will reflect, kind of their bottom line, we need this – at least this amount to do the strategy.
The shape of that was largely defined in the SCMR and subsequent debates, all of which happened under Ash Carter’s leadership and certainly during his tenure. So I – there has been change since he left the building, so it’s very true that the exact details of this budget he’ll need some time to become familiar with. But, on the other hand, I think he’s very familiar with sort of the overall budgetary approach that this budget is likely to reflect. So it will not probably take him a tremendous amount of time to get back up to speed

On the congressional side, yeah, I mean, you know, there’s only one secretary of defense. The fact that he may or may not be familiar – terribly familiar with the budget that they’re defending, that’s always a problem when a new administration comes in and you have a secretary, you know, who didn’t – with the rare exception of Gates – you know, comes in, usually didn’t have anything to do with building the budget. You know, that is just a – that’s just an understood dynamic. And in a lot of cases, the questions then directed to the secretary would be much more high-level and they won’t expect him or her to have the same, you know, conversance with the details that they would have later in their tenure.

Q: Just a quick follow-on. Do you expect any serious opposition to his confirmation? I mean, do you think this is going to be pretty smooth? And, you know, are you expecting at least some of what happened with Hagel, where he just really got pounded and it kind of was largely a party-line vote?

MR. HUNTER: I haven’t seen any evidence of anything personal to Carter. Or maybe “personal” is not the right word; of anything that is particularly associated with him, his views or his positions, or his prior service. So that’s a pretty clean slate, from my perspective.

I think several folks have been clear that they have serious issues with the president’s policies, and they’re going to go after those policies. And obviously the dynamic will be to see how adroitly Dr. Carter is able to defend those positions in a way that doesn’t, you know, sort of antagonize the members of the Armed Services Committee and other members of the Senate. I personally believe that he will be very successful in that, so – but obviously we’ll have to wait and see.

MR. SCHWARTZ: David.

Q: Yes, thank you. David Alexander again.

Do you see any money in this budget to go behind the push for the third offset strategy they’ve started talking about?

MR. CROTTY: Yeah –
MS. HICKS: Let me just say, inevitably, yes, they’ll have to do at least a – in their PowerPoint presentation when they roll out, they’ll have to do at least a slide that says crosswalks, what’s – and that’s really what it will be, what’s in the budget and how it relates to the offset strategy. So I think it will be up to all of us, as we look at that, to see how much we think it really supports what’s in the Hagel memo.

MR. CROTTY: Yeah, and I think – right. I think, as sort of Andrew also described, you know, part of this is – you know, a lot of this is probably going to focus into R&D things or, B, not necessarily budget-focused items. You know, I think that a lot of the Better Buying Power 3.0 stuff that sort of feeds into the Innovation Initiative is part of it. So I think there are some things that will be bullet points that are not necessarily budget bullet points.

But I would note that, if you go back and look at the, you know, whatever I guess we’re calling the second offset strategy, the Bill Perry, under Harold Brown, I think you would have expected to go back and say, oh wow, look at like this huge R&D surge behind all of this great stuff. And you know, obviously we can’t see what happened in the black budgets, which is probably where a lot of stealth was, but when you back and look, that is not really the case. You know, I think it’s about a reformulating inside of the budget and having a strategy to what you’re doing with the dollars that you already had, not necessarily adding.

So again, I think it’s probably going to be more bullet points and text than it is dollars moving, although I think, yeah, they will definitely have to address where it’s going. But I don’t – I don’t see huge budget impacts from it.

MR. HUNTER: I would just touch on that. There is a little bit of a timing mismatch here, and I would point out that the RFI that went to industry for their input on, you know, where should the Defense Innovation Initiative be focused, that’s still open, you know. So at a time when we’re still – the department – a little slip up there; I’m not there anymore – (laughter) – when the department is still asking for feedback from industry about, you know, what is – what is the hot stuff that’s coming down the pike in 10 to 15 years that we need to be – ensure that we’re going to be able to leverage and stay on top of, they had to put together the budget. You know, and going back, you know, probably four or five months, most of this stuff was really laid not in concrete, but in some semi-solid mix.

So I think there ought to be, there probably will be maybe some – I’m going to have to use the word “funding wedges” associated with the Defense Innovation Initiative, but I don’t think you’re going to see hard programatics at this stage because a lot of that homework is still being done as we speak.

MS. HICKS: I just wanted to add, I mentioned at the beginning that we have some analysis coming out. We’re aiming for the day after the budget, for the 3rd, and Andrew’s going to have a piece on offset and innovation once we get a chance to look at that budget.
MR. SCHWARTZ: Sandra (sp).

Q: You all have talked about efficiency a lot. That word gets thrown around quite a bit. A lot of people now are looking at that GAO report that says that DOD doesn’t have a good accounting of how many people it has in headquarters, and they’re supposed to be cutting 20 percent of headquarters but they don’t know what jobs are part of headquarters. So how is – how is that possible? I mean, how does that happen that you can’t even account for your own people? And how do you then go to Congress and say, well, we can’t – we can’t have sequestration, but then we can have all these people that, you know, we don’t even know how many we have? How does that happen?

MS. HICKS: Anyone? All right, I’ll – I’m the policy person in the room, so I’m – this is not my forte. But I’ve also been a manager in government – (chuckles) – for a long time.

So, how does it happen? It comes down to how you count people is a big piece of it, whether it’s you’re counting full-time equivalents or bodies, and that’s different. There is also – particularly since 9/11, there has just been a huge growth in non-traditional billeting. So you have temporary billets. You have a lot of contractors, of course, which I think everyone’s familiar with those issues.

So oftentimes what they’ll do is try to count computer accounts. But then, again, that’s not the same as full-time equivalents you may have, and you may have people with multiple computer accounts.

So part of it just gets down to how do you count the people. Do you just count full-time government employees and make that your cut – the base upon which you’re going to cut, which is honestly unfair to how you might want to cut? You might want to cut a lot more contractors out of the system, depending on what the particular function of the headquarters is. So that’s how you get to that problem.

You have touched on, more broadly, an issue the department has long faced, which is how to make a convincing case that cuts, whether it’s under sequestration or whatever the cuts may be, are really that harmful when, in fact, there seems to be sort of this slush of money or an inability to account for the money. We don’t have great auditability in the department. Marine Corps and Coast Guard are good, other services are lagging, and OSD is quite far behind the services.

So it’s a fair question and something that I think you have the comptroller and the chief – the deputy secretary really focused on and the deputy chief management function. You may know there has been legislation to create an undersecretary for management, which is part of the effort to get at issues just like this. And I believe the statute requires that position to be established by 2017; I may have the date wrong. But I think you’ll see in the next two years movement toward establishing that position, if not actually establishing it early, and these are the kinds of things that they’ll be trying to get after.
MR. HUNTER: Can I just say I think one of the issues – I haven’t read the GAO report, so I’m at risk here – but one of the issues I’ve experienced in the past is that there are different definitions of what’s headquarters, you know. And so there’s a definition, there’s – there have been in the past statutory definitions, which there used to be an annual reporting requirement, which I think eventually was either softened or maybe done away with. And so that’s one definition of headquarters, but then you find that I suspect if you go back and look you’ll discover that’s an unsatisfactory definition of headquarters. It made sense at the time it was adopted, but, you know, as Kath has indicated, the way that – “manning a billeting” is a better word – of OSD works has changed a lot. And so I think you’ll find probably that older definition was found to be inadequate.

Secretary Hagel took on and, you know, established a goal to reduce headquarters by 20 percent, and so obviously you have a different, then, definition of what that means for headquarters. And my understanding of that initiative was that they wanted to take account of this, you know, need for flexibility that Kath mentioned of, you know, let’s be thoughtful about 20 percent doesn’t necessarily mean reduce every aspect of the workforce 20 percent, just 20 percent in total – maybe more contractor-heavy, maybe more government-heavy depending on the organization and its structure.

And so I think that’s where, when GAO kind of goes to say, you know, what’s really happening, it gets all muddled because everyone may be coming at it a different way and people may be using different definitions of what constitutes headquarters.

I don’t – personally, I don’t draw the conclusion from that that nothing’s really happening and no reductions are happening. I think they really are happening. And that’s actually something to watch over time because, again, the experience from the 1990s is we came out and we said, OK, we’re going to reduce, and the mechanisms of government, left to their own devices, will not necessarily reduce in a rational way. And, you know, everyone’s favorite way to reduce is through attrition because it doesn’t require you to force anyone out the door, but that doesn’t necessarily allow you to control that you’re reducing in the places where you have the most excess.

MR. CROTTY: Just to take it past just the specific headquarters, but to the efficiencies question writ large, I mean, I think that a big question to be faced in the – in the coming years, we have something like $245 billion of efficiencies in the ’12 to – 2012 to 2018 time period that were literally negative funding wedges.

MS. HICKS: Assumed.

MR. CROTTY: They were assumed. And whether we get any accounting of that, I mean, that runs through 2018; 2018 is not that far away in terms of building a budget. You know, how have we done I think is a really good question because $245 billion is, you know, twice what the president has put in the FYDP above the BCA caps. You know, that’s a lot of money that supposedly has come out, so.
MR. SCHWARTZ: Yes.

Q: Jeff Seldin from VOA.

I’m wondering to what extent some of the military aims or priorities are not being reflected in the budget, but may be – or at least in the Pentagon budget – but may be reflected elsewhere in the form of support for partners, fighting terrorism, even the effort with the Ukrainians, (standing up the posture ?) there, relying perhaps on other countries to boost their defense spending?

MS. HICKS: My honest answer is those are all – everything you have laid out are part of how we speak – you know, what the president has said, certainly, in terms of his emphasis on partners picking up, you know, burden for counter-ISIS, certainly the Iraqi government itself in the case of Iraq, the Europeans and others. All of that is true.

That said, it is not the case, I think, that it would greatly affect in any way the defense budget that we put forward. We tend to be very cautious in the United States about assuming what’s going to be brought to bear by allies and partners. So I think there’s some amount of coordination, of course, that’s going on in terms of developing the budget for the U.S., and there is certainly some amount of funding in terms of the counterterrorism initiatives in particular and then, as we mentioned before, the RAP for Europe and then potentially a package for Ukraine. Those are examples of where built into the budget that the president will release will be some of those initiatives, some of which that money will be in DOD, some of which will be in, for instance, the State Department. Humanitarian aid to Syria would be another big example of that, where he’s had a big push.

But by and large, it’s on the – it’s small amounts, relatively speaking, on the margin, and the bulk of the Defense Department budget is settled without regard to what other partners are bringing to bear with the – I should say more directly – with the assumption that the U.S. might have to act unilaterally in some cases.

MR. SCHWARTZ: Great.

With that, I’d like to thank everybody for coming to CSIS this morning. You can follow us @CSIS on Twitter. We’re also on Facebook and at CSIS.org. We’ll be sending out a transcript to all of you later this afternoon. And thanks for coming. During next week, when the budget’s actually released, please feel free to call us. We’ll be sending out, as Kath indicated, a manuscript of papers on this issue.

Ryan, did you want to give a sense of what we’re going to be – what we’re going to get out and what we already have?

MR. CROTTY: Yeah, sure. So we’ve got one piece out yesterday afternoon on sort of the strategy budget alignment question and how we think about that going into a
budget cycle. And then we’re going to have a series of pieces coming out on Tuesday, once we see what comes out, that addresses sort of the different – you know, sort of our maritime forces, ground forces, those sort of specifics, R&D, some things on – that we’ll wait to see what we actually get out of there. Some things on sort of the post-OCO and SOF world.

MS. HICKS: Yeah. And actually we’ll have a specific piece on partnerships and COCOM priorities, partner programs.

MR. CROTTON: As well as some regional and – on regional deterrence issues. So sort of try to hit the large swath of issues coming out of budget season here.

MR. SCHWARTZ: Terrific.

(END)