

THE BROOKINGS INSTITUTION

SEQUESTRATION AND THE NATION'S DEFENSE:
PROSPECTS AND PERILS

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PANEL 2:

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PROCEEDINGS

MR. SINGER: Let me convene us back into order here. I'm Peter Singer. I direct the 21st Century Defense Initiative here at Brookings. I'm very excited to welcome you all back to this discussion on "Sequestration and the Nation's Defense." As I wrote about in a recent article in *Politico*, I'm a bit frustrated by a strange thing that's happening in defense politics today.

Now, rather than focusing on the very compromise of both, and I'll say the word, tax rather than revenue, and entitlement reform that the congressional Super Committee was intended to force, the discourse out there in defense discussions seems to be a cross between two strategies. One is a deliberate strategy to maximize the level of panic over what it might mean for the U.S. military national security.

I can't resist, but throwing across the idea that having more than 150,000 Marines, but that they would still somehow not be able to carry out a single contingency, or the idea that the Navy would be the size it was in 1915, but the equal amount of effectiveness as it was in 1915. I, for example, would much prefer to have a Virginia class submarine of today than one of the submarines back then, even two, three of the submarines back then.

But while we've got that going on on one side, we also have a second strategy, to deliberately not plan or prepare for the very nightmare contingency that we're laying out there. If this was the movie *Spinal Tap*, the volume would be set to 11 while Pentagon planners are being told to wear earmuffs.

Unfortunately, Operation Hysterical Ostrich, as I jokingly call it, may make for good politics and punditry, but it's a really poor way to approach national security discussions and planning. And so today this panel is very much intended to get our way past that, to bring together a group of some of the nation's top experts and really dig deep into what the potential implication the sequestration might mean specifically for the industry and for national security, as well as talk about alternatives and solutions, to treat it seriously rather than just turning the volume up to 11 and hoping something good happens out of that.

So the panel today features first Dr. Rebecca Grant. She earned her Ph.D. in

International Relations from the London School of Economics. Afterwards, she worked for the RAND Corporation, the Offices of the Secretary of Air Force and Air Force Chief of Staff.

She's presently the Director of the General Billy Mitchell Institute for Airpower Studies, which is an Air Force Association nonprofit dedicated to studying all forms of air power. As well, she's president of IRIS Independent Research, performing strategic planning for both aerospace and government clients, including the Air Force and the Navy.

Then we'll hear from Mackenzie Eaglen. She received her Master's from Georgetown University. She served as the Presidential Management Fellow in the Office of the Secretary of Defense and Joint Staff. Then she served as a Research Fellow over national security at the Heritage Foundation, as well as a staff member on the 2010 Quadrennial Defense Review Independent Panel. And she's currently a Fellow in the Marilyn Ware Center for Security at the American Enterprise Institute.

And finally, we're welcoming back to Brookings Tom Davis, who is notably a former Brookings Federal Executive Fellow. But behind that, he was a graduate of the U.S. Military Academy, has a Master's in International Security and Economics from Harvard University.

As an Army officer, he was program analyst for the Army, Military Assistant for the Secretary of the Army. He also commanded an artillery battalion in 3rd Armor Division, the First Gulf War, as well as was an Assistant Professor at West Point. Currently he's Vice President for Strategic Planning at General Dynamics, where he assists senior corporate executives in evaluating defense market opportunities, as well as emerging global opportunities.

So a set of really great experts to dig into an important issue. So first we'll hear from Rebecca, then Mackenzie, and then Tom.

MS. GRANT: Thank you, Peter. It's really great to be here today and to be on the panel with Mackenzie and Tom. So we're going to have a lot to talk about with the defense sequestration possibilities. I want to review two things very quickly which you probably all know. One is I think that we probably all share an assumption that it's time for the defense budget to come down.

As you know, we have been spending at historical highs. You've probably all seen the chart that looks at the DOD top line. What always strikes me is that our spending in recent years has been higher than it was during the Korean War. If you're like me, you pinch yourself and say, how did we

get into this situation?

But the fact about sequestration itself is really a frightening one. You talked about *Spinal Tap*, Peter, but I was trying to think about a movie that would somehow give us a sense of what this is like. The only one for me that came to mind is that old James Dean movie *Rebel Without a Cause*, where at the final moment in the drag race, the losing driver catches the sleeve of his jacket on the car and it's fatal for him. There's simply no way to bail out of this.

In fact, what we've seen is DOD starting to try to bail out by throwing some programs over the side, by making some cuts. The hard thing about sequestration is that we have come off a period of three rounds of budget-driven cuts. Again, we may all agree that cuts are in order. The problem here is that we don't see these tied to a national strategy, to strategic decisions about how we will direct these cuts. So sequestration is tough then and it's tough in its mechanics.

As the first panel mentioned, sequestration needs quite simply a cut, probably about 10 percent, to each account. That means that if it's 06028675309 spending \$51 million in basic R&D on Air Force high-energy lasers, take out 10 percent. It's such a difficult way to go about cutting the defense budget, but it's simply, I think most of us would agree, a non-starter in terms of sound fiscal management.

So I want to talk about two ways that we might see this unfold and tell you why we really need to avoid sequestration and get to the place we need to go, which is a strategy driven hard set of choices about our future defense budget.

When we think about the worse case of sequestration, the image, for me, that comes to mind is a fire base in Afghanistan, a FOB in Uruzgan Province or anyplace else that's not able to get its C17 or its C130 air drop of water, wood, blood, ammunition, whatever those troops have asked for.

But there are other parts of the defense budget that are also likely to suffer. And what I want to talk about here is the R&D accounts, RDT&E, research, development, test, and evaluation. You all know what those accounts are about. Put together for FY 2013, they comprise about \$70 billion. So even if we have a stay of execution on program line sequestration, one possibility is for Congress to go back to DOD and say, all right, we're not going to make you cut 10 percent out of every one of these thousands and thousands of programs, we'll give you a bogey of about \$50 billion for purposes of discussion and let you find a way to go at it.

Well, when you've got \$70 billion in R&D, maybe that's a tempting target. Let's talk first about the basic part of that, the science and technology piece, 6.1 and 6.2 money, for those of you who are into that sort of thing.

These are perhaps the little billions of dollars, but they compromise some of the most essential money for innovation. They include basic research carried out at universities, and applied research that attempts to take new developments in nanotechnology or in cyber and convert them into something with a useful military application.

These little cuts can be quite important. And if we have a case where we see them simply go away, we pay the price as a lost technology opportunity. But there's another problem and that's in the remaining \$50 or so billion left in the R&D account. This is money that goes into what the military likes to call demonstration and development, 6.4, 6.5, 6.6, 6.7 for the technocrats among us. What sort of things are in those programs? Well, they're pretty important. The Army has some work on Patriots and on MEADS, its follow-on air defense system. The Navy has big accounts in its JSF program and in JTRS, its Joint Tactical Radio System. The Air Force, which has about \$25 billion of that, covers some classified programs in that category. I think those are usually a lot of space programs, and also things like high energy laser and GPS control.

Then defense-wide there's another \$17 billion in that part of the R&D budget. It includes things that we really like, things like cyber, things like Homeland Security crossover initiatives, and also ballistic missile defense initiatives.

In short, these are not the kind of things that we can afford to blindly slash either through programs, program level sequestration, or through attempting to direct a big \$50 billion bogey in one year into the R&D accounts.

Here's the reason we shouldn't do it. Take something like the F35 program. That's a program that, along with many other major systems, still has some R&D money, although it's also largely a production program. And what we learn about other programs going forward -- for example, to use another Air Force one, Long Range Strike -- is pretty compelling about the costs of doing insufficient R&D. A RAND study that was completed in 2011 found that insufficient R&D was a major cost driver in four major programs. Those included F35; the Navy has now cancelled DDG-1000 Destroyer; the

Wideband Gapfiller satellite; and the Army Apache Helicopter. Take money out of R&D in the wrong place and you'll essentially bank on more cost to that program when and if you restart it again.

We could talk more about O&M and some of the other things. I think sequestration also could mean attempting the desire to take a lot of money out of that operations and maintenance account to essentially bench portions of the military, stand down the aircraft, bring the ships back to port, and do things like that.

But I think what we can see as soon as we look at concrete examples is that we agree the defense budget needs to come down. We need to look at what goes on after Iraq and Afghanistan. But slashing through the R&D accounts is not the way to do it. Time to get to a strategy discussion and make those hard choices.

MR. SINGER: Mackenzie.

MS. EAGLEN: Thank you, Peter and Michael, for having me on the panel. And thanks to Rebecca and Tom for letting me sit up here with you guys. I'm going to take a little different angle. Now, Rebecca is a good friend, and we've even published together on -- we agree on a lot of things in national security. I would just caveat not everyone in the room agrees the defense budget has to come down, or debt reduction, if that were even the case. Unfortunately, the defense budget cuts have not been allocated towards debt reduction, and that's the big elephant in the room. We're cutting defense and the military is owning up to it, and they're patriotic, and the chiefs are standing behind it saying, but we're doing it for debt reduction, actually that's not the case.

The President's budget that's sitting on the Hill right now proposes a generous net increase for every other federal agency and one and a half trillion in taxes. So DOD is the only federal agency taking any sort of cuts, spending cuts that were supposedly applied to debt reduction, but, as you know, the debt is not coming down.

And I agree with her broad points. You know, I was just at a meeting with a senior Air Force official and that came up in one of the questions earlier, and the discussion was about the active component cuts and the reserve component cuts in the Air Force. And it just serves as a great anecdote and an example of what a knife's edge the U.S. military is operating under.

High budgets aside, most of those budgets go to people, so let's just talk about -- Michael

has had me here talking about that other times before and that's not what I want to talk about. But, you know, this delta of 1,500 people in the active Air Force and reserve component Air Force and could they have done that any other way and sliced that any other way, it's driven by force structure reduction, so A-10s, for example. You're familiar with the debate and the family feud that has spilled out into the public. Literally, it can't be done any other way because they're on a knife's edge. So to think that there's all this more money that could possibly absorbed aside from sequestration, because that's really what I want to talk about.

The (inaudible) panel here is solutions. And one of the favored solutions I hear around town, it's nothing new, but it's any deal to fix sequestration is going to have more defense cuts, which just kind of baffles the mind since we're already talking about the four hundred eighty seven and how difficult that has been to absorb under the BCA Tranche One.

So sequestration is going to get bought down, but it's not going away, and that's unfortunate, because I think that should be the discussion. You know, how ultimately in the end, even if Congress backs into sequestration, the Pentagon will get flexibility. It will never come down to this program project activity level because of the damage and eloquent destruction that's been described up here on the stage today.

So I've been thinking a lot about, so what are the solutions, let's get aside from how awful it is, because I do think there is consensus that it's pretty ridiculous, and it was a silly bill that passed, and it was an awful "Sophie's Choice" that was put into place for many members of Congress that is the sequester. So the solution set, well, I was at the Bloomberg News Conference last week, and I heard a lot of members of Congress talking about sequestration, like Senator McCain, Senator Levin, Norm Dicks, Congressman Welch, a bunch of others, and so I thought I might hear something new. I wasn't surprised that I didn't hear much new.

But a couple of things, Washington loves to dust off the old plan that died before there was the new plan and recycle old ideas, and we have to come up with a new solution, so I just figured I'd tell you what was going on before. So you know where everyone is going to go, all the things are going to go -- turn back to, and we have to have this conversation in lame duck. It may or may not be the right solution, but we're not going to resurrect big, bold, new ideas, although I think Steve made a great point

on the last panel about the grand bargain.

I've met with Senator Warner's staff, Senator Murray's staff; a lot of members on the Hill do want that grand bargain. They aren't talking about it publicly, but there is the will there. It's not all gloom and doom.

But nonetheless, what are the old plans that died before we had the BCA and that are going to get resurrected in terms of any new conversations about a tax deal that ultimately allows people to have the conversation about sequestration? Because don't fool yourself, tax increases aren't going to pay down sequestration. That's just to get everyone at the table to talk about sequestration. There's no dollar-for-dollar offset here. Same thing with Obamacare. Potentially money's freeing up from the Supreme Court, for example, depending on how they rule.

Well, let's dust off Simpson-Bowles, the President's Commission, because that's become a favorite position for a lot of members, because there was a lot of work and thought that went into it. And what it gives us on the defense side is the exact recipe that Senator Levin has outlined and that we've all already known, which is there are significantly more defense budget reductions beyond the \$487 billion as part of the Budget Control Act.

If you break down just the defense side, and I think there's -- it's always great to look at these en masse, and it's important because Simpson-Bowles looks at the whole budget, just like Rivlin-Domenici, and other plans. And that's key one and I'm glad that if we're going to dust off any plans, it's a plan that looks across the whole government and federal spending writ large.

But if I'm just breaking down the defense piece, this plan centered around roughly \$860 billion in total over a decade in defense spending reduction. Now, the baselines have changed, so all the numbers are different, but you get the rough idea. Focus primarily on modernization, you know, F35, V22, pick your program, it's probably in there for a reduction or a cancellation altogether.

But there were some groundbreaking changes on a bipartisan level to talk about defense entitlements, and it's something, you know, a lot of our colleagues up here at Brookings and around town are thinking about and have looked at about the way you pay those in uniform. Not today's force, I don't even want to go there. It's now the conversation we're going to have about how you pay tomorrow's force. And changes to TRICARE, changes to should DOD operate commissaries, for example, or should

we let the private sector do that? Should they have to control base exchanges and things like that?

Interesting ideas up for debate. This doesn't mean we're just going to take this plan and enact it whole cloth, but it's an interesting idea. Very quickly, Rivlin-Domenici, their proposal, a slightly different defense number. It came in at around roughly the same amount, however, basically would freeze the defense budget for five years and then only grow it at the rate of inflation. Seems reasonable if you do it the right way, of course, but still a pretty big bogey. So when you're looking at doubling the four hundred eighty seven roughly. And, you know, Senator McCain referenced one other plan that we're all going to dust off, or at least they, those policymakers and politicians, they're going to dust off as they think about how to come up with a deal, big or small, and then lame duck and beyond for figuring this out.

And the other one is the Super Committee. Yes, it failed, but there was a lot of work done on the staff and a member level on the Super Committee, and there were a lot of negotiations. And a lot of these numbers have already sort of come to agreement in theory, they just haven't taken that vote. And that's why we're waiting on the lame duck, right; it's just about taking a vote. People's hearts and minds are already there in large part. There is a large center already there to do any number of these kinds of things.

So Senator McCain referenced, for example, the proposal put forward by Senator Toomey as part of the Super Committee internal negotiation for tax reform at various sorts. It's a big, vague phrase, and I understand it means a lot of different things to a lot of different people, but -- and as Senator McCain said, a tax increase is in the eye of the beholder. So, for example, eliminating ethanol subsidies, which Congress is doing anyway right now, but some people consider that tax reform, closing a loophole, generates additional revenue by default. Things like that border tax reform. Those are the things that were on the table. I think the Super Committee is -- deliberations of various packages they had put together for big proposals is also a place to look. The Super Committee was looking at more defense budget cuts, don't fool yourself, it was not we'll take the four hundred eighty seven and go home. They were looking at, as a starting point, \$200 billion to \$250 billion.

But there was a special emphasis on trying to protect the short term acquisition cycle, not to break the program to end up costing more money in the long run, not to break R&D, that ultimately breaks programs in the future, and not to increase the unemployment benefit requests as a direct result in

the next quarter based on basically layoffs. So there are times that you would see in sequestration, you could see in more defense budget cuts if they're not done the right way. And if you have a net increase in unemployment benefit requests, have you saved a dollar?

So there was a lot of work in the Super Committee, and this is where Congress is going to start from when they have these conversations in the lame duck.

MR. SINGER: Thanks. Tom.

MR. DAVIS: Thanks, Peter. As Peter mentioned, I was a battalion commander in Desert Storm in the 3rd Armor Division and our 3rd Brigade executive officer was this little-known Lieutenant Colonel named Marty Dempsey. So we had him to a dinner not too long ago in his new esteemed post, the Chairman of the Joint Chiefs of Staff. And he looked out over all of us and he said it's just a great thrill to be here with all these old familiar faces. I know why you're old and I'm trying to figure out why you're familiar. So I feel very much in Marty's shoes on that.

I'm also thinking I'm at a point right now battling cleanup on this, where I get to practice that old Washington adage that nobody says anything new, but everybody has to be allowed to say it. So I'm going to -- I had a whole bunch of very pithy comments here, but I think I'm going to restrict it down to just a couple.

I saw a comment in the *Economist* magazine not too long ago, interesting that this would be coming out of Europe, where the editorial page had a comment that said it would be an extraordinary event if America sacrificed its position as the world's leading military power as the result of a legislative accident, and this would be an accident. Nobody intended the provisions of the Budget Control Act to actually be enacted, and I think that's really where we are.

We are looking at a very catastrophic, as Secretary Panetta has said, legislative accident that will happen unless there's a great degree of leadership and a great degree of attention paid to this sometime between now and January 2nd. Everybody needs to recognize, and I think everyone does, you've heard it on the panel time and time again, and I have to tell you, those of us in the defense industry certainly do, that the looming problem with deficit and debt has got to be addressed. And it's going to have to be an addressment that comes in a multidimensional, detailed, and in no small order time-phased approach, and that's not what we're looking at right now. And I think Mackenzie has laid out

several reasons why that's a major challenge, as has Rebecca with her focus on the RDT&E accounts.

There's two ways to get an airplane on the runway, a landing or a crash landing, and this one is going to be a crash landing unless something is done about it. I get asked all the time, you're the strategic planner for General Dynamics, but what are you guys planning to do to get ready for sequestration should it happen? And my boss has made the comment a couple times, I don't know, what do you do to get ready when you hear an asteroid is hitting the planet?

It's a tough thing to do, and one of the reasons it's going to be hard to do is, despite the length of legislation, there are an awful lot of unknowns out there that make planning rather difficult.

Just for example, you know, what's the baseline that's going to be used for this? Is it going to be a continuing resolution of FY '12 or will be some sort of enactment of an FY '13 budget? Will military personnel be exempted? One must assume that they will be, because not doing so has the effect of essentially firing people as they're returning for multiple tours overseas and an economy that's perhaps not prepared to take them. And I think all of you have seen the statistics that unemployment figures among people who were former veterans are higher than the general population.

Will overseas continue to see operations be exempted? It's not in FY '13, but will it be politically prudent not to fund that full account? I think it probably would not be a very popular thing.

How will they be treated in the following years? Michael mentioned when he was up here, there is a bit of a placeholder going out in the out years, but will that be rolled into anything that would happen in the future or not, and how would that be scored?

Unobligated balances, how much are the unobligated balances? One report says \$65 billion, one says \$85 billion. That's a \$20 billion swing, which is about 40 percent of the amount of the sequester impact on the defense budget. If these accounts are exempted, and many of them would have to be, then that puts a bigger burden on the modernization and investment accounts that, of course, people in my industry are most concerned about and the accounts that are associated with those projects, programs, activities. And despite Steve Bell's comment earlier, you know, what are projects, programs, and activities anyway? There's not a uniform view on that.

OMB has the responsibility of coming out with the rules on enacting this, and so far they have not done that. So we can just assume that after you make some prudent assumptions on how this

thing would go, that we're looking somewhere between about a 12 and 15 percent cut.

Now, some have argued that even if sequester happens in its full flower, that that's just going to return top-line defense spending back to essentially where it was in 2006, and that's basically true, but that's not really the problem.

The industry, the defense industry has shown over the years that given time, given guidance, and given the ability to do so, you know, we can adjust to new circumstances. The problem here is the rapidity of the descent, doing so in one year, because the one year timeframe basically prevents the Department of Defense from doing a few managerial things that it would otherwise want to do involving floor structure, benefits, and many other things you've heard mentioned before.

Let me talk just a little bit about the WARN Act to make sure everybody understands this. You've heard it mentioned two or three times up here. It stands for the Worker Adjustment and Retraining Notification Act. That requires by federal law those of us who have people working for us on our workforce, if they're going to lose their job, that they have to be notified 60 days out where employees may reasonably be expected to be terminated. Interesting wording here, "may reasonably be expected to be terminated."

The federal requirement is 60 days. There are some states that have 90-day requirements, California and New York among them. There are some labor agreements that have a date that pushes out even further. This gets you out into the timeframe of potentially mid-September for when WARN Act notifications will have to go out.

The only thing that's really known about sequestration right now is that something happens to January. What does that mean for specific contracts, specific programs, specific locations, specific facilities? That's not known. But we do know this from past practices; the government tends to be rather broad in its interpretation of what the words "may reasonably be expected to lose their job" means. And if they believe we reasonably, as employers, should have seen this coming, then we have certain obligations and wind up with certain financial burdens if those warning notices don't go out.

So my supposition is that a lot of these warning notices will go out, they will go out in advance of November 2nd, some of them will go out about that date, and I think that they will, no doubt, get somehow or another into the political dialogue, and we may be seeing a little bit about that right now.

This is simply compliance with federal and state and sometimes labor agreements.

It was mentioned up here, and it went by quickly and I wanted to mention it one more time, and that is, when it comes -- in fact, General Dynamics was mentioned specifically in the case of a submarine -- that when it comes to meeting a certain objective in terms of savings, inevitably, because of termination costs and other fees that are associated with contracts, you may wind up, you probably almost certainly will wind up terminating more than a dollar a program to get a dollar of savings. In other words, even though you cancel this and it's \$1, yes, but you owe me 20 cents back or whatever it is. So this compounds the implications of terminating contracts.

Prime contractors will have to make adjustments to the contracts that they have with the government based upon economic adjustment rates, and we will also have to redo contracts with our suppliers. A lot of us are still trying to find out what exactly the dimension of that readjustment is going to be both with the government and with our own suppliers. I'd have to tell you at General Dynamics we don't quite yet have a grasp on what that number is, but Bob Stevens at Lockheed Martin has mentioned the number; 40,000 contracts that would have to be dealt with by him. And again, as was mentioned before, a lot of the reductions that happened on the non-defense side will have to be applied in some form or another against personnel, and that presents a real serious challenge.

I want to take just a minute here to drag you all into the weeds, as if you haven't been there long enough already. I, for many years, as Peter mentioned, was a program budget official for the Army and the Pentagon, and there are a few things that come down to the practicalities of how the Pentagon is going to have to deal with this, and I wanted to just share with you a few of them.

I've had some discussions with my old community over there. Most of those discussions were reasonably brief and sometimes rather harsh on their part and generally end with somebody throwing their hands up and running for the door. But here are a couple of things that you need to keep in mind.

First of all, none of the offices that work within the empire of the OSD Comptroller over in the Defense Department, going down to the service reflections that they have, have any experience in doing this. They don't have established SOPs, they don't have what we in the Army would call TTPs -- tactics, techniques, and procedures -- for actually implementing something like a sequester.

Second, compounding this issue over the past several years, these offices have been managed and have been run by people who are accustomed to taking big infusions of budget authority and distributing it around to meet immediate requirements and needs. This is the opposite of that. This is taking money away. This is establishing priorities. This is saying you're the winner and you're the loser.

I first went to the Pentagon in this capacity in 1986 as a young major, and we didn't know it at the time, but we were just then on the cusp of the Reagan build-up, and we were just then having to change how we actually handed out money and how we actually managed it as we went through our programming and budgeting processes, and it was a long, at least two year, learning process.

Third, many assume this is a relatively easy issue. One just takes every line item in the Pentagon, multiplies it by whatever percentage is determined to be allocated to the various accounts, pushes the sort button, and you get new numbers and you're done.

The Pentagon database, so far as I'm aware, unless there's been some major change, is not configured by PPAs. On the programming side, it's built around things called programming elements which contain all colors of money. Each service has its own versions of this. In the Army in my day, they were called PDIPs, which stood for Program Development Incremental Package. I have no idea who came up with that acronym or what they were thinking because it in no way describes what it is. But a PDIP basically for something like an Apache helicopter has procurement money in it, it has RDT&E money in it, it has military personnel money in it, it has O&M money in it, it may even have construction money in it.

Digging all that out and sorting all of that out is no small task, and it will take the Pentagon a long time to do it. So however the sequester cut is mechanically applied, some programs are going to be cut that should otherwise increase, because that was what the plan would be, and some will have to be cut that would otherwise be cut further. So you're going to wind up in some cases, after you've managed to sort through all this, with a situation where some programs actually, if this is built off the continuing resolution from FY '12, will have more money in them than they would have otherwise had had FY '13 gone forward.

All this is going to take a lot of time, and depending upon the timeframes, depending upon the congressional action or inaction, I think the probability is quite high after you've done all the data

sorting that has to be done, the department will be faced with the prospect of producing the mother of all reprogramming requests, followed by the mother of all Nunn-McCurdy reports. This is going to completely paralyze the system for some amount of time.

So I think, as Harlan Omen said back there, this is not going to be dealt with very quickly. It's going to take a long time, it's going to drag into the middle of next year, and meanwhile, all of us are going to be sitting around wondering exactly what programs are going to be adjusted and which ones we're going to have to adjust.

I wanted to pick up just two things, Peter. The question came up by a young gentleman sitting here about exports and moving into services. I think the question was, you know, if all this happens and if you have a diminishment in the buying power, won't you guys just go and do overseas sales and that will pick up some of the difference or move into services because services should be a growth industry.

Well, the answer to both those questions is probably not. If you take a look around the world and the condition of the world currently, you're going to have to look pretty hard to find a place where there is a great passion and a great amount of money for buying the type of equipment that this country produces.

The market internationally for selling the things that are produced on the manufacturing side of the fence industry is a very challenged market right now. We heard a comment here a few moments ago about euro and Europe and the euro zone. Nobody in the euro zone except for one country spends anywhere near what the agreement is supposed to be that they're supposed to be meeting on the defense allocation percentage of GDP, not much do there. Some money to be spent in the Middle East, some capability there. We have, for many years, had a co-production contract with the Egyptians for M1 tanks. The announcement yesterday about the results of the Egyptian presidential election creates a high degree of uncertainty. We'll have to see how that all plays out.

And in terms of services, many of us have already moved into services. We have one major component of GD -- in fact, it's our biggest component. Most people think we still build F16 fighters and all that, but we actually exited that market. Our biggest group is the Information Systems and Technology Group, which has a major part of it that does government services.

So a lot of that business is very mature. And I would suggest to you, a lot of people are probably going to be pulling back from government services because those are also government expenditures. Peter, I think that that, with that cheery assessment, I'll pass it over to you.

MR. SINGER: All right. So it seems both generally from the past panel and this panel, there's a fair amount of consensus that sequestration is not the smartest thing to do. Tom, I was waiting for your movie reference because the movies that have been thrown out there have been *Spinal Tap*, *Rebel Without a Cause*, *Sophie's Choice*. These are not situations you want to be in, but that's where we're at. Okay. So we have consensus around this, don't do it, it cuts muscle and fat by the same percentages, it cuts the innovative and the wasteful, it doesn't reflect a strategy. Okay, we enter that amount of consensus.

I seem to hear general discussion around some kind of support for a grand bargain that doesn't just focus on defense, but brings in these other elements of other parts of discretionary spending, but most importantly, the bigger parts that are eating up the budget. I hear that kind of consensus.

My concern is this, we're in the realm of thinking about national security and thinking about it with a realistic lens, and we do things like contingency planning. We plan in our realm for things that are not only extremely likely, but sometimes not all that likely.

For example, the U.S. military maintained a plan to invade Canada all the way up prior to World War II. In turn, Canada maintained a plan to invade the United States all the way up to World War II. They sent a spy mission to the United States in the 1920s to figure out invasion routes, so we do contingency planning for things that aren't likely.

I will put sequestration not in the category of invasion of Canada, but in the potential likelihood, because the other thing that we've heard consensus is dysfunctional leadership. So let's just say we go down this path, we agree we don't like it, as Tom put out really effectively, he said, okay, didn't we get to this point, and your quote was something happens, what should happen? We've talked about our worries in this contingency, but what are -- if we get to this dangerous period that we all agree we don't want to happen, what are the things we should be doing if we're stuck in that dark alleyway? I'll try to give a long -- we'll go to Rebecca, and I'd love to hear from each of you on it.

MS. GRANT: I'm sure we all have a lot to say on what should happen. Sequestration is

causing us to admit the problem and to avoid the strategy discussion we really must have. We are the richest nation on earth; we can pay for what we need in defense. What we haven't done is decide what that is.

We had a lot of things we had to do in the last decade. Some of it was spending on new programs, and a lot of clandestine stuff, and a lot of it was building up the ground forces for the wars we're in. We have not really collectively decided what's next, and what's too bad is that countries like China have.

You know, the People's Liberation Army helped put the Chinese government in power back in 1949. But quite a few years ago, they said in their document, we're done with the ground force stuff because our strategy is going to be X, Y, and Z. We need to do something like that. We either need to say, you know, we are going to follow our January 2012 strategy and invest more in sea power and in air power, or we need to say, you know what, we are really a land power, let's take the money there, take it out of something else. I know where I come down on that, but the main point is, we need to have that discussion.

We've had some -- the good draw-downs that we've had, the steep ones, including the one after Korea, was done thoughtfully. The Eisenhower Administration had a plan. It sad that I have to use an example that old, I think there was a plan after the end of the Cold War. Maybe it wasn't what we all thought was perfect, but there was a pretty coherent Bottom Up Review, it gave a pretty steep plan, and it said here's what we're going to do. That's what's missing right now. The more time we waste discussing sequestration, the less energy we have to get to those hard strategic choices that we must make.

MS. EAGLEN: And I would add to your consensus list, Peter, emerging consensus, another one, which is that sequestration could ultimately cost more than you say. So the \$55 billion for defense or to get to the total \$1.2 trillion, and not just the termination for convenience and the contract breaking and the subcontracts doing their time passing the bill back to DOD and all of those inefficiencies, the lawsuits from the civilian work force and others, but then also just the general process and the nature of it, I think we can agree. The unemployment request benefits, if you do have the scenario where you have -- if DOD is America's largest employer in any form of sequestration, even when you exempt certain

accounts for people, you're still going to see an uptake in unemployment if it happens as it's structured. So there's emerging consensus, but it just doesn't save much money, so why would you do it on that, in my opinion.

So I think Rebecca laid out a really good first answer and I'll try and back it up on what should happen. So back to some of the three bigger plans that I referenced, like Simpson-Bowles or Super Committee or Rivlin-Dimenici or others, Gang of Six. Senator Conrad had a draft budget. We never saw it, but it had a lot of things in there. Senator Coburn had a back-to-black budget. Senator Mike Lee has a new budget to restore the American dream. There are lots of debt reduction plans out there.

Since we all know any debt reduction plan is going to have to tackle something to do with taxes, however it turns out. It doesn't matter what it does, but it's going to address tax reform broadly, presumably. All of that work has to get done now. So what should we be doing? We should be doing that work on the committee level in the U.S. Congress now. Other smart people on other panels when I've talked have talked about their experience on domestic spending, tax and policy issues in the '80s, when President Reagan and Congress made multiple deals, one to include major tax overhaul, but it doesn't happen overnight. There have been four years of groundwork that have been laid before the final deal was done. The staff has to know what's going on. The members have to have been talking and thinking about this. There has to be oversight hearings. There has to be hearings of inquiry. There has to be so much legwork done to just say we're going to reform the tax code because it's a lame duck and now we're ready, it just doesn't happen like that.

Sometimes you can muscle through something major, like a new START Treaty, but it's very rare. And in this case, I just don't see that it can happen. So what should they do? If they want the grand bargain, they've got to do the legwork now.

And I would argue it's not as politically hot potato as many members think that it is. Senator McCain, I referenced his comments last week, he's already said we're there, the Republicans are taking the vote, we're just not taking it to the lame duck. Speaker Boehner has said before the final deal with Harry Reid, Barack Obama, and John Boehner, just the three of us in a room before everything collapsed, and then ultimately 24 hours later we had a -- the BCA.

They had a deal that wasn't the BCA. And what the Speaker has said, after the *Washington Post* reported on it -- and he said it was an accurate article, and the White House didn't comment, so I take that to mean it was accurate -- is that the Speaker signed up to \$800 billion in tax increases, and that he was going to get the House to vote with him on that, this House, the Tea Party House or whatever you want to call it. So the Republicans are there. So when I hear members like Carl Levin say, you know, and Harry Reid say we're going to break the backs of the ideologues, the rigid ideologues on taxes, it's already happening, but the groundwork isn't getting done. All of the work that has to be done on a staff and member level and the Committees of Jurisdiction, Ways and Means, and all the other ones, overlaps in so many areas and places. So what should get done is, fine, you're not going to take the votes now, but do the work now.

MR. SINGER: I'm going to press you, though. You still avoided the contingency I laid out, which was let's just say this group of leaders is not able to come to the agreement that we think is potential, and the sword of Damocles falls, we do get sequestration. As Tom laid out, we enter a world of something happened.

MS. EAGLEN: Right.

MR. SINGER: What happens then? Rebecca laid out the idea of potentially shifting strategy, maybe a shift in emphasis of -- I'm going to put words that you said -- leaning more air towards ground or the like, okay. But in this contingency, in that contingency, which I would argue is not in the extremely, extremely unlikely, but maybe it's in the unlikely, what then?

MS. EAGLEN: Okay. I'll just quickly say what I think how that would play out. First, not to avoid the question, but Congress will not -- it wouldn't be an overnight thing. I think Tom eloquently laid out how this would happen over many months, and that is exactly right. This is not a midnight, like a government shutdown kind of thing that would happen. Congress would back into this.

One, there's probably going to be CR that runs through mid-February anyway. So January 2nd is now February 14th for purposes of a sequester in theory, if that's how they do it, and that's the rumor on the street.

Congress, running through the Hill right now, the newest consensus for how to fix sequestration is a three-month delay. So now you're talking May, mid-May, they're going to try and do all

those things like the legwork that they haven't been doing, whether that's DOD actually building out these expensive tables and scenarios, a new strategy perhaps, but the tax and the entitlement work, as well.

A one-year delay is also a very popular fix right now. I've heard the Speaker, I've heard James Clyburn and I've heard Chris Van Hollen all reference specifically a one-year delay. So unfortunately, well, the right answer is Rebecca's, and I completely agree. It's not how the town works and that wouldn't be how we would back into sequestration.

And frankly, we're in now year four of DOD's endless state of debilitating strategic review, and the strategy is changing. I don't like it and there hasn't been a consensus strategy, but it's been changing so quickly that the budgets can't keep up, overlaid with the budget-driven decisions by Congress and the White House. So that would be the thing that should happen, and unless you're having a sweep of Congress and the White House, it wouldn't. I agree that that would be the right thing to do.

MR. SINGER: Tom.

MR. DAVIS: Robert Kennedy once commented that Americans are not well informed, but they're highly entertained. And I think one of the reasons we're here right now is to try to help the process of getting Americans well informed. And what they need to be informed about is that, through some mechanism or another, this whole process has got to be, at the very minimum delayed, long enough to make it informed. Right now it's not. I mean, it's implicitly uninformed because it's got the automatic dimension that goes into it.

What I would like to see in only semi-facetious, but I guess mostly facetious way is I think every Republican on the Hill ought to walk around with a red lapel pen that has a blue 20 in it, and every Democrat should have a blue lapel pen with a red 20 in it. And 20 is the percent of GDP that we have to get to in both federal expenditures and revenue.

Right now, federal expenditures, including defense, are 24 percent of GDP, which is an all-time high since we have been keeping reliable records. We are 15 percent on revenue, which is an all-time low since we have been keeping reliable records. Those two numbers have traditionally been about 21 percent on expenditures and about 19, 19-1/2 on revenue. That gap is quite clearly unsustainable.

So at some point there has to be a serious, informed, realistic discussion about what the

options are that are going to move you back in the direction of those two metrics, which basically is the number 20.

I haven't really seen that yet, and I haven't seen too much indication that people are willing to get there. But if you begin to focus on the problem, then one of the first steps you're going to have to take is take a deep breath, and I think Senator Ayotte was very clear about it, get this moved back to where we can deal with it in a constructive and not destructive manner.

I've just tried to lay out the paralysis that is going to hit the United States Government, and particularly the defense side of it. And I'll tell you, when I was here with Mike back at the federal -- Army Federal Executive Fellow back, I won't say how long ago, but I did a report about how the Defense Department does its planning and programming and budgeting process, with the intent of going to gather best practices from other agencies of government and applying those to how the Defense Department does it. But much to my surprise, what I discovered is, nobody does this as well as the Defense Department. I talked to the fellow at the State Department who would be the counterpart of I guess David Chu in those days, the PA&E, and he said, you know, I've only got to deal with three things: people, telephones, and buildings. And I have a hard time coordinating and laying that out, and I only try to do it one year at a time.

It's a very complicated thing. But we've got to step forward and we've got to recognize that the objective is a long term objective, it's an objective that's going to take work, and honest reflection, and informed decision on both sides of this equation that Mackenzie has laid out, and we've got to move there without penalizing ourselves severely in the near term.

If this goes forward, if we are forced in the defense industry to have to reconsider, renegotiate, reevaluate 40,000 contracts in just Lockheed Martin, the only thing that's going to come out of this is positive employment for at least one generation of lawyers. And talking to Dino Alavez a little while ago, you know, for those at General Dynamics, the A12 story, which has now gone on for the better part of 20 years, should be somewhat instructive.

MR. SINGER: All right. There's been so much positive news from this panel; I want to open it up to the floor here for questions. So again, please wait for the microphone to come to you and stand and introduce yourself. I think we have a question right here.

MR. MARQUEZ: Ricardo Marquez. Thinking about the long-term objective, if we can get past sequestration and think constructively about reforms, is there something that would be in terms of moving beyond perhaps service-centric force structure, something that would re-jigger the way we have our forces postured around the world?

And in addition to that, is there something we can do on the management side, which is perhaps move past long-term budgeting, restructure the work on the PPBS programs, two sides that helps make it more agile and nimble on the other side of this issue? So, Heaven forbid, sequestration is on the horizon again, something about the organization has prepared to move and move agilely.

MR. DAVIS: Can I try that one first? Good question, thanks very much. And, of course, I just want to wrestle with it a long time. Rebecca is much more attuned to the contemporary thoughts on strategy, particularly as it pertains to airpower, which has been her expertise for a while, and Mackenzie has invested a lot of time on the maritime side. I've got my own views about that. Of course, I'm the Army guy up here, I've got my own views about that, as well, but let's set those aside for right now.

There's a couple things that we're going to have to come to grips with in a serious way. What we're seeing right now is an accumulation of effects over a lot of discreet decisions and policies that have just built up to where we are.

You heard Senator Ayotte talking about the tax exemptions, the loopholes, as she described it. Those are commonly called tax expenditures and exemptions. One of them that's in Bowles-Simpson I believe is eliminating the home mortgage exclusion. Well, you know, that's something that affects 67 percent of American households, it's a big thing. I don't recall the loophole, but why do we have that? Well, we had that years ago to encourage something.

What we've got to start encouraging now are outcomes on a much more holistic way than we have done in a very systemic way over the course of time. Now, in my industry, despite what you may believe, you know, we're quite reactive. There are those that like to think that, you know, we rush up to the Army and say, my goodness, we were in the lab the other day and we came up with this thing there and it walks, it flies, it shoots guns, it goes under water, it'll leap over tall buildings, the truth to the matter is that we're quiet reactive, you know.

The Army comes and says here's what we'd like to have and what would that cost, and

usually by the time we're done crossing it out, they go, my God, I never thought it would cost that, so that's the situation we're in.

But we have to recognize a couple things. It was said up here that you'd much rather have the United States Navy of today with 284 ships than you'd want to have the one in 1915. I don't think anybody here is going to dispute that. We also have to come to grips with another dimension of the all volunteer Army.

You heard Steve Bell and others talking about the implicit expense that has accumulated over that for a long time. I'll plead guilty. I'm an Army retiree, I made the decision a year ago to drop my company's health care insurance and just go with TRICARE. I'm sorry, Bob Gates, I mean, I hung -- I went the other way for 15 years. As Milton Friedman once said in his book, *Free to Choose*, you know, it's a rational decision on my part which is taking advantage of the circumstances that exist. We've got to come to grip with the fact that we have a volunteer armed force. We have a much more capital intensive force than we've ever had. We're never again going to mobilize like we did for Korea, where we wind up bringing 3 million people on board, that's just not going to happen. This country does not mobilize anymore.

In fact, if you look at the 10-year period of this conflict, even though the budget has gone up like 60 percent in real terms, we've actually only gone up 2 percent in military manpower. The Army and Marine Corps went up, the Navy and the Air Force actually went down. We have 8 percent fewer airplanes; we have 8 percent fewer ships.

It's a capital intensive service, that's just the way it is. So we're going to have to, as Rebecca has suggested, take a deep breath, take a step back, holistically look at what we need to do and how we need to do it. Find every way we possibly can to apply technology to it as opposed to manpower, and hope that we can capture the benefits that you get from that.

So just one small thing, you're seeing it right now. Predators that are -- it's in the language now. My son, who is an English professor at Northwestern, even knows the word, and, you know, he's an English professor and he could care less about what goes on in the military for the most part. But we're at a point right now, there should never again be another John McCain story. We've got the technology, you know, we can do this, and we're going to have to make the decision to move forward

and do it in a cost-effective way.

MR. SINGER: Steven, you want --

SPEAKER: I can't resist. I mean, my frustration with the discussions on sequestration and turning the volume up to 11 on the national security implications is all of those senior leaders that speak with such urgency on that don't speak with the same amount of urgency on the fact that the defense budget is being eaten from within; that regardless of what happens to the budget, whether it goes slightly up, whether it stays flat, whether it goes slightly down, or even significantly down, until you deal with the fact of the escalating costs and personnel and the lack of acquisitions reform, you end up in the same place, just by a matter of a couple of years.

I mean, there's a recent study that found, you know, effectively, if we don't change it, escalating personnel costs, meaning that around 2030, 2035, that's it that the Pentagon is paying for, nothing else.

And yet how did we deal with them? You know, we have sequestration discussions, and yet what happened? We decided to potentially create a commission with no power, a commission to be ignored later. And so I think there's a significant amount of real action that can take place in those areas, be it dealing with the escalating health care costs, catching up a personnel system that, you know, was designed in the 1940s, it doesn't match millennial troops' needs. It was mentioned, acquisitions, in terms of the shift in the industry has been towards services. More than 50 percent of what the Pentagon buys from industry is services, and yet we've had no significant reform on the Pentagon side to figure out how to buy services smarter and better. So, to me, that's the real part of the, you know, the equation that needs the volume raised, and that's the solution of maintaining our national security strength rather than just these numbers.

So my soapbox off, let's give someone else a chance to ask a question.

MR. DAVIS: Yeah, but let me throw one more thing in for the colonel here since he brought it up, you know, on the personnel costs. You know, those people in the Pentagon, Peter is absolutely right, have got to have a more open mind on dealing with a lot of the stuff we've had.

Back 20 years ago, we were doing a study on adjusting the military medical establishment, and I was on the program budget staff, an officer on the program budget staff in the Army,

and it was obvious to my little group that this was going to be a cost driver that was going to really hurt us in the future. No one could see it at the time because the costs were not obvious if you just looked at the first layer, but when you adjusted for the fact that we were taking out major medical facilities, we were taking out of doctors, we were eliminating bases and all that, costs were going up. I came out with this radical idea I just read about, I didn't know anything about this, I just read about it in the newspaper, that, you know, a lot of places do this thing called a co-pay.

So I proposed, why don't we just set it up so that when a soldier takes his daughter, because she's got a small cold, to the clinic, and he's generally gone all day, let's just have a little \$2 co-pay, which will make him do the rational decision about, do I spend all day doing this or do I take my \$2 and I go by the drug store and get some aspirin and give her some orange juice and put her to bed.

You would have thought that I was -- I mean, I thought I was going to be court-martialed. How can you possibly believe that a soldier ought to have to pay \$2 to see a doctor? That was a radical idea, but, you know, other people do it. So I think Peter's point, if I'm reading you correctly, is that in so many ways, the military is an isolated insular group and it really has to be brought forward less isolated and I think more consistent with how practices really go on in other places where you're not seeing the personnel.

I mean, nationally, you're not seeing this increase in employment cost and training cost and so forth, so we've got to get in step.

MR. SINGER: Because there's no sexier topic than military health care. I mean, you focused on active duty troops, but the reality is that most of the cost is on the other side. So it's not the idea of this active-duty soldier getting the co-pay, but studies have found that the lowest per capita cost user of military is active duty.

Or pharmaceutical costs have gone up by 500 percent, mainly because it's retiree sourcing through retail rather than mail order. And frankly, mail order is a little bit more convenient because it comes to your home rather than going out.

But the point -- what we're getting at here is, there's a lot of smart things that could be on the table that aren't because of, I would argue, a lack of leadership and an unwillingness to pay some political pain. But let's go to something far less sexy than military health care. Other questions. Right

here.

MR. GIOQUINTO: Hi there, Nick Gioquinto with the American Institute of Contemporary German Studies. So I've heard a lot of focus on the domestic repercussions of the sequestration, but coming from I guess my perspective, we had leaders from and strategists from German political parties come to our institute last week, and there was some concern about, you know, funding in context of the European partnership and the transatlantic partnership. And they kind of referenced a lot of the demilitarization of Europe by Europeans themselves, and then also them looking at the United States to pick up kind of the slack.

In the meanwhile, we have the United States saying that we can't also spend all that money, and that's in kind of the sense of the assumptions that, you know, on one hand, we can't do the sequestration, but, on the other hand, we also need to cut defense to some extent. So I guess what would you say the repercussions are for the transatlantic partnership and international security cooperation?

MS. GRANT: I'll take that. You know, as you know, some of our key allies, I'm thinking particularly of Britain, of the UK, have already been through a fairly wrenching process of cuts. I spent some time last week with a group of 12 one- and two-stars from various international air forces, and all of them, nearly all of them were deep into a series of cuts.

And, you know, one fellow said, and I think it's really key, that this is no time to turn our backs on each other, and he meant it as a group of airmen, that being the context. So we certainly need to find and try to protect those things that will help. And sequestration is hard, because one thing that I think would be cut pretty quickly are those partnership and cooperation activities. I think of exercises. All the services, Marines, Army, Navy, Air, do all sorts of exercises with international partners on a regular basis. I would expect to see some of that go away, and that would be a real loss. Those are things that have great value and help bond the coalitions that we all now rely on. We fight in coalitions. It would be hard to see that go away.

I think that would be a source of tension. I think, though, there are other -- there are probably larger issues in the transatlantic dialogue, but the budget thing is there really on both sides, so we will all be working through that almost regardless of which direction sequestration goes. Good

question.

MR. SINGER: Okay. We've got time for one last question, if anyone would like to ask it.

Well, okay, so with that, actually I want to offer each of you the opportunity for closing remarks, and why don't we just go in the order before?

MS. GRANT: Great. I just wanted to do one wrap up to emphasize the need for strategy forces. But I think there are things we should not do, and the number one thing we should not do is chase windmills and chase after the things, you know, go on a wild goose chase essentially. Let's not just cut programs because we've heard of them, you know. We need the F35, we need *Virginia* class submarines, we need some of the big programs. Yes, they're big dollars, yes, we all know what they are, but cutting those alone are not the solutions that we're looking for. And I say a little bit the same with TriCare. I don't think TriCare is the number one hidden source of all evil in the defense budget. We have to come to grips with the larger issues, but let's not let ourselves get distracted looking for the one magic thing that will solve it, because these are not it. Let's not run in the wrong direction as we all work hard on the choices ahead.

MS. EAGLEN: I would similarly echo that and say that, you know, the defense capabilities and budget cuts have been underway now for three years. The Budget Control Act is not the first round of cuts, and so that makes it a lot harder, talking free sequestration, sequestration, and after, and all the cuts that will come after it even if it doesn't happen.

And, you know, so Secretary Gates started this under President Obama's leadership with the program cuts. So he just went right after modernization accounts, primarily procurement, killed or canceled 50 -- 40 to 50, depending on how he calculated it, major programs are delayed, meaning reduced by; extended the period over which you buy them, and 240 major and minor ones. This wasn't just the big ones you know about, like F22, it's all the way down to like the radio, some new radio for a certain unit, for an Army unit. Okay, so that's the easy stuff. You kill programs, it's a big win, although, again, the savings here is a really big, squishy number that isn't ever as big as you think it is.

Then the next year started more program cuts, kills, delays, cancellations, again, low-hanging fruit, because it's easy, it wins you a headline, it wins you a bumper sticker, you can show immediate savings. But actually when it comes to termination costs and everything else, the number falls

slightly.

Then Secretary Gates tried to get in front of Congress and the President seeing the debt reduction snowball coming at the Department, his own Chairman of the Joint Chiefs saying we've got to cut the defense budget to pay down the debt, so Secretary Gates launched an efficiencies initiative. The first year he said we're going to save \$100 billion over 5 years, everything from closing joint forces to command to cutting (inaudible) general officer staffs, everything, you name it, it's a much bigger enterprise. The efficiency drills continued into 2012, as well. Unclear what it meant for 2012, just that they had a bogey that they had to reach. It's not going to change and so it'll probably come out of modernization account. But nonetheless, you see the drills that have been underway now.

And then here we are. So today you can say, oh, well, we're going to cut the, you know, 30 major programs left. Okay, that's great, then what, you know? So I agree with Rebecca, that you can't simply just pull a string here and pull a string here and pull a string here. That's the kind of defense reforms or cuts that have been underway. It's going to take a whole enterprise-wide effort.

And it sounds so easy so say, you know, at the think tank, but it's genuinely true, and you can't do it in the last year of any administration. It's going to have to start next year, because you're going to need a secretary of either political party who's got time to do this, to learn how to figure out how to tackle it all at once, the kinds of things like acquisition reform on the services side to get zero attention; and Peter is 100 percent correct, the DOD civilian workforce, which is exceptionally large and in dire need of a review and downsizing significantly.

So pretty quickly, military compensation, not just TriCare, the entire whole thing -- because, you know, you start plugging that retirement, well, what about education? What about health care? So, you know, there isn't one easy way to just to nibble away at compensation. It requires a whole new system for a whole new group of people probably dual-tracked in the future that has nothing to do with what we're doing today. All of that has to happen at once. And it's not easy to do, but it actually can be done.

We're at the point where any other cuts aren't going to either save you money or just hurt your national security. It's not sexy, that's the problem. Everybody wants to just go for the program kill, great, but you're tough on the contractors or whatever, but the kinds of things that have to happen now

are the slow bureaucratic boring things behind the scenes over multiple years of leadership at the secretary of defense level who can see those through.

MR. SINGER: Tom.

MR. DAVIS: I'm just going to take this little conclusion thing, since I'm the industry representative up here, and I appreciate what Rebecca and Mackenzie said about strategy and so forth. It was 51 years ago last January that Dwight Eisenhower delivered his farewell address from the Oval Office. I got some wonderful insight to it when I was the Army Fellow at the Atlantic Council, because my boss there, guide I think I'd probably better call him, General Andy Goodpaster, he gave me a few thoughts about crafting that thing.

Mackenzie's old colleague at the Heritage Foundation, Jim Carafano, describes that speech as one destined to be frequently cited and seldom read. But it coins the phrase "military-industrial complex." And there is this enduring image that the industry that I'm up here representing is a large falling thing with smokestacks and smoke coming out and long assembly lines, and, in fact, that's not at all what we are.

When Dwight Eisenhower gave that speech, the defense industry was the largest manufacturing industry in the country. It was larger than cars, it was larger than steel, it was larger than oil and gas. It had grown up to meet an immediate need that was quite stark and quite challenging, and he references that. This is new in the American experience, are his words.

Right now, the top five of us in the defense industry, the top tier companies -- Boeing, Lockheed Martin, General Dynamics, Northrop Grumman, and Raytheon -- combined annual income is half that of Exxon. It's also half that of Walmart. So if we had a complex out there, it exists in some other sector.

David Berteau at CSIS did a study that since the defense consolidation and the downturn of 1991, 150 companies have left this industry either through consolidation or through an outright exit. This is a rather tightly compact, very efficient business right now.

Norm Augustine likes to say -- and, of course, he was one of the architects as the CEO of Lockheed Martin during the 1991 period -- that we have gone from having a large number of unhealthy companies to a small number of healthy companies, and you're better having that because unhealthy

companies do desperate things.

The sequestration discussion we're having right now, you know, is basically a meat axe approach to the defense budget, the defense establishment, the military establishment, and the defense industry that Secretary Carter recently called the sixth leg of service and part of our force structure. This is an effort and a circumstance that we're in, deficit and debt reduction that has to have a very serious, calculated, planned, and programmed approach to it, and that is not sequestration.

We have to do this in a mindful, thoughtful way, because the room for error in the defense industry is actually much smaller than many people a few years ago would have told you.

MR. SINGER: Great. Well, I'll end on three quick points. The first is I think despite a real diversity in terms of the folks on the different panels, there has been a fair amount of consensus around a couple core points, the main one being the insanity of the predicament that we have placed ourselves into, placed ourselves into in the long term, but also placed ourselves into in the short term. We may have disagreement on what to do next, but I think that's a big takeaway for me, is that no one supporting this meat axe-like approach.

The second is the notion that these lean times will force politically painful choices, but not necessary strategically painful, and that's why they call for leadership, because the leadership, which we've heard, has been lacking in this context is about two things, leadership is not only about making smart strategic decisions, but also it's at its essence about making tough choices, and so it remains to be seen whether we're going to have that combination. And I certainly hope we see that combination emerge in the next few weeks and months, because we definitely need that true kind of leadership.

And then third is just to thank you, a thank you to the fellow panelists and those who spoke on the prior panels. It's been a really great, in-depth discussion of an important topic. And a thank you to all of you for joining us here. So please join me in applause. (Applause)

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